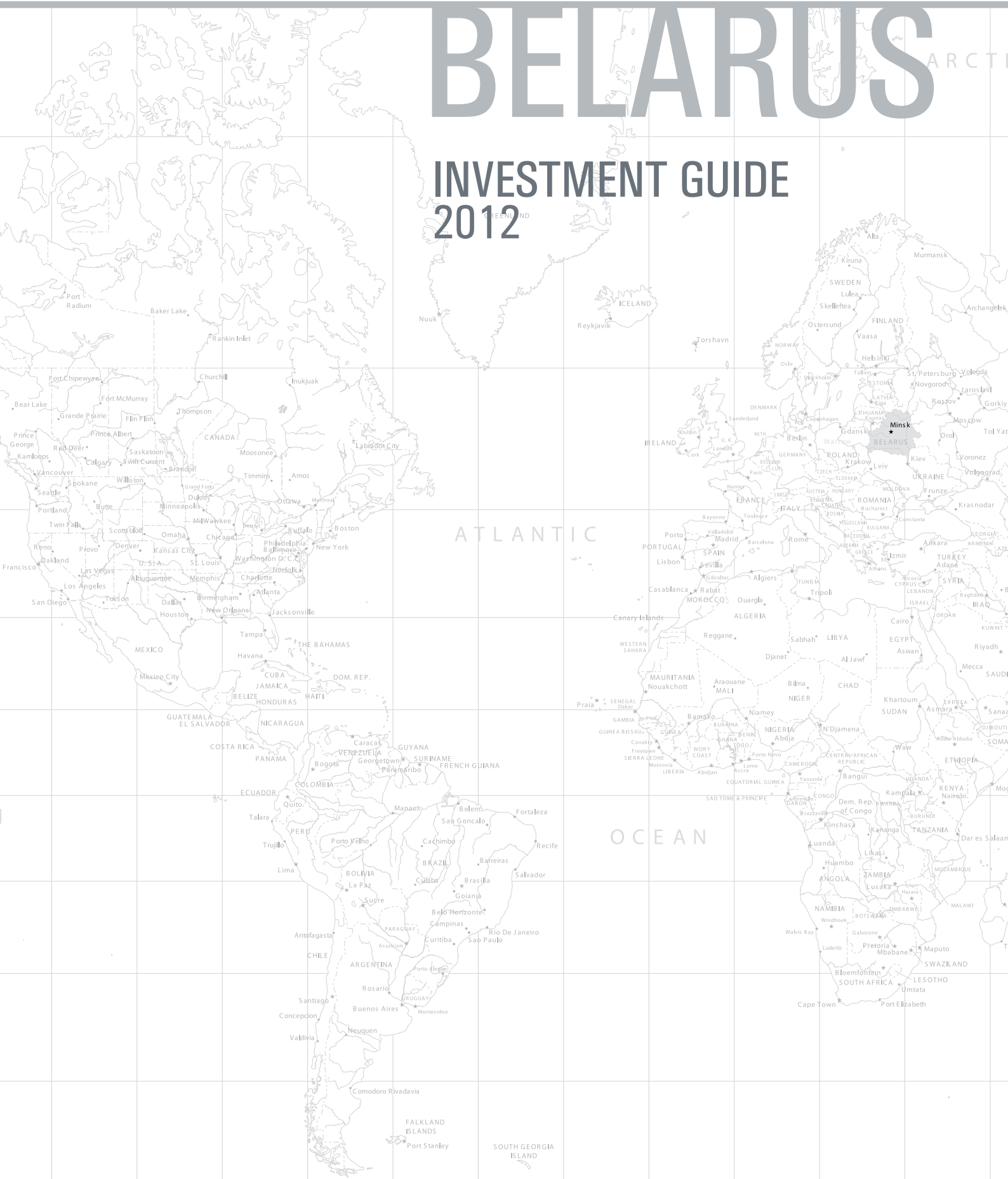


BELARUS

INVESTMENT GUIDE 2012



CONTENT

1.	General information	3
2.	Belarusian economy in 2011 – early 2012. The way from crisis to steadiness	5
2.1.	Selected economic indicators and forecasts. Moderate development with the support of external factors	6
2.1.1.	Gross domestic product	6
2.1.2.	Inflation and interest rates	7
2.1.3.	Balance of payments (current account & external funding) and FX reserves	8
2.1.4.	Exchange rate	10
2.1.5.	Unemployment	10
3.	International cooperation. Open for dialogue with any partner	12
3.1.	The EU and the CEA as priorities	12
3.1.1.	Belarus and the European Union	12
3.1.2.	Cooperation with international financial organisations	12
3.1.3.	Belarus and Russia	13
3.1.4.	Participation in the Customs Union and the Common Economic Area together with Russia and Kazakhstan	13
4.	Investment climate. In anticipation of private sector expansion	16
4.1.	Investment policy of Belarus	16
4.2.	Privatisation	16
4.2.1.	M&A and direct investments	17
4.2.2.	Investment challenges & outlook	19
5.	Legal Environment for Foreign Investments	22
5.1.	Investment Laws	22
5.1.1.	General guarantees	22
5.1.2.	Investment Agreements	22
5.1.3.	Concession Agreements	23
5.1.4.	Investment activity in small towns	24
5.1.5.	Free Economic Zones (FEZs)	24
5.1.6.	China-Belarus Industrial Park	24
5.1.7.	High Technology Park (HTP)	26
5.2.	Bilateral Investment and Double Taxation Treaties	26
5.3.	Corporate Laws: Setting up a Business in Belarus. Main organizational and legal forms	27
5.3.1.	Commercial Legal Entity	28
5.3.1.1.	Forms and Types of Commercial Legal Entities	28
5.3.1.2.	Minimal amount of authorized capital and number of shareholders	29
5.3.2.	Management	29
5.3.2.1.	Unitary Enterprise	29
5.3.2.2.	Joint-stock and Limited Liability Companies	29
5.3.3.	Establishing a company	30
5.4.	Privatisation	30
5.4.1.	Becoming co-founder of an open joint-stock company	31
5.4.2.	Acquisition of state-owned JSC shares	31
5.5.	Merger Filing Requirements in Belarus	31
5.6.	Financial regulations in Belarus	33
5.6.1.	Bank accounts	33
5.6.2.	Currency of settlement and currency exchange	33
5.6.3.	Requirements for obtaining a loan from a non-resident	33
5.7.	Legal status of land and other real property	34
5.7.1.	Registration of real property	34
5.7.2.	Land plots	34
5.7.3.	Buildings and constructions	35
5.7.4.	Mortgage	35
5.8.	Intellectual Property Protection	36
5.8.1.	Intellectual Property (IP)	36
5.8.2.	Patent body and registration of agreements	37
5.9.	Employment Peculiarities	37
5.9.1.	Employment agreement	37
5.9.2.	Termination of the employment	38
5.9.3.	Non-competition and confidentiality	38
5.9.4.	Employment of the Director	38
5.9.5.	Other forms	38
5.10.	Dispute Resolution	39
5.11.	Taxes	40
5.11.1.	Main taxes and duties	40
5.11.2.	Simplified Taxation System (STS)	41

1. GENERAL INFORMATION

Between Russia and the EU

-A beneficial geographic location and a well-developed transport infrastructure are advantages of the Republic of Belarus.

-The countries of Europe are traditional sales markets for Belarusian metallurgy, oil refining, petrochemicals, fertiliser manufacturers and wood processing. Exports of foodstuffs and engineering products are mainly destined for Russia.

-State-owned enterprises account for over 70% of the Belarusian economy.

-Participation in the Common Economic Area together with Russia and Kazakhstan creates preferential access to raw materials and financial resources for Belarus in 2012.

Belarus is located in the centre of Europe with a population of about 9.5 million people.

Belarus borders on Poland, Russia, Ukraine, Lithuania and Latvia. The main highways and railroads from the EU to Russia forming part of the cross-border corridors Moscow – Berlin, St. Petersburg – Bucharest, Kiev – Kaliningrad traverse the country.

The six administrative regions of Belarus are Minsk, Gomel, Grodno, Brest, Mogilev and Vitebsk, with the city of Minsk as capital.

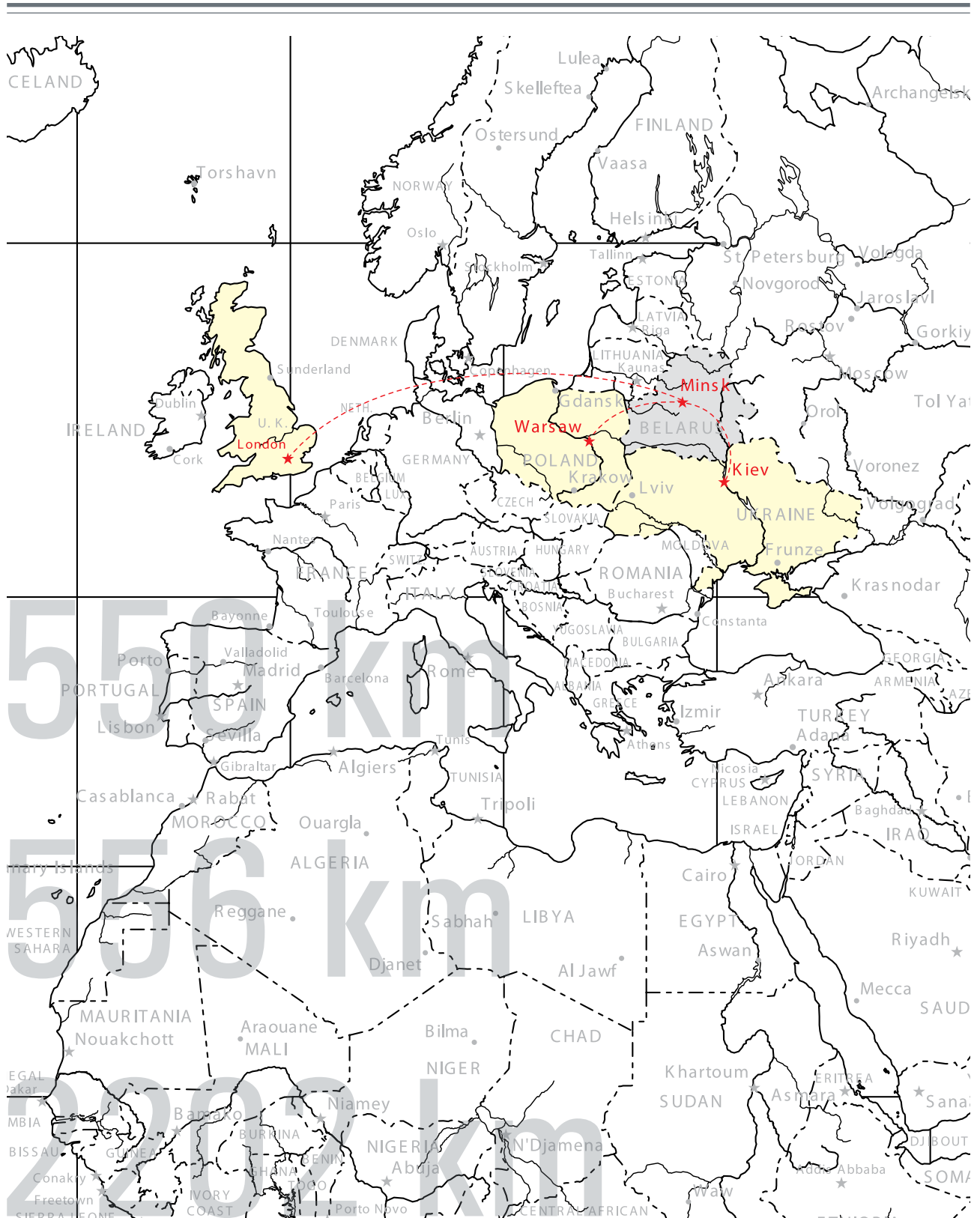
More than 1.9 million people, the majority of the population of Belarus, live in Minsk. The population of Minsk, Gomel and Brest regions is estimated at 1.4 million people with about 1.1 million people living in Vitebsk, Mogilev and Grodno regions.

Distances between Minsk and the capitals of neighbouring countries are: Moscow – 700 km, Kiev – 600 km, Warsaw – 600 km, Riga – 500 km, Vilnius – 200 km.

Key economic indicators

	2008	2009	2010	2011	2012f	2013f
Population (eop, mn)	9,51	9,50	9,48	9,47	9,43	9,40
Nominal GDP (USD bn)	60,8	49,2	54,7	55,1	50,5	53,4
Real GDP (% yoy)	10,2	0,2	7,6	5,3	3,0	4,0
GDP per capita (USD)	6400	5200	5800	5800	5350	5700
Industrial output (% yoy)	11,5	-3,1	11,7	9,1	6,0	6,0
Unemployment rate (%)	0,8	0,9	0,7	0,6	1,0	2,0
Nominal industrial wages (% yoy)	28,5	9,5	25,3	59,2	75,0	25,0
Consumer prices (avg, % yoy)	14,8	13,0	7,8	53,2	60,0	22,0
Consumer prices (eop, % yoy)	13,3	10,0	9,9	108,7	30,0	20,0
General budget balance (% of GDP)	1,4	-0,7	-2,6	2,3	-0,5	-1,0
Current account balance (USD bn)	-5,0	-6,1	-8,3	-5,7	-2,8	-3,8
Current account balance (% of GDP)	-8,2	-12,5	-15,0	-10,4	-5,5	-7,1
FDI (net, USD bn)	2,2	1,8	1,4	3,9	3,0	3,0
Official FX reserves (USD bn)	3,1	5,7	5,0	7,9	6,3	5,3
Foreign debt (% of GDP)	24,9	44,8	51,6	62,3	73,3	74,9
EUR/BYR (eop)	3058	4108	4025	10800	11800	13800
USD/BYR (eop)	2200	2863	3000	8350	9200	10600

This document does not constitute an offer or invitation to subscribe for or purchase any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. Any investment decision with respect to any securities of the respective company must be made on the basis of an offering circular or prospectus approved by such company and not on the basis of this document.



