

**CIVIL CODE OF THE KYRGYZ REPUBLIC**

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PART I  
SECTION I  
GENERAL PROVISIONS

CHAPTER 1  
REGULATION OF CIVIL LEGAL RELATIONSHIPS

Article 1. Relationships Regulated by Civil Legislation

1. Civil legislation determines the legal status of civil turnover participants, the grounds for emergence and procedure for enforcement of ownership rights and other substantive rights, rights to the results of intellectual activity, and regulates contractual and other liabilities, as well as other property relationships and relevant personal non-property relationships.

Civil legislation shall be applied to family and labor relationships, and relationships on use of natural resources and environment protection, complying with the qualifications described in part one of point 1 of this Article, if such relationships are not regulated by family and labor legislation or the legislation on use of natural resources and environment protection respectively.

2. The relationships connected with enforcement and protection of human inalienable rights and freedoms as well as other intangible benefits (personal non-property relationships, in no way associated with property relationships) shall be regulated by civil legislation since other is not arising from the essence of such relations.

3. The participants in relationships regulated by civil legislation shall include citizens, legal entities, and the state.

Regulations established by civil legislation shall be applied to relationships involving foreign citizens, persons without citizenship and foreign legal entities, unless otherwise provided by law.

4. Civil legislation regulates the relationships between persons carrying out or involved in entrepreneurial activities.

Entrepreneurial activities are independent activities, carried out at one's own risk and directed at gaining profit by persons registered as such in accordance with the procedure established by law.

5. Civil law shall not be applied to property relationships based on administrative or other authoritative subordination of one party to the other, unless otherwise provided by law.

Article 2. Civil Legislation

1. Civil legislation shall be based on acknowledgment of the equality, autonomy of will and property independence of civil law participants, property inviolability, contract freedom, inadmissibility of arbitrary interference on the part of anyone into private affairs, and the need for unhindered implementation of civil rights, and guarantees of restoration of violated rights and protection thereof in the courts.

2. Citizens and legal entities shall acquire and administer their civil rights in accordance with their will and interest. They are free to establish their rights and liabilities under contract and to determine any contractual terms, so long as they are not inconsistent with the law.

3. Goods, services and funds shall be freely transferred throughout the territory of the Kyrgyz Republic. Any restrictions on transfer of goods and services may be introduced only in accordance with legislative acts, if it is necessary for the insuring of security, the protection of people's lives and health, and protection of the environment or cultural values.

4. Civil legislation shall consist of this Code, other laws, and also normative Decrees of the President of the Kyrgyz Republic and Resolutions of the Government of the Kyrgyz Republic, adopted in accordance with these laws which regulate the relationships stated in point 1, 2 of Article 1 of this Code.

Norms of civil legislation contained in other laws and legislative acts must comply with this Code.

5. Ministries, institutions and other state bodies may issue acts regulating civil relationships in cases and within the limits provided by this Code and other legislative acts.

6. In the event that norms of civil law provided by the acts indicated in points 4 and 5 of this Article, contradict the provisions of Civil Code, the norms provided by this Code shall apply.

Article 3. Effect of Civil Legislation in Time

1. Acts of civil legislation shall not have retroactive force and shall be applied to relationships which arise after effectuation of such acts.

A law shall be applied to relations which arose before effectuation thereof only in those cases directly provided by law.

2. With respect to relationships which arose prior to the effectuation of acts of civil legislation, the act shall be applied to those rights and obligations emerging after its effectuation, except as to relationships between parties to a contract entered into prior to the effectuation of the act of civil legislation.

If, after a contract has been entered into, a law is adopted which establishes rules that are mandatory for both parties to the contract and which are different from those in effect at the time the contract was entered into, the terms of the contract shall retain their force, except in the event that the law provides that it shall govern relationships in previously existing contracts.

#### Article 4. Business Customs

1. Norms of conduct formed and widely employed in entrepreneurial activities and not stipulated by legislation shall be acknowledged as business customs, irrespective of being reflected in any document.

2. Business customs which contradict provisions of legislation mandatory for participants of the corresponding relationships, or provisions of a contract shall not be applied.

#### Article 5. Application of the Civil Legislation by Analogy

1. In the event that relationships stipulated in Points 1 and 2 of Article 1 of this Code are not directly regulated by civil legislation or by agreement of the parties, and an appropriate business custom is also lacking, a civil legislation norm which regulates similar relationships shall be applicable, so long as it does not contradict the essence of these relationships (analogy by law).

2. If it is not possible to use analogy by law in the aforementioned cases, the rights and liabilities of the parties shall be determined on the basis of general principles and the essence of civil legislation (inference from general principles of the law), as well as by the requirements of good faith, reasonableness and fairness.

3. Norms restricting civil rights and establishing obligations shall not be applied by analogy.

#### Article 6. Civil Legislation and International Agreements

If an international agreement ratified by the Jogorku Kenesh of the Kyrgyz Republic establishes rules other than those envisaged by civil legislation, the rules of the international agreement shall be applied.