Warsaw – Minsk – the direct distance between cities 550 km.

Kiev – Minsk – the direct distance between cities 556 km.

London – Minsk – the direct distance between cities 2202 km.

2. BELARUSIAN ECONOMY 2011 – EARLY 2012. THE WAY FROM CRISIS TO STEADINESS.

The last year was a tough year for the Belarusian economy. Early in 2011 the country faced a balance of payments crisis (USD 1.34 bln. shortfall in 1Q 2011) translating into scarcity of foreign currency in the market. On the one hand, the BoP deficit was attributable to persistent negative current account balances (increase from USD 1.4 bln or 4% of GDP up to 8.3 bln or 15% of GDP through 2006 to 2010), largely due to external trade operations. The main reasons behind rising trade deficits include factors such as gradual withdrawal of energy subsidies by Russia, phased transition to market gas prices; soft monetary and fiscal government policies, including ample administrative lending under government programs and an increase in the wage bill, which boosted domestic demand and prompted expansion of imports. Another important trigger for the rising trade deficit last year was a rush for car imports in the run-up to unification (and, as a result, substantial increase) of local import customs duties with Russian ones in the context of ongoing integration between the two countries. On the flip side, the intake of external borrowings and foreign direct investment early last year was insufficient to cover the shortfall on current account due to, turbulence in world financial markets, among other factors.

To defend the existing fixed exchange rate regime the central bank had to increase its interventions in support of the ruble. This led to a sharp drain on the country's FX reserves (by a quarter in 1Q 2011 from USD 5.0 bln down to USD 3.8 bln). In the end, the National bank had to stop its interventions in the FX market and resorted to a number of administrative measures, so as to prevent further erosion of FX reserves. The restrictions introduced in the FX market led to the emergence of multiple exchange rate practices, sharp depreciation of the black market exchange rate of the Belarusian ruble (BYR) resulting in an inflationary surge.

In response to the challenges the government and the National bank tightened monetary and fiscal policies, significantly devalued the national currency and intensified efforts to bring external funding into the country's economy. Thus, the key interest rate was gradually hiked by the National bank from 10.5% to 45% during the year; the volume of liquidity support operations was substantially limited. From June 2011 the Regulator suspended lending under government programs through money emission. By the end of October the central bank managed to unify the exchange rate and switched to a managed float regime, allowing for only marginal interventions by the Regulator to dampen short-term exchange rate volatility.

On the other side, in the second half of the year the Belarusian authorities succeeded in raising sufficient external funding, which more than offset the country's needs in foreign currency (including the current account deficit, which narrowed by 30% to USD 5.8 bln) and brought the country's FX reserves up to a historic high of nearly USD 8 bln by early 2012. The required funding was mainly provided on the back of intensified integration within the Customs Union of Belarus, Russia and Kazakhstan and the Common Economic Area functional from 1 January 2012.

In June 2011 Belarus signed an agreement with the Eurasian Development Bank (EADB) on a USD 3 bln loan from the bailout fund of the Eurasian Economic Community (EurAsEC) in support of its stabilization program. Last year Belarus received a total of USD 1.24 bln, which came in two tranches. The loan is provided in exchange for a number of policy measures under the EurAsEC stabilization program, including restrictions on wage increases and spending cuts under government programs, a gradual rise in tariffs for utilities and public transport, while stress is placed on the privatisation program worth an annual USD 2.5 bln over the period 2011 - 2013. In this regard, privatisation of Belarusian gas pipeline operator Beltransgaz was completed at the end of the last year by Russian oil and gas company Gazprom, adding another USD 2.5 bln to the country's FX reserves. Furthermore, in December 2011 Russian Sberbank together with EADB made a USD 1 bln syndicated loan available to Belarusian potash producer Belaruskaly with the loan proceeds partially recorded to the country's international reserve assets.

The largest deal in 2011 was the sale of the last 50% of JSC “Beltransgas” shares to Russian JSC “Gazprom” at a price of euro 1.8 bln.

Macroeconomic stabilisation in 2011 was achieved due to credit and fiscal policy reinforcement, triple devaluation of the national currency, import restrictions, retention of foreign loans and the JSC “Beltransgas” share sale.

Finally, in support of deeper integration between the two countries Belarus and Russia inked important energy agreements late in the year. Under these documents Belarus is provided a substantial discount of almost 40% on the price of natural gas imported from Russia (from USD 265 per thsd m3 in 2011 down to roughly USD 165 per thsd m3 in early 2012) and keeps enjoying privileges on oil supplies (duty-free oil imports to Belarus, Russian export tariff applied to oil products processed from Russian crude and delivered to Europe (66% of the crude oil tariff) with revenue accruing to the Russian budget). Benefits for Belarus from the oil and gas agreements are estimated at some USD 2–3 bln annually.

Tighter monetary and fiscal policies in the second half of 2011 coupled with financial assistance from Russia helped to attain macroeconomic stability early this year. As a result of almost threefold devaluation of the local currency boosting competitiveness of Belarusian exports, temporary administrative measures to limit imports, as well as tougher policies the deficit of foreign trade in goods and services shrank by almost 80% to USD 1.6 bln in 2011 versus USD 7.5 bln a year ago. Export growth surpassed import growth (60% and 30%, respectively). In 1Q 2012 the current account registered a surplus of over USD 100 mn. Improved FX liquidity amid higher FX export proceeds and inflow of external funding relieved pressures on the local currency and allowed its appreciation by 6% to the currency basket since introduction of a single exchange rate in October 2011 by the year-end. In early 2012 the BYR remained stable contributing to a slowdown in inflation rates to less than 2% on average monthly against 6% monthly in the second half of 2011 and accumulated 108.7% in 2011 (December-to-December).

Despite a number of difficulties, Belarus posted 5.3% growth last year. GDP growth continues this year at moderate rates. Subsiding inflation allowed the National bank to switch to gradual relaxation of monetary policy and reduction of the refinancing rate to 31% by July 2012, so as to support economic growth. Further development of Belarus' economy depends on raising external funding to support growth, monetary and fiscal policy measures in the short-run, as well as implementation of structural reforms in the long-run and external environment outlook.

2.1. Selected economic indicators and forecasts. Moderate development with the support of external factors

2.1.1. Gross domestic product

Up to 2009, Belarus registered a long-lasting high-growth period, with GDP growth averaging at 10% through 2004 to 2008. The country also managed the global financial crisis 2008/2009 well due to IMF help and supportive policies for household demand and investment. Recession was avoided as opposed to neighbouring Russia and Ukraine, and real GDP remained broadly flat (posting marginal increase of 0.2% yoy). Growth returned afterwards amid devaluation-supported exports, though at slower rates – 5.3% yoy in 2011 and a modest 2.9% yoy in 1H 2012 – through government measures to tackle external imbalances and FX liquidity crisis. According to IMF data, Belarus ranks 59-th out of 183 countries in terms of GDP at purchasing power parity: USD 141 bln in 2011 (USD 14 900 per capita).

This year refocusing on GDP growth represents a clear shift in government policy in comparison to H2 2011, when macro stability was the main policy goal and growth targets took a back seat. GDP growth is forecast to continue at a modest 3–4% in 2012–2013.

Potential drivers for GDP growth this year are seen in the gradual recovery of domestic demand boosted by government efforts to restore real household incomes (so as to avoid massive workforce migration) and some easing of monetary policy, as well as a positive contribution from net exports to GDP thanks to cheaper gas prices and sizeable increase in oil sales to the EU. On the other hand, export expansion potential will be limited by the fading devaluation effect and slower growth perspectives in Europe and Russia. The official forecast envisages higher GDP targets for 2012 at 5.0–5.5%.

2.1.2. Inflation and interest rates

Historically, Belarus is a country with high inflation rates. In terms of average annual inflation rates in 2001–2010 Belarus (21% yoy) left its neighbours behind: Russia with almost 13% yoy inflation and Ukraine with slightly over 11% yoy. Relative success was achieved in fighting inflation over the last 5–10 years through to 2011, with CPI avg. going down from 170% yoy in 2000 to roughly 8% yoy in 2010. Extensive administrative price controls and a fixed exchange rate made a sizeable contribution to price stabilization during the period. Certain price liberalization measures were taken in 2009–2011, though prices for socially-sensitive goods and services remain under state control.

Last year, fuelled by ruble devaluation, CPI 2011 eop surged to 108.7% and average inflation accelerated to 53.2%. International auditing companies assigned hyperinflation status to Belarus. In order to tame inflationary pressures the National bank resorted to tighter monetary policy and hiked the key rate from 10.5% to 45% in 2011.

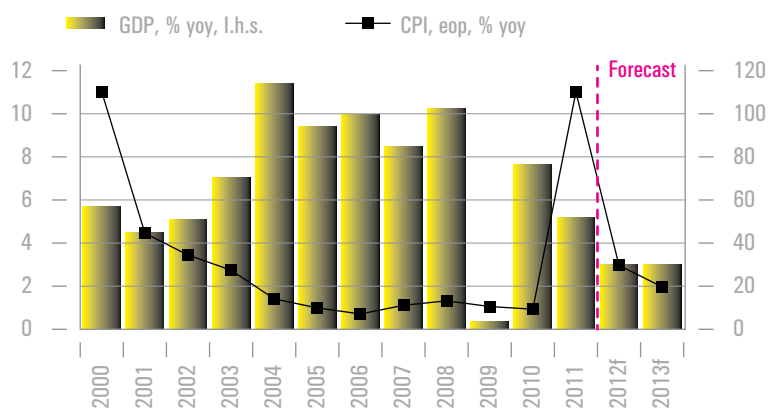
Monetary and fiscal restraint led to significant slowdown in CPI to accumulated 10.5% YTD (1H 2012) with price increases this year mainly stimulated by adjustment of administratively regulated, and so far contained, prices for utilities, transport, oil products, staples, and the like. Subsiding inflation allowed NBB to resort to gradual reduction of the key rate from 45% to the current 31% and targeted 20–25% by the year-end.

We forecast inflation to run over at 20% in 2012 and to remain in double digits over the next few years. Success in fighting inflation will ultimately depend on the willingness of the government to implement necessary monetary and fiscal measures to keep money supply under control (positive real interest rates, budget restraint, caps on administrative lending, moderate real wage growth) and the ability to ensure short-term FX capital inflows either through loans or privatisations. According to the official forecast, prices are expected to rise by 19–23% by the end of the year.

During 2012–2013 moderate GDP growth of 3% is expected. Main growth factors are internal demand stabilization, ease of monetary policy, export increase, decrease in the Russian export gas price, and the 2011 devaluation effect.

Growth is moderating, inflation slowing down

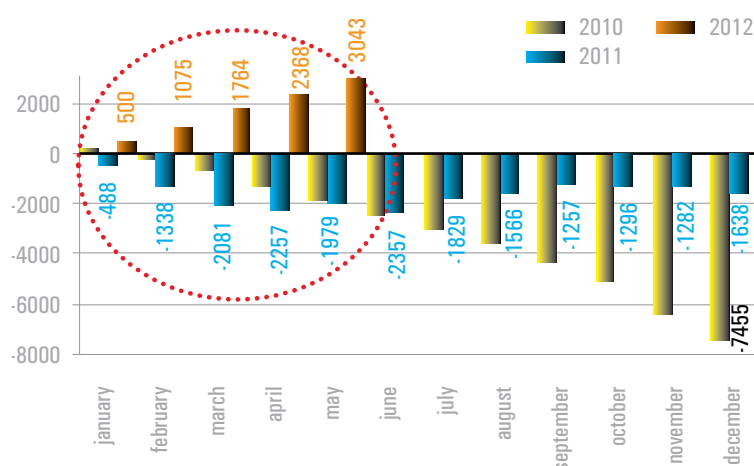
GDP & Inflation, %



2.1.3. Balance of payments (current account & external funding) and FX reserves

Belarus runs a persistently high current account deficit, largely amid trade deficits. The shortfall on CA widened significantly from USD 1.4 bln or 3.9% of GDP to USD 8.3 bln or 15% of GDP through 2006 to 2010. The growing imbalances were triggered by higher energy prices due to withdrawal of gas and oil subsidies by Russia and stimulus policy measures (higher wages, active lending under government programs) underpinning domestic demand.

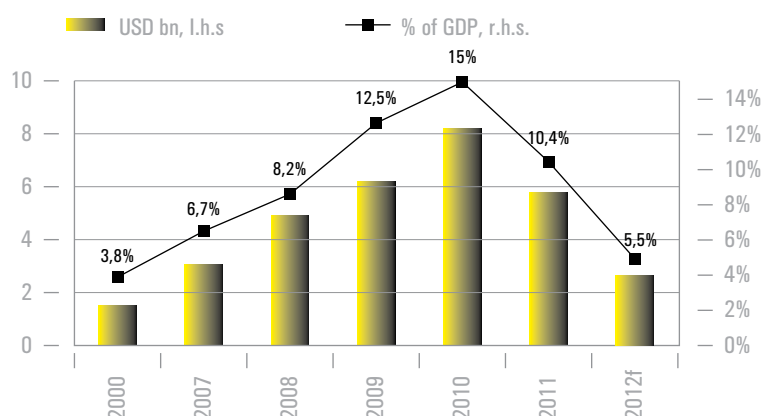
External trade balance, cumulative total, USD mln



Deficits on CA were traditionally covered by external borrowings and privatisation proceeds. Major external funding in 2009–2011 came from an IMF Stand-By Agreement worth USD 3.5 bln, successful sovereign USD 1.8 bln Eurobond placements, Russian loans, and a EurAsEC loan facility.

In 2011 the Belarusian economy was hyperinflationary. The official forecast for price increases for 2012 is 19-22%.

Current account deficit

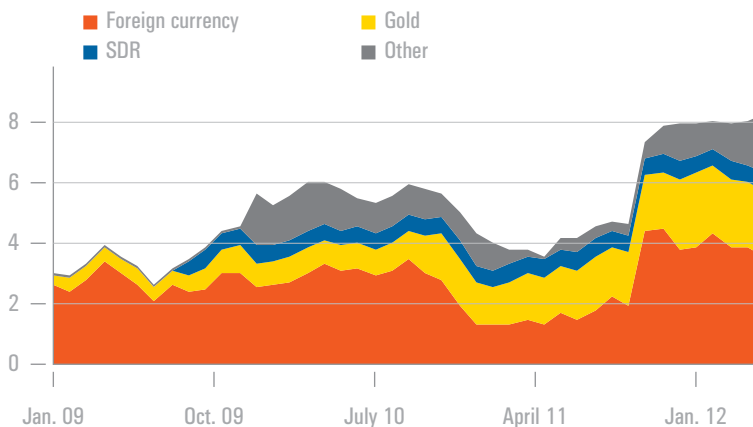


FDI inflow increased from USD 0.35 bln to USD 3.9 bln over the years 2006–2011, though remains rather low in terms of percentage of GDP (roughly 7%). The bulk of FDI comes from case-by-case privatisation deals such as the Beltransgaz privatisation completed in 2011, and, to a much lesser extent, reinvested profits by foreign companies operating in the market.

The crisis triggered rebalancing of external accounts: overall CA deficit contracted to USD 5.8 bln in 2011, and the external financing gap was completely covered. CA deficit was more than offset by massive capital inflows in December, largely from Russia, resulting in a sizeable increase in the country's FX reserves. These now exceed USD 8 bln, a historic high level, and cover over 2 months of imports.

In 2012 Belarus gold reserves reached a historic peak, exceeding USD 8 bln.

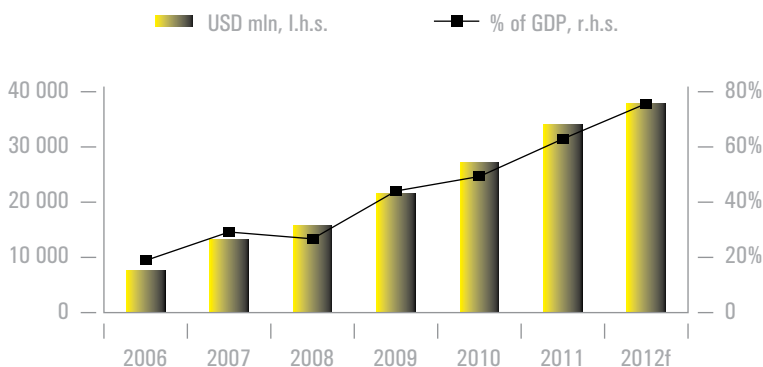
Official FX & gold reserves, USD bn



The balance on CA is slightly positive in 1Q 2012. A trade surplus of USD 1.7 bln in 1Q associated with lower gas prices and strong oil sales to the EU, offset outflows for oil-related duties paid to the Russian budget plus external debt service payments. CA deficit is expected to shrink further this year to an estimated USD 3.0 bln or 5.5% of GDP.

As a result of ruble devaluation and further borrowings the external debt burden increased last year from USD 28.4 bln or 52% of GDP to USD 34 bln or slightly over 60% of GDP. Total external debt may rise further to almost 75% of GDP in 2012, given the effect of BYR depreciation on GDP and rising absolute debt.

Debt burden increased amid absolute debt and devaluation
Gross external debt



By the end of 2011 the chronic current account deficit was overcome due to inflow of Russian capital and foreign loans. Foreign debt became 60% of GDP and could reach 75% of GDP in 2012.

2.1.4. Exchange rate

Throughout the period 2004–2009 Belarus was highly successful at maintaining a fixed exchange rate of the BYR, which was pegged to the US dollar. In 2009, in line with IMF requirements under a Stand-By Agreement, the BYR was devalued by 20% against the US dollar and re-pegged to a basket of currencies composed of the US dollar, the Euro and the Russian ruble, which effectively reflects the country's external trade structure. The targeted band versus the currency basket for BYR fluctuations was set at $\pm 5\%$ around the central parity and widened subsequently to $\pm 10\%$. Till the end of 2009 the BYR lost another 8% of its value and remained broadly stable throughout the 2010 – the year of presidential elections.

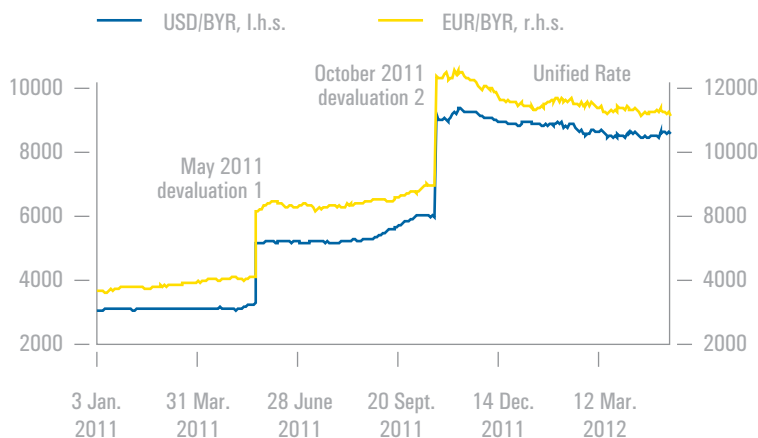
After two rounds of sharp devaluation, which followed in May and October 2011 (when the BYR depreciated almost threefold), the central bank switched to a managed float regime and inflation targeting implying only minor interventions by the regulator supposed to smooth sharp fluctuations.

This year, on the back of better FX liquidity, the BYR regained stability vs the currency basket. Reasons for the strength of the BYR include good export results (in particular oil trading), FX sales by households, inflow of speculative capital in 2012. It remains to be seen, however, whether this stability can be maintained over the longer term. Economic imbalances represent a latent risk, but as long as positive foreign trade conditions remain in place and Belarusian policymakers do not decide to excessively soften up monetary and wage policy, the BYR should continue to move sideways. Accordingly, we are neutral to positive on the BYR over the short term, but over the long term we project the BYR to return to a depreciation path.

The official level of unemployment (1% of the national work force) does not reflect the real situation in that it does not record work force migration within the Common Free Market Zone or the number of unregistered unemployed.

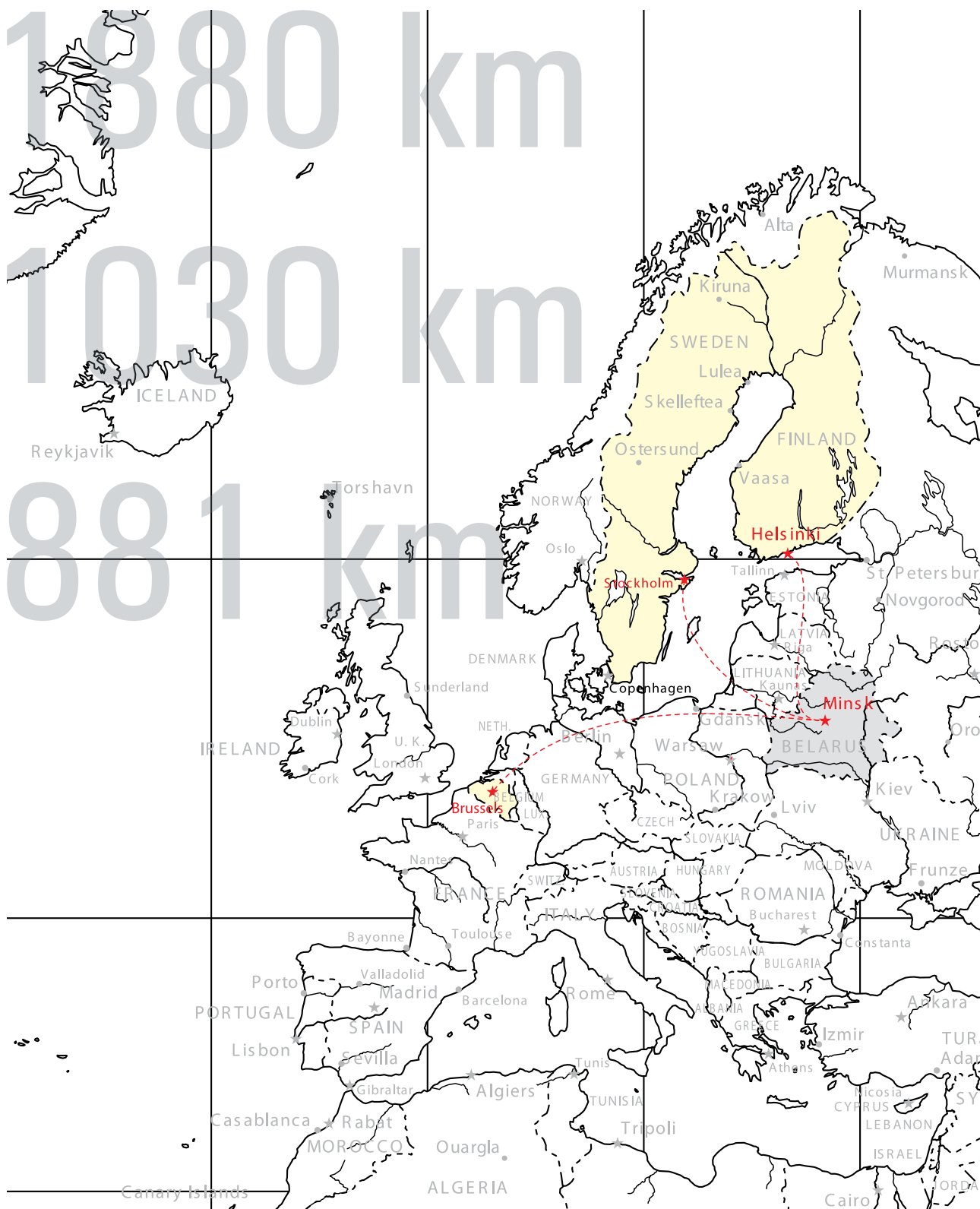
BYR regains stability after two devaluations

BYR exchange rate



2.1.5. Unemployment

A historically low unemployment rate (currently below 1% of the total workforce) does not fully reflect the actual state of things. The reasons behind this are unwillingness by the unemployed to officially register with state employment agencies (negligibly small unemployment benefits and involvement in public works), the Common Economic Area with Russia enabling free labour force migration, a «full employment» social policy pursued by the government with respect to state-run enterprises.



Brussels – Minsk – the direct distance between cities 1880 km.

Stockholm – Minsk – the direct distance between cities 1030 km.

Helsinki – Minsk – the direct distance between cities 881 km.

3. INTERNATIONAL COOPERATION. OPEN FOR DIALOGUE WITH ANY PARTNER

Belarus participates actively in regional partnership programs and is developing trade relations with the European Union.

3.1. The EU and the CEA as priorities

The Republic of Belarus is a member of more than 50 international organisations including the UN, the OSCE, the World Bank, the EBRD and the IMF.

The Belarusian authorities declared programmes of economic development contacts with the countries of the Middle East, South America and China over the years 2008-2011. Areas of cooperation included energy supply, export of Belarusian fertilisers, construction projects of industrial, trade and hotel complexes within and outside the Republic of Belarus.

Development of projects with new partners has not led Belarus to change priority regions for its external trade and investment activities. In 2012 an absolute majority of all political and economic contacts were made with the European Union and Russia, including cooperation under agreements on Customs Union and the Common Economic Area of Russia, Belarus and Kazakhstan.

3.1.1. Belarus and the European Union

The first economic and political contacts between Belarus and the European Union date back to 1991, immediately after creation of Belarus as a sovereign state.

Development of external trade as well as receipt of technical assistance from the EU for execution of infrastructure projects and of regional and cross-border development programmes have become areas of cooperation between Belarus and the EU.

Participation by Belarus in such programmes as EU-TACIS, the Neighbourhood and Partnership Instrument and the Eastern Partnership enabled implementation of about 500 projects in the Republic to a total amount of over EUR 300 mln.

Oil products and equipment are the main external trade products between Belarus and the EU. Oil products accounted for more than 2/3 of all Belarusian exports to the EU or about USD 10 bln in 2011. Up-to-date equipment and technologies dominate in Belarusian imports from the EU. Imports of equipment and vehicles from the EU exceeded USD 3 bln or over 1/3 of total imports from the EU in 2011.

The close proximity of Belarus to European markets supports the interest of EU investors in implementing projects in Belarus. Investors from Eurozone countries contributed about 20% to annual foreign direct investment inflows in 2009-2011.

3.1.2. Cooperation with international financial organisations

Belarus has been a member of the IMF, the World Bank Group and the EBRD since 1992.

The IMF carried out a programme of financial anti-crisis support in Belarus during 2008-2011.

The IMF Stand-by Programme was implemented from January 2009 until March 2010. The programme was supported by a USD 3.5 bln stabilisation loan allocated by the IMF in several tranches. To receive tranches of the stabilisation loan the Belarusian authorities took a number of measures coordinated with the IMF on stabilisation of the exchange rate, general budget balance and reduction of the external trade deficit.

The IMF provided Belarus with technical and consulting assistance at the beginning of 2012.

The World Bank financed projects to a total amount of USD 400 mln approved by the Cooperation Strategy between the World Bank and the Republic of Belarus in 2008-2011.

Loans from financial organisations - members of the World Bank Group extended in 2008-2011 were intended for infrastructure and environmental projects, including a project aimed at eliminating the consequences of the Chernobyl Nuclear Power Plant accident.

The World Bank continued to provide technical assistance to Belarus and proceeded to development of a new Cooperation Strategy early in 2012.

The Cooperation Strategy on financing infrastructure projects and private sector development has been effective between the EBRD and Belarus since 2009. To this end the EBRD provided more than EUR 250 mln by the end of 2011.

In April 2011 the EBRD decided to focus on funding private sector projects in Belarus. At the beginning of 2012 the EBRD resumed funding for infrastructure projects and approved about EUR 20 mln financing and technical assistance for refurbishing communal power engineering facilities and environmental projects.

3.1.3. Belarus and Russia

Belarus maintains highly developed political and economic relations with Russia as compared to other countries.