## CHAPTER 2 EMERGENCE OF CIVIL RIGHTS AND OBLIGATIONS, EXERCISE AND PROTECTION OF CIVIL RIGHTS

#### Article 7. Grounds for Emergence of Civil Rights and Obligations

1. Civil rights and obligations shall arise from the bases provided by legislation, as well as from actions of citizens and legal entities, which, though not provided by legislation, generate civil rights and obligations by virtue of general principles and the essence of civil legislation.

In accordance with the above, civil rights and obligations shall arise:

1) from contracts and other transactions envisaged by law, as well as from contracts and other transactions, which, though not specifically provided for by law, do not contradict it;

2) from acts of state power bodies and local authorities, which are provided by law as grounds for the emergence of civil rights and obligations;

3) from a court decision establishing civil rights and obligations;

4) as a result of production and acquisition of property on grounds not prohibited by law;

5) as a consequence of the creation of works of science, literature, arts, invention and other products of intellectual activity;

6) as a consequence of causing harm to another person;

7) as a consequence of unjust enrichment;

8) as a consequence of other actions of citizens and legal entities;

9) as a consequence of events, which, in accordance with legislation, entail civil law consequences.

2. Property rights subject to state registration shall arise from the moment of registration of the property or relevant rights, unless otherwise provided by law.

## Article 8. Exercise of Civil Rights

1. Citizens and legal entities shall exercise their civil rights at their own discretion.
2. A waiver by citizens and legal entities to exercise their rights shall not entail termination of such rights except as provided by law.

## Article 9. Limits on Exercise of Civil Rights

1. Actions of citizens and legal entities intended exclusively to cause harm to another person, as well as other abuses, shall not be permitted.
2. Use of civil rights with the purpose of restricting competition, as well as abuse of one's dominant market position, shall not be permitted.
3. If a person fails to comply with requirements stipulated in points 1-2 of this Article, the court can deny protection of the person's civil rights.
4. A person who has abused a right is obligated to restore the position of and to indemnify the losses of a person who is harmed thereby.
5. In those cases when, in accordance with law, the enforcement of civil rights depends on whether such rights had been exercised on the basis of good faith and reasonableness, good faith and reasonableness of the participants in civil law relationships shall be presumed.

## Article 10. Court Protection of Civil Rights

1. Infringed civil rights and disputed rights shall be enforced by a court having jurisdiction over the matter, as established by the Law of Procedure or by the contract.
2. Law or contract may provide for settlement of a dispute by the parties before submission of the dispute to a court.
3. Administrative enforcement of civil rights can be exercised only in cases stipulated by law. A decision taken in administrative procedure may be appealed in court.

## Article 11. Methods of Enforcement of Civil Rights

1. Civil rights may be enforced by means of:
  - 1) recognition of the right;
  - 2) restoration of the circumstances which existed before the right was violated;
  - 3) cessation of actions which violate the right or create the threat of its violation;
  - 4) invalidation of a transaction and application of consequences of its invalidation;
  - 5) invalidation of an act of a state body or agency of local self-government;
  - 6) self-enforcement of the civil right;
  - 7) award of specific performance of an obligation;
  - 8) indemnification of losses;
  - 9) collection of penalties;
  - 10) compensation for moral harm;
  - 11) termination or alteration of civil law relations;
  - 12) non-application by a court of an act, issued by a state body or body of local self-government, which does not comply with the law;
  - 13) other methods provided by law.

## Article 12. Invalidation of an Act Contradicting Legislation

The court may invalidate a non-normative act of a state body, or, in cases provided by law, a normative act, which does not comply with legislation and which violates civil rights and legally-protected interests of a citizen or legal entity. If the court finds such an act invalid, the violated right is subject to restoration, as well as to other means of enforcement provided by Article 11 of this Code.

## Article 13. Self-Enforcement of Civil Rights

Enforcement of civil rights by direct action of the person whose rights are violated shall be permitted.

Measures of self-enforcement should be consistent with the extent of violation and should not exceed those actions necessary for prevention or termination of violation.

#### Article 14. Indemnification for Losses

1. A person whose right is violated may claim full indemnification for losses incurred by him, unless the law or a contract which complies with the law provides otherwise.

2. The following are understood as losses:

Costs expended or to be expended by the person, whose right has been violated, for restoration of the violated right, or for loss or damage of his property (actual losses), and also

Unreceived income, which this person would have received under normal conditions of civil turnover, if his right had not been violated (lost profits).

If the person who violated the right realized income as a result of the violation, the person whose right was violated is entitled to claim indemnification for lost profits in an amount no less than the realized income, together with other losses.

#### Article 15. Indemnification for Losses Caused By State Agencies and Local Authorities

Losses incurred by a citizen or legal entity as a consequence of illegal actions (or inactivity) of state agencies, bodies of local self-government or officials of these bodies, including issuance by a state body of an act that does not comply with legislation, are subject to indemnification by the state, as well as local authorities in cases provided by law.

#### Article 16. Compensation for Moral Harm

If a citizen incurs moral harm (physical or moral suffering) by actions which infringe the citizen's intangible benefits or violating his personal non-property rights, as well as in other cases provided by law, the court may impose an obligation of monetary or other material compensation for the harm on the person responsible for the violation.