Areas of cooperation with Russia of crucial importance for Belarus include costs of energy imports, terms of raw material supply for the country's industries, the amount and conditions of interstate financing and the possibility of free access for Belarusian goods to the Russian market.

The economic interests of Russia in Belarus lie in ensuring transportation of Russian goods to EU countries as well as acquisition of assets and implementation of investment projects in the industrial, power engineering and real estate sectors in Belarus. Russia is a major consumer of Belarusian foodstuffs and machinery.

In December 2011 Belarus reached agreements with Russia on preferential terms of natural gas and oil delivery for the period 2014 to 2015. Annual savings of Belarus from these agreements are estimated at about USD 3 bln.

Belarus succeeded in reaching agreement with Russia on preferential prices for gas imports after the sale of 100% shares of Belarusian gas transit and sale operator Beltransgaz to Russian Gazprom.

Preferential terms for oil delivery resulted from participation of Belarus in interstate projects between Russia, Kazakhstan and Belarus, i.e. the Customs Union and the Common Economic Area.

3.1.4. Participation in the Customs Union and the Common Economic Area together with Russia and Kazakhstan

The Customs Union (CU) and the Common Economic Area (CEA) are forms of interstate cooperation agreements between Belarus, Russia and Kazakhstan.

The major economic partners of Belarus are the EU and Russia.

CU members use single rates of duties and single customs rules in relation to products coming from third countries. Duty-free transfer of goods is allowed inside the domestic territory of Belarus, Russia and Kazakhstan. Merger of customs territories and transfer of customs control to the external borders of Belarus, Russia and Kazakhstan became effective on June 1, 2011.

Agreements on the CU do not hinder cooperation of CU members with international organisations. As a result of Russia's planned accession to the World Trade Organisation (WTO) in July 2012, foreign trade regulation agreed between Russia and the WTO will extend to the CU. For Belarus, which has not yet completed negotiations on WTO accession, the new foreign trade regulation could make its machinery, agricultural equipment, food processing and consumer goods less competitive in the Russian market in the short-run.

Actual cooperation between Belarus, Russia and Kazakhstan within the CEA took full effect on January 1, 2012. From this date on, the supranational regulatory body the Eurasian Economic Commission becomes operative and coordinates implementation of CEA agreements.

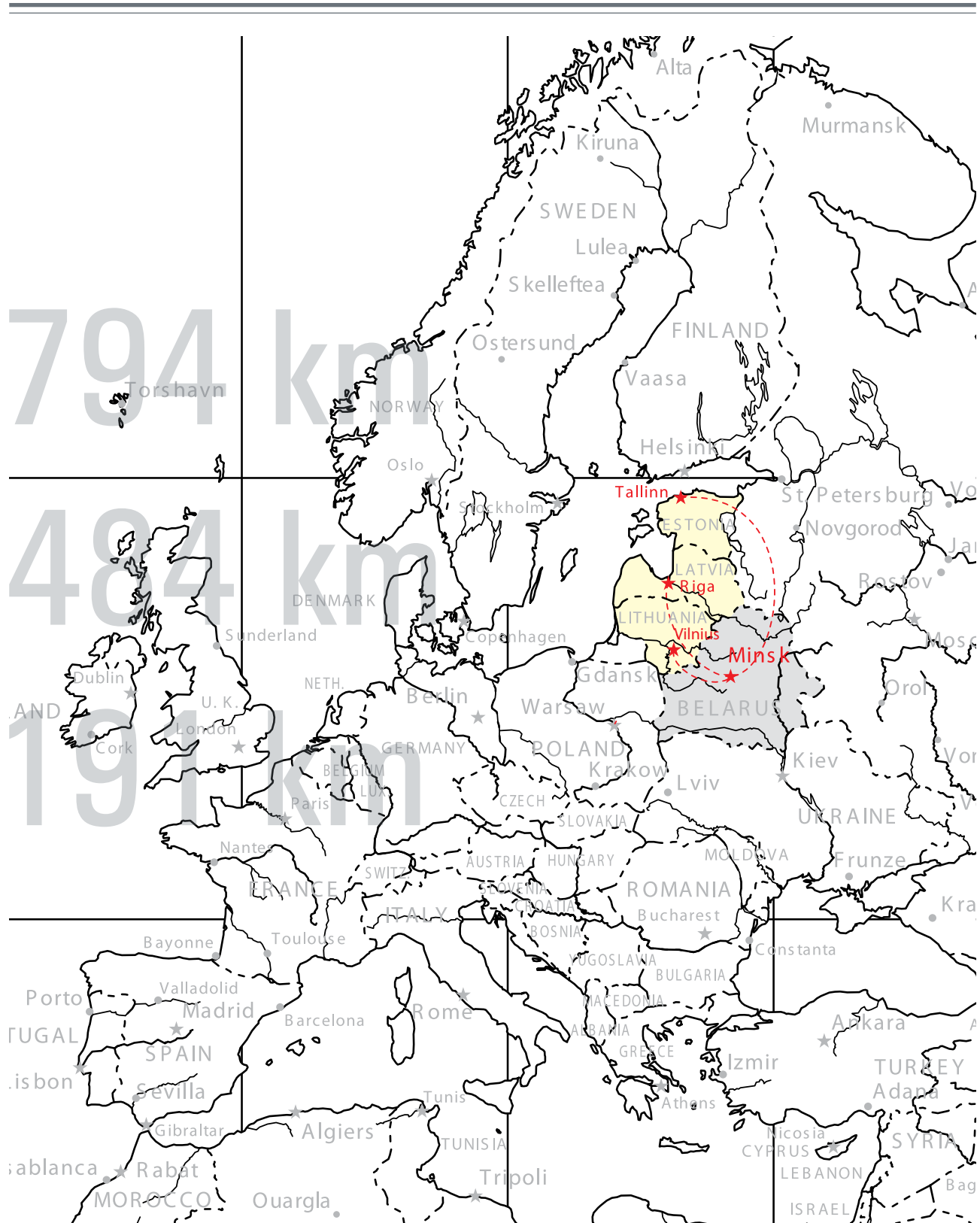
Participation in the CEA suggests establishment of an open market for goods, services, capital and labour force in the territory of its member-states during the transition period.

To this end a number of measures are to be taken to harmonize macroeconomic policies, including taxation issues, regulation of exchange and interest rates, regulations on capital transactions. The CEA member-states also intend to coordinate the rules for state support and subsidies to certain economic sectors as well as to create equal investment opportunities.

In the case of successful implementation of CEA agreements Russia, Belarus and Kazakhstan plan to create a Eurasian Economic Union from 2015. In addition to CEA agreements already concluded the Declaration on Economic Union stipulates the existence of a single banking system and introduction of a single currency in member-states.

Growth of sales volumes with Russia speeded up from 10-20% yoy to roughly 40% yoy, which is the first result of Belarus membership in the CU and the CEA agreements.

The process of Eurasian Economic Community foundation between Russia, Kazakhstan and Belarus will be completed by 2015.



Tallinn – Minsk – the direct distance between cities 794 km.

Riga – Minsk – the direct distance between cities 484 km.

Vilnius – Minsk – the direct distance between cities 191 km.

4. INVESTMENT CLIMATE. IN ANTICIPATION OF PRIVATE SECTOR EXPANSION

Belarus is making efforts to improve the investment climate in the country. The main focus areas are public private partnership, tax deduction, and bonuses for some investment projects.

4.1. Investment policy of Belarus

The government of Belarus took a number of measures aimed at improving the investment climate and entering the TOP-30 ranking of countries with the most attractive investment environment in 2009-2012.

Domination by the public sector remains a distinctive feature of the Belarusian economy. Government efforts were thus focused on improving the investment attractiveness of state-owned assets as well as on opening up opportunities for investors to modernise or to create manufacturing enterprises and infrastructure facilities through public-private partnership projects.

Changes to the investment environment consisted in streamlining property registration procedures and implementing construction projects plus optimising tax regulation and protecting investors' rights.

The tax burden decreased as a result of abolition of local taxes and the ecological tax on oil refining plus reduction of the income tax rate from 24% to 18%.

Investors were granted personal privileges under investment contracts between the government and the investor when carrying out investment projects important for the government.

To improve the investment climate, in January 2012 the government launched a new programme "The Strategy of Attracting Foreign Direct Investment until 2015". The focus of the program is, inter alia, on reducing the state share in the Belarusian economy, privatizing state-owned assets and creating favourable conditions to foster development of private businesses in prospective economic sectors.

One of the first government decisions under the programme is Decree No. 6 granting benefits on acquisition of state-owned assets, import of equipment and payment of taxes to private enterprises operating in small and medium-sized towns. The most significant preference under Decree No. 6 is exemption from income tax for a period of 7 years for eligible enterprises.

4.2. Privatisation

Despite intensification of state asset sales declared and agreed with the IMF, privatisation was not a priority of government economic policy in 2009-2011.

The number of privatisation transactions did not exceed 40% of the estimated number of targets subject to privatisation. More than 95% of privatisation proceeds came from sale of Belarusian gas pipeline operator Beltransgaz shares to Russian Gazprom.

State control of each individual privatisation transaction was the basic principle of the privatisation process. A list of strategically important companies that are not subject to sale was implemented in Belarus. State control of outstanding shares of major privatised enterprises in the secondary market was exercised by local authorities enjoying a pre-emptive right to acquire shares.

These were the most commonly applied privatisation methods in 2009-2011:

- direct negotiations with investors interested in acquisition of major and socially important enterprises in machinery, chemicals and petrochemicals as well as infrastructure facilities;
- sale of small and medium-sized enterprises in trade, woodworking plus the consumer goods and food processing industries via public tenders and auctions.

Privatisation projects successfully completed during direct negotiations in 2011 were sale of 100% Beltransgaz shares and about 60% of Orsha Aircraft Repair Plant shares.

Shares of 38 enterprises worth USD 20 mln were sold through tenders and auctions in 2011.

The government offer of shares of insufficiently profitable enterprises was a distinctive feature of tenders and auctions in 2010-2011. This did not generate interest among foreign investors and more than 90% of shares were purchased by local strategic investors mainly involved in the same industries.

Renewed interest of the government in privatisation in 2012 is associated with:

- more difficult access to foreign debt financing for the industrial and banking sectors, increased demand for foreign direct investment;
- conditioning of EurAsEC stabilisation loan tranches to Belarus to some USD 1 bln annually over the period 2012-2013 on at least USD 2.5 bln privatisation proceeds a year.

The government thus declared its intention to employ new methods of privatisation:

- to cancel lists of companies banned or restricted from privatisation, as well as lists of enterprises subject to privatisation within a certain period;
- an investor should be selected on the basis of the best price offered for the privatisation target. Additional requirements of a social nature will not play a defining role in the selection process.

The government established a specialised National Investment and Privatisation Agency in order to increase the efficiency of privatisation processes and communication with foreign investors. Development of efficient methods of state-owned asset sales in line with the recommendations of the World Bank and the IMF is one of the primary objectives of this institution.

The peculiarity of 2010-2011 privatisations was the sale of low profit companies mainly to Belarusian investors. Starting from 2012 privatisation will be organized without approved lists but according to the attractiveness of the investor's offer.

Highlights of Major Transactions

Industry /Timing	Target	Bidder	Stake acquired
Energy sector, 2007-2010	Beltransgaz	Gazprom, Russia	50%
Energy sector, 2011	Beltransgaz	Gazprom, Russia	50%
Telecoms, 2010	Velcom	Telekom Austria, Austria	30%
Banking sector, 2009	BPS-bank	Sberbank, Russia	93.27 %

4.2.1. M&A and direct investments

In 2011 the total volume of implemented M&A projects with a publicly disclosed deal value stood at USD 2.56 bln in Belarus – over 4.5 times that in 2010 (USD 0.56 bln). However, the major contribution to the total proceeds from transactions in 2011 was largely made by the sale of 50% of Beltransgaz shares for USD 2.5 bln. The overall value of M&A projects last year, beyond the sale of assets by the government, amounted to USD 25 mln.

Investors taking part in public tenders and auctions for privatisation of state-owned companies were largely interested in assets in woodworking, consumer goods and machinery.

Assets of local leasing and insurance companies, foodstuffs and pharmaceutical retail plus telecommunications operators were of major interest for investors in private companies.

Below are the major M&A projects of private companies in 2011:

1. Purchase of 80% of Belarusian B&B Insurance by the international AXA group.
2. Purchase of 50% of Belarusian BPS-leasing by Russian Sberbank-leasing.
3. Purchase of 99% of Belarusian pharmacy chain Tabina by Bulgarian pharm manufacturer Sopharma.
4. Purchase of 35% of Belarusian telecom operator Alternative Digital Network by the EBRD.
5. Sale of 51% of shares of the ProStore hypermarkets chain to the Belarusian Triple group by Russian retailer Sedmoi Kontinent.

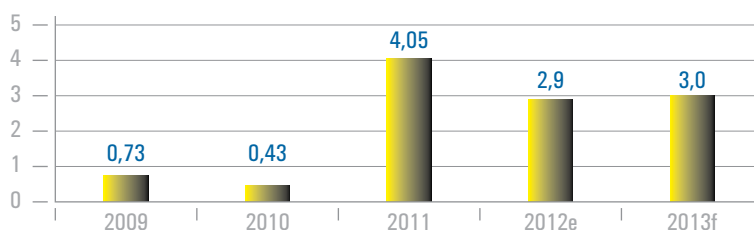
The public policy of encouraging foreign direct investment was based on granting personal privileges to investors in green-field projects in 2010-2011. At the same time attraction of direct investment in the capital of existing enterprises was conditioned on fulfilment of additional social requirements attached to deals.

As a result, proceeds from the sale of Belarusian Beltransgaz shares to Russian Gazprom were the most significant source of investment for Belarus through 2007 to 2011. The volume of the Belarusian M&A market and the inflow of direct investment in 2012-2013 will depend on the results of:

- transactions between the government and investors during direct negotiations on the sale of major Belarusian enterprises;
- tenders and auctions held by the government for the sale of assets of small and medium-sized enterprises;
- adjustment of economic and social requirements of the government to private investors.

In 2011 the most significant merger and acquisition deals were accomplished in the sphere of woodworking, the food industry and the machinery-producing industry.

Net foreign investment, USD billion



M&A Transactions in 2009-2011

Industry	M&A number			M&A value, USD mln		
	2009	2010	2011	2009	2010	2011
Banking sector	3	3	n/a	307	35	n/a
Insurance	1	1	n/a	н/д	up to USD 1 mln	n/a
Machinery	1	n/a	5	н/д	н/д	13
Logistics	n/a	1	1	n/a	10	up to USD 1 mln
Food & Beverages	7	3	2	9	12	10
Telecoms	n/a	1	2	n/a	460	n/a

Pharmaceuticals	n/a	1	2	n/a	n/a	n/a
IT & Innovations	1	n/a	2	n/a	n/a	n/a
Woodworking	n/a	n/a	4	n/a	n/a	7
Energy sector	1	1	1	up to USD 1 mln	up to USD 1 mln	2500
Total:	14	11	19	317	519	2531

4.2.2. Investment challenges & outlook

Government support in 2009-2011 helped to mitigate the negative impact of the global crisis on the Belarusian economy. Despite strong government regulation certain problems that hinder investment were not eliminated by early 2012:

- about 70% of the Belarusian economy is under state control. Use of equally complex investment procedures for big, medium-sized and small public enterprises does not allow flexibility in changing production programmes and deteriorates competitiveness;

- while the labour force involved in the country's economy is highly-qualified, applied technologies suit manufacture of products that are mainly competitive in Russia and CIS markets;

- Belarus possesses a limited amount of national natural resources – potash fertilisers, forest resources, raw materials for the construction materials industry. However, government investment until 2012 was mainly channelled to industries that are virtually fully dependent on the import of raw materials and energy products, i.e. to oil refining, chemicals and petrochemicals, machine-building;

- while Belarus is located at the intersection of cross-border transport corridors from Europe to Asia, logistics services are at their initial stages of development.

The Belarusian authorities plan to resolve these problems by means of a programme of reforms developed under the auspices of the World Bank, the IMF and the Anti-crisis Fund of EurAsEC experts. The programme is set to continue up until 2015 and includes measures to increase the share of the private sector, concentration of public resources on prioritized projects and to encourage private investment in prospective economic sectors.

Pharmaceuticals, biotechnologies, nanotechnologies, manufacture of new materials, IT and telecommunications are considered to be priority areas for government investment.

Future government support to private equity involvement in public-private partnership projects is likely to be focused on:

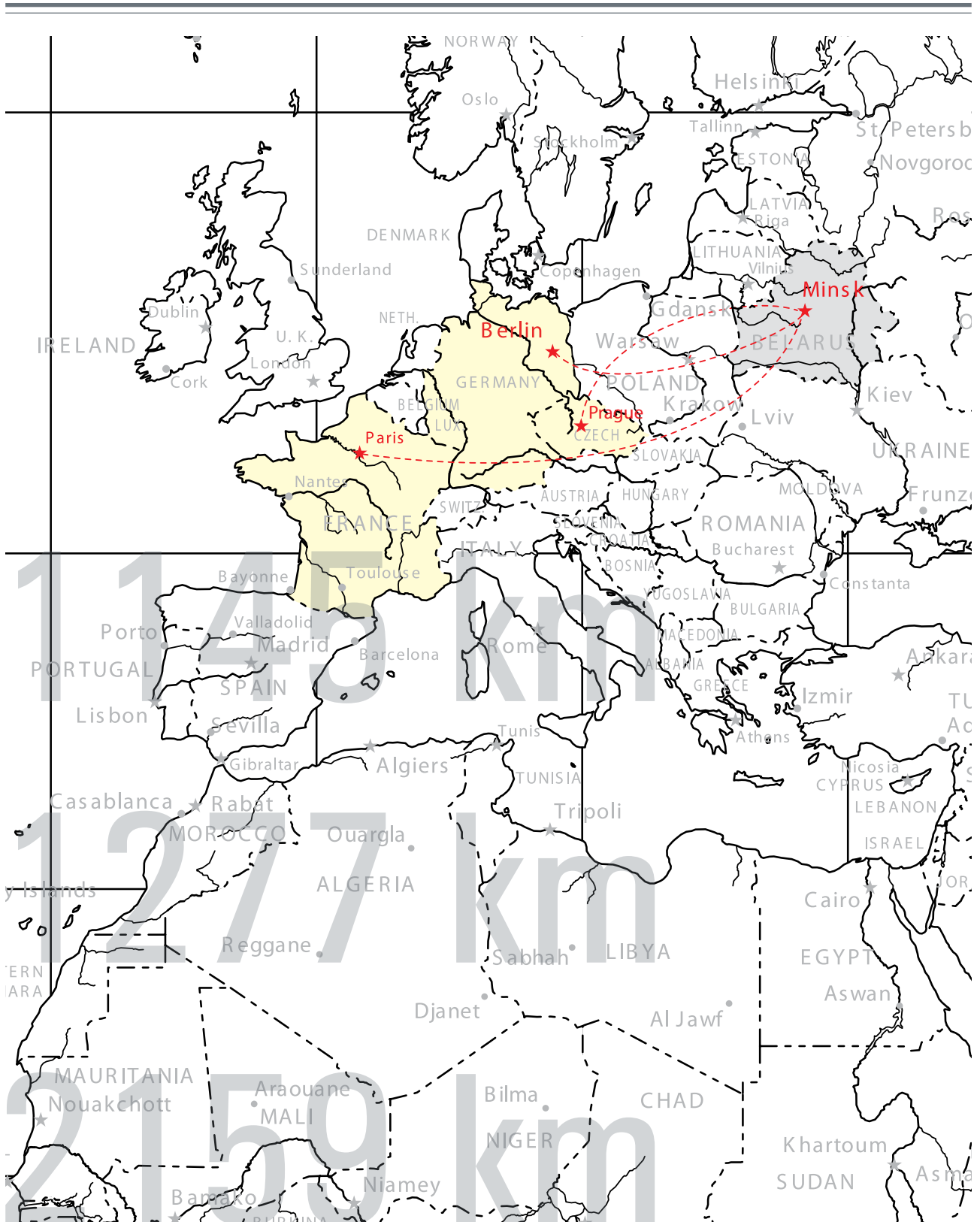
- greenfield projects with application of innovative technologies;
- investment projects at existing enterprises with increased exports or import substitution in the domestic market as their objectives;
- projects involving public transport, energy and communal infrastructure development aimed at reducing budget expenses.

The scope of government participation in public-private partnership will be set individually for each enterprise with a state stake and will depend on current efficiency and competitiveness in external markets.

The state is planning to implement a program for economic reform worked out in cooperation with the World Bank, the IMF, and Eurasian Economic Community Firewall experts. This program aims to increase the private sector share, state support for private enterprises and development of high technology industries.

Investment Opportunities

Industry	Investment opportunities
Financial sector	Rapid growth, open for foreign investors, up-to-date standards of corporate governance and reporting
Telecommunications	Low level of development of cable and Internet services, room for development of up-to-date infrastructure
Pharmaceuticals	Good production base, potential for import substitution
Food processing	High-quality local resource base, low level of industry consolidation, access to the sizeable domestic market and the Russian market
Retail trade	Undersaturated domestic market, domineered by private sector, upside potential in medium-sized towns with high level of household incomes
Wood processing	Rich local resource base, low logistics costs
Logistics	Advantageous transit location, underdeveloped logistics infrastructure
IT & Innovations	Availability of scientific infrastructure, highly-educated labour force, tax concessions and customs privileges applied to companies operative in special economic areas
Energy sector	Public infrastructure requiring refurbishment and reforms, government support to private investment in renewable energy
Machinery	Outdated technologies requiring replacement, government support to domestic market, broad access to the Russian market
Petrochemicals	Solid industrial base, access to the Russian energy resources



Berlin – Minsk – the direct distance between cities 1145 km.

Prague – Minsk – the direct distance between cities 1277 km.

Paris – Minsk – the direct distance between cities 2159 km.

5. LEGAL ENVIRONMENT FOR FOREIGN INVESTMENTS

In 2012, Belarus rose from 91st to 69th place in the global ranking of ease of doing business published by the World Bank. The country made progress in the spheres of starting business, protecting minority shareholder rights, registering property and paying taxes¹.

5.1. Investment Laws

During the years of independence, Belarusian investment laws have evolved remarkably and now accommodate the needs of investment projects of different scales in various branches of the economy. Special regimes exist for investors in small towns and rural areas, residents of free economic zones, residents of high technology parks.

5.1.1. General guarantees

Belarusian investment laws set the following basic guarantees for investors:

- guarantee of the right of private property and its protection without discrimination;
- protection against unlawful acts of government authorities which violate investors' rights or cause losses, or both;
- equality of rights granted to national and foreign investors;
- stability of investors' rights both during and on ending their business activity;
- free disposal of property and profits; and
- protection of investments, which may not be nationalized, requisitioned, or subject to measures of similar effect without timely and full compensation of the property value and related damages.

Compensation for nationalized or requisitioned property should be based on market value. Compensation should include interest charged on the basis of the official exchange rate of the BYR against the respective foreign currency, from the date of actual nationalization or requisitioning until the date of actual payment of compensation. The interest rate should in any event be not lower than current LIBOR. Compensation should be paid in the same currency in which investments are made.

5.1.2. Investment Agreements

An investment agreement may be concluded by an investor directly with the Republic of Belarus in order to obtain additional guarantees and incentives from the government. The state may be represented by a ministry, state committee, municipal authority, or state concern.

During 2010–2011 the popularity of investment agreements increased, and as of May 2012 over 750 of them had been concluded with investors, mostly via municipal authorities. An investment agreement is used, for example, in the following cases:

- acquiring a state-owned enterprise or establishing a joint venture with a state-controlled company to secure a stable legal framework for a project;

Please note that this section was compiled by SORAINEN Belarus as of June 2012 for general information purposes only, free of obligation and free of legal responsibility and liability. It does not take the form of professional advice and does not cover all laws or reflect all changes in legislation, nor are the explanations provided herein exhaustive.

Therefore we recommend that you contact SORAINEN or your legal advisor for further information.

An investment agreement with Belarus can provide the investor with additional warranties and benefits and enable settlement of disputes in international arbitration by waiver of sovereign immunity.

- greenfield investment projects which require arrangements for supplies of power and raw materials, prices for goods produced by the new enterprise (especially in the energy sector);

- large-scale development and construction projects.

An investment agreement may provide for additional legal guarantees by the Republic of Belarus to the investor, such as government obligations to provide a special tax and customs regime, ecological standards and other conditions material for the investor, to issue to the investor all permits and approvals necessary for realization of the investment project, to provide additional tax exemptions and preferences. The investment agreement may also specify additional obligations of the investor, such as to employ and train Belarusian nationals, or to use new technologies.

An investment agreement with foreign investors may additionally provide for waiver of the Belarusian state's legal immunity. This is crucial for enforcing decisions in disputes arising out of investment agreements. However, as of June 2012 not a single investment agreement had been tested in a court or international arbitration tribunal.

Investors initiate an investment agreement with the authority responsible for a certain enterprise or industry – normally, a municipal authority, a ministry, or a state concern. The same authority negotiates the contents of the agreement with the investor and circulates the draft among other interested state authorities such as the Ministry of Economy (pricing issues), the Ministry of Taxes and Duties (tax exemptions), the Ministry of Justice (legal clarity and compliance of the agreement with local laws). Negotiations and approval of the draft by all interested authorities may take several months.

5.1.3. Concession Agreements

A concession is an agreement by the Republic of Belarus with an investor granting a temporary right to carry out a specific type of activity related to the exclusive competence of the state, or the right to use property (eg, subsoil, waters, woods, land other) owned by the state.

Concession agreements are of three types:

- full concession agreement (right of property to goods produced remains with the concessionaire);

- agreement on division of products (goods produced are divided between the concessionaire and the state under the procedure and in the proportion set by the agreement);

- concession agreement on services / performance of work (the right to goods produced is transferred to the state; the concessionaire only receives remuneration for services (work) performed.

A concession agreement is concluded either at a tender or following direct negotiations with the investor (eg, if the investor at its own expense has already performed a geological survey of mineral resources to be provided for the concession).

The official list of objects offered for concession as of June 2012 includes iron-stone deposits, gypsum, oil shale and clay fields.

Concession Agreements are becoming widespread and give the right to resource development.

5.1.4. Investment activity in small towns

Since 01 July 2012 companies and individual entrepreneurs operating in all rural areas and towns can use the following benefits within 7 years after registration:

- exemption from profit tax on sale of goods, work, services of own production;
- exemption from other taxes and duties, except for VAT, excise tax, offshore duty, land tax, ecological tax, natural resources tax, customs duties and fees, government fees, patent duties, and stamp duty;
- exemption from mandatory sale of foreign currency received from sale of goods, work, services of own production, and from lease of property; and
- freedom to insure risks with foreign insurers.

5.1.5. Free Economic Zones (FEZs)

At present, Belarus has 6 FEZs (one for each oblast (region) administrative centre, including Minsk). At the beginning of 2012, 524 companies were registered as FEZ residents.

In order to become a FEZ resident, an investor needs to meet certain criteria, such as:

- minimal investment amount is EUR 1 million;
- a FEZ resident should produce within the FEZ goods recognized as of own production (confirmed by a certificate issued by the Belarusian Chamber of Commerce and Industry), and
- 70% of the goods should be exported from Belarus.

FEZ residents enjoy the following main tax benefits:

- exemption from profit tax within 5 years of the date of first declaration of profit; afterwards - rate of profit tax decreased by 50% (i.e. currently 9%), provided that the goods (work, services) produced are either exported from Belarus or recognized as import-substituting goods, or sold to other FEZ residents;
- supply of goods included in the list of import-substituting goods is subject to a reduced, 10% VAT rate; and
- buildings located within the FEZ are exempt from real estate tax.

The special legal regime does not apply to businesses in the area of catering, gambling, electronic interactive games, trade, and securities.

5.1.6. China-Belarus Industrial Park

By Edict of the President, in June 2012 a China-Belarus Industrial Park (Industrial Park) was created for a term of 50 years. The Industrial Park represents an area of over 8048 hectares in the south-western part of Smolevichi district (close to "Minsk-2" National airport).

In the Industrial Park, a special regime of taxation, customs, administrative and other regulations applies. A "special economic zone" legal regime is intended to foster economic, trade, and investment cooperation between Belarus and China. Within

Significant tax, customs and other benefits can be granted to investors in smaller towns and rural areas.

Investors can use the preferential tax regime of any of the six free economic zones in case of an investment of no less than euro 1 mln in export-oriented industry.

the framework of the regime residents of the Industrial Park are provided with a wide range of benefits and preferences.

The status of Industrial Park resident can be granted to legal entities registered and implementing investment projects there. The expected priority industries to be developed in the Industrial Park are electronics, biomedicine, chemicals and mechanical engineering.

Industrial Park residents enjoy the following benefits:

- for 10 years from the date of registration as residents:
 - exemption from income tax on proceeds from sale of goods (work, services) of own production manufactured in the Industrial Park;
 - exemption from real estate tax on real estate objects located in the Industrial Park;
 - exemption from land tax on land plots in the Industrial Park;
- in the following ten years the rate of income tax, real estate tax, and land tax is reduced by 50%;
- for the first 5 years starting from the year when profit was first declared by a resident, the income tax rate on dividends paid by an Industrial Park resident to its founder amounts to 0%;
- until 1 January 2027 the income tax rate on royalties paid by Industrial Park residents to foreign organizations amounts to 5%;
- until 1 January 2027, the personal income tax rate for employees of Industrial Park residents will be 9%;
- full refund of VAT paid for imported goods (work, services), property rights used in the design, construction, and equipping of buildings and constructions in the Industrial Park;
- until 1 January 2027, exemption from mandatory sales of foreign currency proceeds received from activities in the Industrial Park;
- exemption from customs duties and VAT on goods (manufacturing equipment, components and spare parts, materials and raw materials) imported into Belarus in order to implement investment projects in the Industrial Park;
- exemption from payments to innovation funds while performing design and construction work of Industrial Park objects within the boundaries of the Industrial Park;
- other benefits related to social security payments for employees of Industrial Park residents, terms of processing matters of foreign labor immigration, and others.

In addition, legal acts set peculiarities of construction of Industrial Park objects and infrastructure, in particular:

- investors and Industrial Park residents are entitled to select contractors for construction of Industrial Park objects and suppliers of goods for their construction and equipping without tenders;
- design, adjustment of project documentation, construction and commissioning of Industrial Park objects may be carried out in accordance with technical legal acts of China and other foreign countries if project documentation passes public examination in Belarus, safety of construction work and materials is guaranteed and necessary documentation is drawn up in Russian (Belarusian) (or translation of the documentation is provided);
- imported goods for the design, construction, and equipping of Industrial Park objects are not subject to mandatory conformity assessment in Belarus.

Legislation guarantees stability of the special legal regime throughout the lifetime of the Industrial Park.

Incentives and preferences set in the Edict do not apply to banks, non-bank credit and financial institutions and insurance companies, commercial organizations carrying out lottery activity, gambling, organization and conducting electronic interactive games in the Industrial Park.

5.1.7. High Technology Park (HTP)

The HTP was created in 2005 to foster development of the IT industry. The HTP is an area in the eastern part of Minsk with a special legal regime lasting until 2020.

The status of HTP resident can be granted to a Belarusian company (including those with foreign investments) whose business is:

- analysis, design, and software support for information systems;
- data processing;
- fundamental and applied research, exploratory developments in the field of natural and engineering sciences; or
- other types of business activity set by the Government upon approval by the President.

HTP residents enjoy the following tax benefits:

- exemption from profit tax and VAT;
- land plots within the HTP necessary for construction of buildings are exempt from land tax throughout the period of construction but not longer than for 3 years;
- real estate on HTP territory (except for leased real estate) is exempt from real estate tax;
- dividends paid to shareholders registered in offshore zones are not subject to offshore duties; and
- equipment imported to Belarus is exempt from customs duties and VAT, unless otherwise provided by international agreements concluded by Belarus.

Furthermore, certain exemptions concern personal income tax paid by employees in HTP, and social security payments. Foreign legal entities also enjoy benefits with regard to taxation of dividends, interest and royalties gained from HTP residents. These types of income are taxed at the rate of 5%, unless more favourable conditions are set by international agreements.

5.2. Bilateral Investment and Double Taxation Treaties

Additional guarantees for foreign investors in Belarus are provided by a number of bilateral treaties on avoidance of double taxation as well as agreements on promotion and protection of investments.

As of May 2012 Belarus has agreements on avoidance of double taxation currently in force with 63 countries: all CIS countries (Georgia excluded), Austria, Bahrain, Belgium, Bulgaria, China, Croatia, Cyprus, the Czech Republic, North Korea, Denmark, Egypt, Estonia, Finland, France, Germany, Hungary, India, Iran, Ireland,

Minsk High Technology Park is a special tax regime zone for IT companies.

Israel, Italy, Japan, South Korea, Kuwait, Latvia, Lebanon, Lithuania, Macedonia, Malaysia, Mongolia, Montenegro, the Netherlands, Oman, Pakistan, Poland, Qatar, Romania, Saudi Arabia, Serbia, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Syria, Thailand, Turkey, United Arab Emirates, the United Kingdom, the United States of America, Venezuela, Vietnam.

Agreements on promotion and protection of investments currently bind Belarus with the following countries: Armenia, Austria, Azerbaijan, Bahrain, Bosnia and Herzegovina, Bulgaria, China, Croatia, Cuba, Cyprus, the Czech Republic, North Korea, Denmark, Egypt, Estonia, Germany, Finland, India, Iran, Israel, Italy, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Latvia, Lebanon, Libya, Lithuania, Macedonia, Mexico, Moldova, Mongolia, the Netherlands, Oman, Poland, Qatar, Russia, Saudi Arabia, South Korea, Romania, Singapore, Slovenia, Sweden, Switzerland, Syria, Tajikistan, Turkey, the Ukraine, United Arab Emirates, the United Kingdom, the United States, Venezuela, Vietnam, Yugoslavia.

Belarus is also a party to a number of multilateral treaties on cross-border investment activity:

- 1965 International Convention on Settlement of Investment Disputes between States and Nationals of Other States;
- 1985 Convention Establishing the Multilateral Investment Guarantee Agency;
- 1993 CIS Agreement on Cooperation in the Field of Investment Activity;
- 1997 Moscow Convention on Protection of Investors' Rights.

5.3. Corporate Laws: Setting up a Business in Belarus. Main organizational and legal forms³

When setting up business in Belarus, foreign investors choose from a variety of corporate forms. The decision on corporate presence in the form of a representative office or local legal entity is usually influenced by the regulatory framework, the nature of the project, and strategic plans.

A representative office is a popular form at the initial stage of business. Due to flexible employment, currency control, and certain other regulations, representative offices are often used at the initial stage of business operations in Belarus and for certain time even alongside a local legal entity.

A representative office is in fact a branch of a foreign company with initial functions such as soliciting local customers, procuring orders, arranging for conclusion of contracts. These offices could grow comparatively large by headcount and their functions become complex and include making contracts, invoicing customers, collecting debts and undertaking other actions which lead to emergence of a permanent establishment. This subsequently requires registration of the mother company as a tax resident of Belarus; otherwise severe penalties may be levied by the tax inspection, taxes may be collected retroactively, and sometimes management is held personally accountable.

Representative offices are accredited by the Belarusian Ministry of Foreign Affairs. A foreign company pays state duty equivalent to 65 basic units (approx EUR 615) for each year of accreditation of its representative office in Belarus.

Accreditation of a representative office is issued within 10 days after filing the necessary documents. Post-accreditation procedures take at least 2.5 weeks and end with opening representative office bank accounts.

More often, the main vehicles for foreign investments in Belarus are legal entities established under local laws.

Belarus currently has agreements on avoidance of double taxation in force with 63 countries worldwide and agreements with 53 on promotion and protection of investments.

5.3.1. Commercial Legal Entity

5.3.1.1. Forms and Types of Commercial Legal Entities

The most common forms of commercial legal entities in Belarus are joint stock companies, limited liability companies, and unitary enterprises.

A Joint Stock Company (JSC) under Belarusian law is a commercial company founded by two or more individuals / legal entities (shareholders). Shares in the JSC are securities issued by the company; their issue is registered with the State Securities Committee. Any issue / cancellation of shares or increase / decrease of their nominal value also requires registration. Transactions with shares of JSC must be registered with professional operators in the securities market (specialized licensed companies).

Under Belarusian law, a JSC can be of two types: open and closed. Shares of an open JSC may be sold freely to any person without the consent of other shareholders. In a closed JSC, shareholders have a pre-emptive right to acquire shares offered, or under its articles shares may be sold only to a limited range of persons. A closed JSC cannot offer its shares for public subscription.

A Unitary Enterprise (UE) is a commercial company established by a single owner. All assets of a UE are considered as the property of its owner. The authorized capital of a UE is not divided into shares. A UE may be sold or otherwise assigned as a whole asset complex, including buildings, equipment, inventory, raw materials, ready made goods, claims, debts, as well as trademarks and other exclusive rights of the UE. The asset complex is considered to be a real property object. In this regard, the asset complex plus related rights and transactions must be registered with the National Cadastral Agency.

A Limited Liability Company (LLC) is the most widely used form of business. A LLC is founded by two or more individuals / legal entities (any combination is possible). Shares in a LLC need not be registered. The amount of each share (par value) is usually equivalent to the amount of shareholder's contributions to the authorized capital of the LLC. Shareholders in a LLC have a pre-emptive right to purchase shares of the LLC offered to third persons by other shareholders. If none of the shareholders exercises this right, the pre-emptive right passes to the LLC itself. Shareholders in a LLC, in contrast to a JSC, may at any time declare their exit from the LLC and after the exit receive part of the property of the LLC proportional to the amount of their share.

Legal entities founded by foreign investors may declare the status of a commercial organization with foreign investments (COFI) if foreign contributions amount to at least USD 20,000. The main advantage of a COFI is the possibility to form authorized capital within 2 years after registration of a legal entity (see section 5.3.1.2 below).

LLC is the most widely used form of business.

5.3.1.2. Minimal amount of authorized capital and number of shareholders

Type / form of legal entity	Minimal authorized capital	Number of shareholders / owners	Formation of authorized capital
Open joint-stock company (OJSC)	400 basic units (approx EUR 3,800)	minimum 2 maximum is unlimited	Authorized capital should be fully paid before state registration of the company
Unitary enterprise	BYR 1	only 1 owner of assets	
Close joint-stock company (CJSC)	100 basic units (approx EUR 840)	minimum 2 maximum 50	Authorized capital should be fully paid before state registration of the company unless the company has COFI status.
Limited liability company	BYR 1 by each shareholder	minimum 2 maximum 50	

5.3.2. Management

Management structures are specific for each legal form of company.

5.3.2.1 Unitary Enterprise

The owner of a UE is the supreme management body. Exclusive competence of the owner concerns introducing amendments to the UE Articles, increasing or decreasing authorized capital, approving annual reports, and decisions on distribution of net profits. The owner appoints and dismisses the director of the UE or outsourced manager. An owner who is a natural person may personally perform the duties of director or outsourced manager.

5.3.2.2. Joint-stock and Limited Liability Companies

The structure of managing bodies of a commercial company other than a UE may include the general meeting of shareholders, the supervisory board, and the director (board of directors).

The general meeting of shareholders (Meeting) is the supreme managing body of the company. The Meeting convenes at annual and extraordinary sessions.

The Meeting can decide on issues of reorganizing and liquidating the company, amending its articles, changing the amount of authorized capital, electing and terminating the powers of other managing bodies. The competence of the Meeting also extends to deciding on the company's entry into transactions with affiliated persons. All these issues pertain to the exclusive competence of the Meeting.

The establishment of Supervisory Board is mandatory only in an open JSC. The competence of the Supervisory Board usually covers matters of general manage-

The advantage of a LLC is simplicity of foundation and management, share disposals and shareholder exit.

ment of the company. Specific powers may be granted by the Meeting within the limits of Supervisory Board competence as defined by law. Only natural persons may be members of the Supervisory Board. A member of the Supervisory Board may not be a shareholder in the company.

The company may be managed by a sole or collective executive body (the Director / Board of Directors). There may not be several managing directors equal in status. Even if the company has a Board of Directors, a Director General or Chair is also appointed, and has prevailing power. An outsourced organization or manager may also be appointed as the executive body. The executive body is in charge of managing the company's day-to-day activities.

A foreign citizen may be appointed a Director / member of the Board of Directors in any company. A COFI can hire a Director or Chairman of the Board of Directors without a work permit; however, in practice the other members of the Board of Directors need a work permit.

Appointment of foreign citizens to the Supervisory Board requires no special permits or licences.

5.3.3. Establishing a company

Generally, incorporation of a company includes the following steps:

- choosing a name for the company and registering this with the municipal authority;
- choosing the future location of the company ("virtual addresses" are not allowed);
- executing the articles of the company and other incorporation documents;
- opening an accumulation account and contributing authorized capital (not compulsory for COFI);
- filing for registration of the company.

Registration of the company is effective from the date when the documents are filed. Registration with the tax authorities, social security fund and insurance body is accomplished without involvement of the applicant during the next 5 business days. Other post-registration procedures include production of the corporate seal, appointment of the executive body and the chief accountant, opening bank accounts.

State registration takes no more than 1 working day and the whole registration process (up to opening bank accounts) should not exceed 1.5 weeks.

5.4. Privatisation

The type of privatisation procedure depends on objects of privatisation, which include housing, state enterprises, leased state property, state-owned shares. Potential investors can join the privatisation of state enterprises process at various stages:

- access as new shareholders during transformation of enterprises into open joint-stock companies;
- acquire state-owned shares in existing open joint-stock companies.

The Government adopts a special plan of privatisation and transformation (Privatisation Plan).

The process of state registration of legal entities in Belarus takes 1 day, while registration with tax and other authorities plus opening bank accounts can be completed in 4–5 working days.

The government is planning to approach “spot privatisation” under which there will be almost no need for advanced planning; with an attractive offer and business plan, an investor can apply for any enterprise in the state.

A Privatisation Plan is adopted for a 3 year term and sets:

- a list of state open joint stock companies whose shares can be sold to private investors; and
- a list of state enterprises to be transformed into open joint stock companies with participation of private investors.

In late March 2012 the Belarusian Government revised its approach to privatisation, and the idea of “spot privatisation” was discussed. “Spot privatisation” implies that subject to agreement on price and undertaking additional commitments (social, financial, employment policy-related) an investor could buy an enterprise from the state. If implemented, this new approach may result in significant change of privatisation laws. Please follow the quarterly issues of SORAINEN Belarus News for details or consult your legal advisor regarding these changes.

5.4.1. Becoming co-founder of an open joint-stock company

State unitary enterprises which the state plans to transform into open joint stock companies are listed in the Privatisation Plan. The Belarusian State Property Committee decides on transformation of every enterprise mentioned in the Privatisation Plan and announces a contest to choose a private investor – the future shareholder of an open joint stock company. The main criterion during selection of the winner is the benefits of the investment plan provided by the investor. The winner of the contest becomes co-founder of the open joint-stock company alongside the state.

It is also possible to acquire a share in a privatized company at the stage of sale of shares. State-owned shares of joint stock companies established on the basis of state unitary enterprises are sold in first turn to the employees of these enterprises on privileged terms. Only after the sale of shares to employees is completed are shares sold to private investors. Consequently, at this stage it is more difficult to enter the company in the capacity of a strategic investor.

However, there are more than 50 major industrial enterprises whose shares cannot be sold to employees on beneficial terms but may only be sold to strategic investors.

5.4.2. Acquisition of state-owned JSC shares

The State Property Committee organizes the auction or contest where state-owned shares are sold to investors. The contest or auction is announced in the Belarusian mass media and on the Committee’s official website www.gpk.gov.by. To participate in the contest or auction the investor applies with a set of supporting documents. Contest participants should also file a tender proposal corresponding to the terms of the contest. The winner of the contest or auction becomes a shareholder of the company.

5.5. Merger Filing Requirements in Belarus

In Belarus merger filing is mandatory in a number of cases. This means that transactions may not be put into effect prior to clearance by the antimonopoly au-

The main privatisation approaches: to become a new shareholder of an open joint stock company, created on the base of a unitary enterprise or to acquire state-owned shares (on the basis of public sale or competition).

thority (Department of Price Policy of the Ministry of Economy of Belarus or departments of price policy of municipal authorities).

The buyer should apply to the antimonopoly authority for approval of the intended transaction in the following cases:

1. Transactions where the company and the target operate in the same commodity market (all the following conditions should be met):

- a. the intended transaction relates to acquisition of shares of the target;
- b. the acquirer and the target perform their activity in the same commodity market;
- c. the acquirer's activity covers more than 30 per cent of a certain commodity market;
- d. the acquirer is a business entity or an individual entrepreneur.

2. Transactions with shares of a target holding a dominant position (all the following conditions should be met):

- a. the intended transaction relates to acquisition of shares of the target;
- b. the target holds a dominant position in any commodity market;
- c. the acquirer is a legal entity or an individual or a foreign state or an international organization or their bodies.

3. Acquisition of the right to influence decisions of a target holding a dominant position (all the following conditions should be met):

- a. the intended transaction may feasibly enable the acquirer to influence decisions by the target;
- b. the target holds a dominant position in any commodity market;
- c. the acquirer is a legal entity or an individual or a foreign state or an international organization, or their bodies.

4. Acquisition of control over the target (all the following conditions should be met):

- a. the intended transaction feasibly allows the acquirer to set the conditions of carrying out business activity of the target or to perform the functions of the managing body;
- b. the acquirer is a legal entity or an individual, or a group of legal entities and/or individuals or a foreign state, or an international organization, or their bodies.

The law provides a limited number of conditions when the acquirer is considered to obtain control over the target's business activity, namely:

- the intended transaction relates to acquisition of 20 per cent of shares of the target;
- the transaction is based on one of the following agreements: contract of sale, contract of trust management, joint cooperation agreement, or commission agreement, and
- the book cost of the target's assets for the latest reporting date exceeds 100,000 basic units (approx. EUR 835,000), or the amount of proceeds from sales for the previous financial year exceeds 200,000 basic units (approx. EUR 1,670,000).

If a particular transaction meets the above criteria, approval of the antimonopoly authority should be obtained before undertaking a merger or acquisition of control. Otherwise, if the transaction leads to occupying or strengthening a dominant position and/or to obstructing competition, it can be held invalid.

No filing fees for examining an application or approval of transaction need be paid in Belarus.

Approval of the antimonopoly authority is obligatory under some conditions (the acquiring enterprise is the market leader, its annual turnover or size of share acquired exceed certain limits).

5.6. Financial regulations in Belarus

5.6.1. Bank accounts

Opening a bank account abroad by a Belarusian company requires a permit from the National Bank, subject to few exceptions. Foreign companies may open settlement accounts in Belarusian banks both in local currency and in foreign currency.

Please note that Belarusian bank accounts cannot be pledged.

5.6.2. Currency of settlement and currency exchange

Foreign currency can be used in settlements between Belarusian residents only in a limited number of cases. Settlements between a resident and non-resident may be both in local currency and in foreign currency if the National Bank has set the official exchange rate of the BYR against the other currency (the list comprises 79 foreign currencies, including USD and EUR). Certain limitations as to use of foreign currency in settlements with foreign companies may be set in international treaties of Belarus.

The level of freedom in local currency exchange depends on the purposes of the exchange. For repatriation of investor's proceeds local currency may be freely changed to foreign currencies through the bank. A Belarusian company has to send the bank documents confirming the purpose of exchange (e.g. loan agreement, decision of the general meeting of shareholders on profit distribution).

If a Belarusian company receives foreign currency, in most cases it must sell 30% of the proceeds.

5.6.3. Requirements for obtaining a loan from a non-resident

A Belarusian borrower requires a permit from the National Bank to obtain a loan from a non-resident, if any of the following criteria is met:

- interest rate for a loan in USD or EUR exceeds 14% p.a., or for a loan in other currencies the refinancing interest rate of the respective central bank plus 5% p.a.;
- default interest rate exceeds 0.01% daily (3.65% p.a.);
- the loan will be repaid not from the borrower's account;
- the creditor is registered in an offshore zone;
- the loan is disbursed to the account of a third party;
- additional payments (eg, commitment fee, front-end fee, prepayment fee) are provided by the agreement (this criterion is not applicable to loan agreements with foreign banks).

The procedure for opening a bank account does not require National Bank permission.

Bank accounts opened in Belarus cannot be pledged.

30% of currency obtained is to be sold at the currency exchange rate of the National Bank.

Taking loans from a non-resident without National Bank permission is accepted under specific limits.

5.7. Legal status of land and other real property

Under Belarusian laws real property includes land plots, buildings and structures, objects of incomplete construction, and other objects closely connected with land.

In Belarus a land plot follows the fate of the real estate object located on it.

5.7.1. Registration of real property

Real property objects are considered as created only after state registration.

Emergence, transfer, and termination of rights to and encumbrances on real property as well as transactions with real property require state registration (except for lease, sublease and free-usage transactions with buildings and structures and rights thereto). Real property transactions requiring state registration enter into force from the date of state registration. Failure to comply with this requirement results in invalidity of the transaction.

Registration is performed by the local agencies of the National Cadastre Agency. All information on registered real property is available in the Unified State Register of Real Property, Rights thereto and Transactions therewith (Real Estate Register). Registration data is open for public use. However, only title holders, their successors, and government authorities may access a list of all real property objects belonging to a particular individual or legal entity.

5.7.2. Land plots

In Belarus, use of land plots is predetermined by their specific designation (e.g. agriculture, forest and water fund, inhabited areas, infrastructure).

Designation of land plots may be changed by decision of local authorities.

Belarusian legal entities (including those with foreign investments) can hold the following rights and titles to land:

- right of property;
- right of permanent use;
- right of temporary use;
- lease (dominant title to land plots).

Land plots can be transferred into ownership of Belarusian legal entities at auction. The law sets an extensive list of exceptions when a land plot may be provided without auction.

A right of permanent use of a land plot presumes the right to own and use the land plot for the designated purpose without limitation of period. Only certain types of commercial legal entity can enjoy a right of permanent use of land plots, including:

- agricultural organizations;
- non-governmental legal entities with regard to land plots used for servicing real estate objects owned by the state;
- gardening associations;
- cooperatives for construction and operation of parking places and garages.

The above entities can also be granted the right of temporary use of a land plot.

Only Belarusian legal entities (including COFI) can acquire land for permanent use.

This right can be also granted to national and foreign investors carrying out activity under concession agreements.

A land plot can be granted into temporary use for a maximum of ten years, with some exceptions. The maximum period of temporary use of land plots allocated under concession agreements is 99 years.

Lease agreements can be concluded for a maximum 99 years. The amount of lease payments should be set in the lease agreement.

The general rule is that land plots owned by the State are let based on the results of one of the following auctions:

- auction for the right to conclude an agreement for lease of a land plot;
- auction for the right to design and construct buildings.

Land plots are provided under lease without holding auctions in limited cases set by law.

5.7.3. Buildings and constructions

Belarus has no codified legal act regulating the status of buildings and structures and construction activity. It is possible to distinguish two categories of buildings with different legal status – residential and non-residential.

Apart from buildings and constructions (permanent structures) the law treats the following as real property objects:

- isolated premises (parts of the building registered and regarded as separate real property);
- objects of incomplete construction.

Buildings and constructions can be owned by foreign legal entities and individuals.

Rent rates for lease of a state owned building should be set according to special rules set in the Edict on Certain Issues of Lease and Free Use of Property and calculated in basic lease units (BYR 54,000, i.e. approx EUR 5 as of May 2012). Local authorities enjoy a right of first refusal to acquire certain buildings and other real estate located within their jurisdiction. The list of these buildings and other real estate is set annually by local authorities. In practice this right is rarely exercised. However, sale-purchase agreements may be registered with the Real Estate Register and ownership may be transferred to the purchaser only after the local authority decides not to exercise its right of first refusal.

Buildings and constructions can be owned by legal entities and individuals.

5.7.4. Mortgage

Belarusian law allows use of real estate as collateral but some restrictions apply.

Only the following organisations are allowed to be mortgagees of land plots and lease rights to land plots:

- banks with a licence on placement of attracted funds in their own name and for their own account on condition of recurrency, interest payment, and maturity;
- the IFC and EBRD, if the mortgage of a land plot (pledge of lease right to a land plot) secures repayment of a loan to a Belarusian resident.

Only owners and tenants of a land plot may act as mortgagors (i.e. persons holding land plots under the title of permanent or temporary use cannot mortgage land plots).

Mortgage of buildings located on an owned or leased land plot is allowed only on simultaneous mortgage of the underlying land plot or mortgage of the right of lease to the underlying land plot. Consequently, buildings located on owned and leased land plots may secure only repayment of bank loans and loan agreements with the IFC and EBRD.

Types of liability secured by mortgage of buildings located on land plots held under the title of temporary or permanent use are not limited.

Mortgage of real estate requires registration with the Real Estate Register.

5.8. Intellectual Property Protection

Besides having fairly well developed national legislation on protection of intellectual property, Belarus participates in many international IP agreements administered by the World Intellectual Property Organization (WIPO).

Belarus is also a party to several regional IP agreements (e.g. Eurasian Patent Cooperation within the framework of the CIS), and several bilateral cooperation agreements in the field of industrial property protection.

5.8.1. Intellectual Property (IP)

Belarusian laws provide for the following types of IP:

- scientific, literary and artistic works subject to copyright protection (including software);
- performances, phonograms, transmissions of broadcasting organizations (related rights);
- trademarks;
- geographical indications (appellations of origin and indications of source);
- trade names;
- inventions;
- utility models;
- industrial designs;
- topologies of integrated circuits;
- selection achievements (plant varieties and animal breeds); and
- undisclosed information (including know-how).

Copyright and related rights require legal protection due to the fact of their creation and from the same moment. No formalities are required to enable their protection.

Trademarks are protected in Belarus only if they are registered through international or national procedure.

Trade names of Belarusian companies are protected on the basis of registration. Trade names of foreign companies are protected in Belarus without formalities if

Protection of intellectual property rights is based on international agreements and national legislation.

the trade name of the foreign company is registered in a member state of the Paris Convention or is generally acknowledged therein.

Appellations of origin are protected in Belarus on the basis of national registration while indications of source are protected on the basis of use.

The right to protect undisclosed information from unlawful use arises irrespective of execution of formalities (eg, registration). However, know-how and other undisclosed information are protected only if all the following criteria are met: information is of commercial value due to its confidentiality, it is not freely accessible on a lawful ground, and the owner of the information takes certain measures to protect its confidentiality (issue internal documentation, apply technological and/or organizational means). Under Belarusian law know-how cannot be assigned, but only licensed.

Rights to inventions, utility models, industrial designs and selection achievements are protected only if patents are granted for them.

Legal protection of topologies of integrated circuits depends on registration with the patent body.

Registration of trademarks, appellations of origin and topologies of integrated circuits is confirmed by certificates.

5.8.2. Patent body and registration of agreements

The patent body of Belarus is the National Centre of Intellectual Property (NCIP). The official NCIP website is www.belgopatent.org.by. It contains databases of inventions, utility models, industrial designs and trademarks registered in Belarus. These databases are intended for guidance only. Official data on applications filed (for some types of IP), registered IP, protective documents effective in Belarus, as well as changes made in state registers of industrial property are published in official NCIP editions.

Licenses, assignments, pledges, and other agreements with regard to industrial property rights (except for trademarks and service marks) must be registered with the patent body in order to be considered valid. Amendments to these agreements should also be registered. The NCIP should be notified of license, assignment, and pledge of trademarks and service marks plus amendments to and termination of such agreements.

5.9. Employment Peculiarities

Employment has a number of peculiarities in Belarus, including a dual contract system, certain issues pertaining to employment of management.

5.9.1. Employment agreement

Employment relations in Belarus should be formalized by written employment agreement. The most common type of employment agreement in Belarus is the employment contract.

An employment contract is a very specific type of employment agreement which can be concluded for a minimum of one year and a maximum of five years. It is more employer-friendly and is widely used in Belarus for several reasons, including the following:

An employment contract is more employer-friendly than an employment agreement.

- the contract provides additional grounds for terminating employment relations upon the initiative of the employer;

- the contract cannot be terminated solely upon the employee's initiative, except for material breach by the employer or a good reason (moving to a different city and the like).

5.9.2. Termination of employment

All grounds for termination of employment relations are set by law. The parties cannot set additional grounds for termination in an employment agreement.

5.9.3. Non-competition and confidentiality

Confidentiality clauses may be included in an employment agreement or formalized by a separate confidentiality agreement. The latter option provides the possibility to claim loss of profit in case of disclosure.

Belarusian laws do not explicitly forbid a clause prohibiting competition (eg, prohibition of employment in the same business or in a particular organization after leaving the company). However, it is not widely applied in Belarus because its enforceability is disputable. Arguably, restriction of employment may conflict with general principles laid down in the Labour Code and the Constitution of Belarus.

5.9.4. Employment of Director

A director's rights and obligations are set in the employment agreement and in the articles of the company. A director may not combine their job with a job as a paid employee of another company, except for teaching, scientific work, art, and medical practice.

A director cannot participate in the supervising and controlling bodies of the company. A director bears full material liability for real damage caused to company property.

5.9.5. Other forms

A natural person may perform work on the basis of a civil contract. In that case the contractor is not included in the company's staff list and may independently manage their work. The company should organize labour protection of the contractor as well as paying social security fees.

A director is prohibited from combining their job with other paid employment with another company, except for teaching, scientific work, art, and medical practice.

5.10. Dispute Resolution

The judicial system of Belarus includes the Constitutional Court, common courts, and commercial courts. Generally, commercial disputes are resolved by commercial courts unless the jurisdiction of common courts is expressly set by law. For example, commercial courts cannot resolve commercial disputes in the sphere of intellectual property as these disputes are subject to the exclusive jurisdiction of the Supreme Court (the highest common court in Belarus).

Belarusian national law recognizes arbitration as a means of dispute resolution between private parties involved in commercial transactions. Some disputes cannot be referred to arbitration, *inter alia*:

- disputes involving rights to real estate located in Belarus;
- disputes over decisions made by the bodies of a company registered in Belarus;
- disputes arising from administrative actions;
- disputes related to state-owned property, including disputes related to privatization of state-owned property and compulsory seizure of property for state needs;
- disputes related to recognition of records in state registers (cadastres) as null and void;
- matters related to insolvency (bankruptcy) of companies and individual entrepreneurs registered in Belarus;
- disputes related to recognition of non-normative legal acts of state bodies and local authorities as null and void;
- disputes related to release of arrested property where the property was arrested by a Belarusian state body.

Arbitration can proceed under either self-administered ad hoc or institutional procedures and rules. The International Arbitration Court at the BelCCI (Belarusian Chamber of Commerce and Industry) was established in 1994. Recently another international arbitration court, the Chamber of Arbitrators at the Lawyers' Association, was established.

Awards of international arbitration courts in Belarus can be annulled by the Supreme Commercial Court. Belarus is a party to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958). Foreign arbitral awards are recognized and enforced in Belarus by commercial courts. Parties may refer disputes to a foreign court unless Belarusian courts hold exclusive jurisdiction (for example, a local subsidiary of a foreign investor considered as a Belarusian resident, could not refer a dispute with a local company to a foreign court).

Under Belarusian law foreign court judgments may be recognized and enforced in Belarus, if:

- recognition and enforcement is provided by Belarusian laws or by an international treaty of the Republic of Belarus, or
- reciprocity in recognition and enforcement of judgments exists between Belarus and the country whose court rendered the judgement.

Under international treaties judgments of the courts of the following countries may be recognized and enforced in Belarus: Armenia, Azerbaijan, Bulgaria, China, Cuba, the Czech Republic, Finland, Georgia, Hungary, Iran, Italy, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Poland, Russia, Syria, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, Viet Nam.

The existence of reciprocity with other countries can be checked through diplomatic channels.

Belarus has a friendly state attitude to international arbitration. Cases of non-recognition and non-enforcement of foreign arbitration judgments are extremely rare.

Foreign arbitration judgments are recognised and enforced according to international treaties of the Republic of Belarus or reciprocity.

5.11. Taxes

Belarus has a two-tier taxation system, i.e. state taxes and duties paid to the state budget plus local taxes and duties payable in the regions.

5.11.1. Main taxes and duties

Main taxes and duties levied in Belarus are outlined below.

Personal income tax:

- General flat rate – 12% (including dividends).

Profit tax:

- General flat rate – 18%; dividends – 12%; income from sale of shares in Belarusian companies is taxed at 9%; certain decreased profit tax rates apply to specific taxpayers;

- Losses can be carried forward for 10 years;
- Transfer pricing methods in use: comparable uncontrolled price, resale price, cost plus (the last two are supplementary methods);
- Thin capitalisation rules will be introduced as of 1 January 2013.

VAT:

- Standard rate – 20%. Reduced rates – 10%; 0.5%;
- No special registration for VAT purposes.

Real estate tax:

- General tax rate – 1% of the residual value of real estate (buildings, constructions, car parking spaces); 2% may apply to objects of incomplete construction;
- For individuals – 0.1% (tax is calculated by tax authorities based on the assessed value of the real estate object).

Land tax:

- In most cases the tax base is the cadastral value of land; rates vary significantly depending on the functional use of land.

Tax on income of foreign companies which do not carry out activities in Belarus through permanent establishment (Withholding Tax).

- Withholding Tax is imposed on certain types of income received by foreign companies from sources in Belarus;
- Tax rates: dividends and income from sale of shares – 12%; royalties – 15%; interest – 10%; freight – 6%; other income (e.g. sale of real estate, securities, services – 15%);
- Other rates, as well as exemption from taxation of certain income may be set in international treaties on avoidance of double taxation.

Social security contributions

- The employee rate is 1% of gross salary; for employers - approx 34-35% on top of gross salary.
- Besides the taxes and duties discussed above, Belarusian laws provide for ecological tax; tax on extraction of natural resources; excise tax, offshore duty, charge

A simplified Taxation System is the regional solution for small and medium enterprises and developing business.

for passage of Belarus public roads by foreign vehicles; stamp duty; consular charge; state duty; patent duty; and local taxes.

5.11.2. Simplified Taxation System (STS)

As an alternative to the general system of taxation, businesses may use the STS and pay a unified tax imposed on gross revenues.

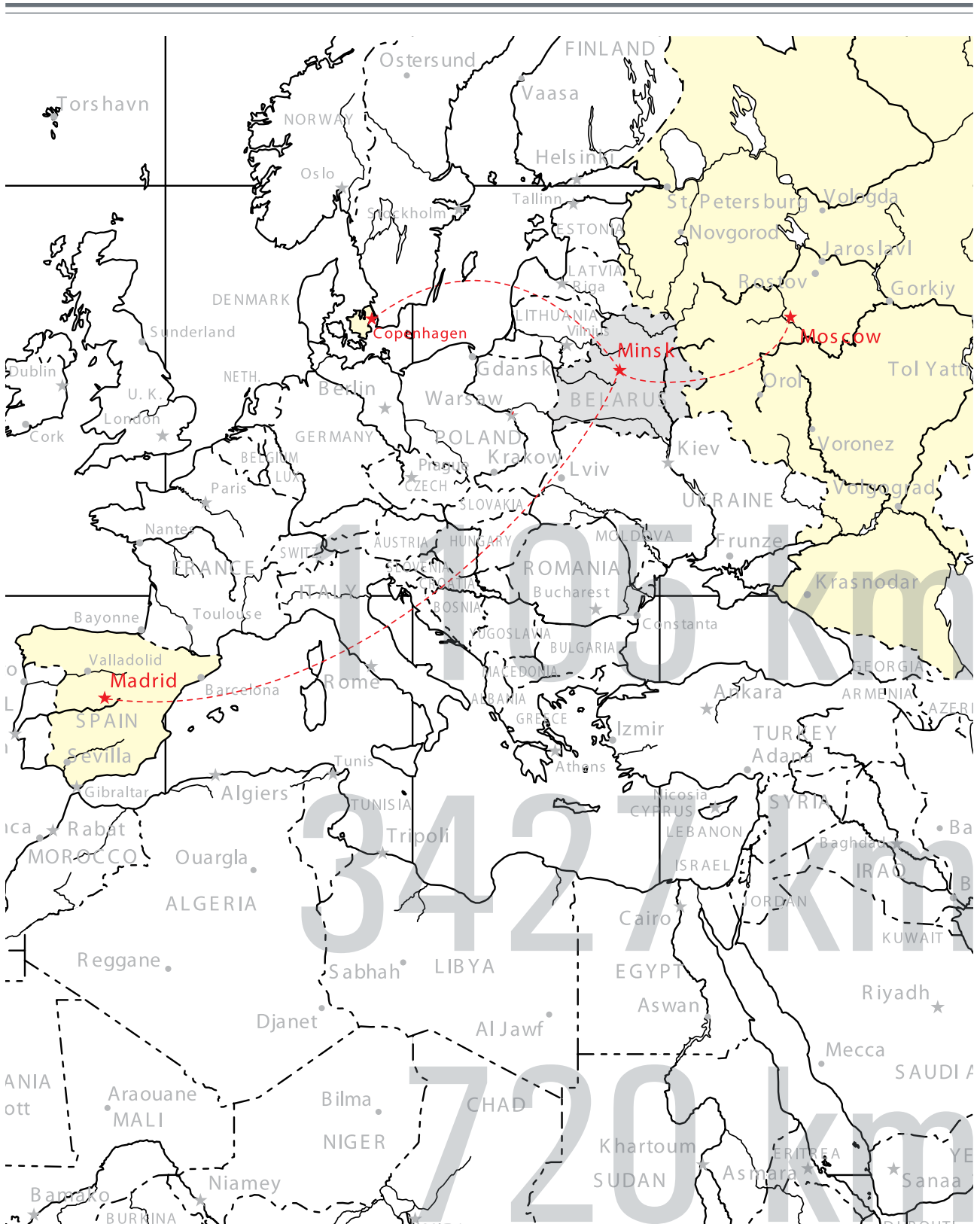
In order to use the STS, set requirements on gross revenues within one calendar year and number of personnel must be met. Depending on circumstances, the main tax rates under the STS are 2%; 5%; and 7%.

In addition to a unified tax under the STS, a special tax regime applies to taxpayers of: unified tax on agricultural producers; tax on the gambling industry; tax on income from lottery activity; tax on income from conduct of electronic interactive games; tax on income from handicraft activity; tax on income from supply of services in the sphere of agroecotourism; single tax on individual entrepreneurs and other individuals.

¹World Bank "Doing Business 2012" report: <http://russian.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Annual-Reports/Foreign/DB12-Russian.pdf>

²For the purpose of this and subsequent sections the amount in euro has been calculated on the basis of the following rate: EUR 1 = BYR 10 600. From April 1st, 2012 the amount of the basic unit is equal to BYR 100,000. The government may adjust the amount of the basic unit from time to time depending on the economic situation in Belarus.

³The decision on privatisation of enterprises which are in municipal property is taken by the local municipal authority.



Copenhagen – Minsk – the direct distance between cities 1105 km.

Madrid – Minsk – the direct distance between cities 3427 km.

Moscow – Minsk – the direct distance between cities 720 km.

Priorbank Services

Priorbank offers investors the following services:

1. Main investment banking services
 - complex advice on mergers and acquisitions
 - assistance in greenfield projects.
2. Additional services
 - broker services
 - asset management
 - depository services.

Advantages of cooperation with Priorbank:

- Experience and competence of Priorbank and Raiffeisen Group specialists
- Financial assistance
- Full range of services
- Business contacts database.

Priorbank Specialists



Vladimir Dedioul
Member of the Board
Tel.: +375 17 289 90 12
Vladimir.Dedioul@priorbank.by



Andrey Fylazafovich
Head of Investment Department
Tel.: +375 17 289 93 12
Andrey.Filazafovich@priorbank.by



Oleg Leontiev
Head of Investment-banking division
Tel.: +375 17 289 92 51
Oleg.Leontiev@priorbank.by

SORAINEN

- Has more than 120 lawyers and tax advisers
- First law firm in the Baltic States and Belarus where a quality management system has been implemented under ISO 9001 standards
- Since 1995 serviced more than 7,500 local and international corporate clients and advised on close to 35,000 transactions
- International recognition of the firm's excellence on Baltic and Belarusian markets by legal directories Chambers, Legal 500, PLC Which Lawyer?, IFLR 1000.

SORAINEN is the only fully integrated regional law firm with offices in Estonia, Latvia, Lithuania and Belarus. Since 1995, SORAINEN has supported international and national investors in all legal aspects of doing business in Baltic States and Belarus. To ensure top quality service, the firm operates as a matrix organisation with local and regional teams. Working in these integrated teams allows us to ensure strong specialisation, know-how sharing and prompt, efficient and reliable service across all four offices in any business transaction related to the Baltic States or Belarus. Therefore SORAINEN is often the first client choice not only for local complex transactions, but especially for regional projects and clients doing business in Baltic States and Belarus.

www.sorainen.com



Kiryl Apanasevich
Office Managing partner
Tel.: +375 17 306 2102
kiryl.apanasevich@sorainen.com



Maxim Salahub
Partner
Tel.: +375 17 306 2102
maksim.salahub@sorainen.com



Alexey Anischenko
Partner
Tel.: +375 17 306 2102
alexey.anischenko@sorainen.com