#### Article 17. Protection of Non-Property Rights and Other Intangible Benefits

Personal non-property rights and other intangible benefits shall be protected in cases and in accordance with the procedure provided by this Code and other statutes, as well as in the cases and within the limits of the applied means of civil rights protection (Article 11) which result from the nature of the violated right and the consequences of the violation.

#### Article 18. Protection Of Honor, Dignity and Business Reputation

1. A citizen or legal entity shall be entitled to demand refutation in court of information discrediting his honor, dignity, or business reputation, if the person publishing such information can not prove that it is true.

On the demand of interested persons, a citizen's honor, dignity may be protected after his death.

2. In the event that information discrediting the honor, dignity, or business reputation of a citizen or legal entity is published in the mass media, such information shall be refuted in the same mass media.

If such information is contained in a document which comes from an organization, such document is subject to substitution or recall.

The procedure for refutation shall be established by the court.

3. A citizen or legal entity whose rights or legally-protected interests were infringed by information published in the mass media shall have the right to publish his response in the same mass media.

4. If the decision of the court is not executed, the court is entitled to impose a fine on the violator, which shall be charged as public revenue in the amount and according to the procedure provided by procedural legislation. Payment of a fine shall not relieve the violator of the obligation to execute the decision of the court.

5. The citizen or legal entity whose rights were violated by the publishing of information discrediting his honor, dignity or business reputation, is entitled to claim indemnification for losses and compensation for moral harm caused by the publication, in addition to refutation of information.

6. In the event that the person who disseminated the information discrediting the honor, dignity or business reputation of a citizen or legal entity cannot be identified, the person whose rights were violated is entitled to petition to a court for recognition that the published information does not correspond to the facts.

#### Article 19. Right of Personal Image

No one is entitled to publish and disseminate the printed image of a person (picture, photo, movie, etc) without the prior agreement of this person. Such agreement shall not be required in cases when publishing and dissemination of the image deals with the requirements of a court, or of investigating and examining agencies, or when the photograph or other image was taken in a public situation, as well as in other cases provided by law.

The agreement of a person to the publication and dissemination of his image shall be presumed, if the person posed for the image for remuneration.

#### Article 20. Right of Protection of Personal Privacy

1. Citizens have a right to the protection of personal privacy: secrecy of correspondence, diaries, memoirs, notes, intimate life, birth, adoption, medical or legal information, investment information, etc.

Disclosure of personal privacy information is possible only in cases established by law.

2. Diaries, memoirs notes, etc. may be published only with the author's permission; letters may be published with the permission of both addresser and addressee. In the event of the death of any of the above, the aforementioned documents may be published only with the permission of the living spouse, children of the deceased, or other heirs and following, at the permission of other descendants.

#### Article 21. Right of Inviolability of Residence

Citizens have a right of inviolability of residence; that is, they are entitled to use their residence (apartment, house, etc.) at their own discretion, in accordance with its destination, and to intercept any attempts of intrusion into the residence without their permission, except in cases provided by law.

### CHAPTER 3 OBJECTS OF CIVIL RIGHTS

#### Article 22. Types of Objects of Civil Rights

Objects of civil rights shall be things, including money and securities, other property, including ownership rights, works and services, protected information and the results of intellectual activity, firm brands, trade marks and other means of individualizing manufactured articles, as well as other material and non-material welfare.

#### Article 23. Objects of Civil Rights in Civil Circulation

1. Objects of civil rights may be freely alienated or transferred from one person to another by means of the procedure for universal succession (inheritance, reorganization of a legal entity) or by other means, unless, in accordance with legislation, they have been withdrawn from civil circulation or restricted in civil turnover.

2. Those types of civil rights objects which are not admitted to civil turnover (objects withdrawn from the turnover) must be directly indicated in law.

Those types of civil rights objects which may belong only to definite civil turnover participants or which may be admitted to the civil turnover only with special authorization (objects with restricted transferability) shall be determined in accordance with the procedure established by legislation.

3. Personal non-material benefit and rights shall not be subject to alienation or transfer, unless otherwise is established by legislative acts.

#### Article 24. Immovable and Movable Things

1. Immovable things (immovable property, immovables) shall be land plots, areas of mineral resources, detached water objects, and all that is firmly connected with earth, that is, objects which cannot be transferred from one place to another without inflicting damage disproportionate to their purpose, including forests, long-term plantations, buildings, constructions, etc.

Other property can also be identified as immovable by the legislation of the Kyrgyz Republic.

2. An ownership right and other property rights to immovable things, restrictions of these rights, their emergence, transference and cessation, shall be subject to registration by the state in the uniform state register.

3. Those things which are not attributed to immovables, including money and securities, shall be recognized as movable property. Registration of rights to movable things shall not be required except as provided by law.

4. Movable things, the use of which in accordance with their designation means consumption and alienation thereof, shall be recognized as consumable things.

Movable things which are part of the commodity warehouse or other aggregate of things the use of which in accordance with their designation means alienation of separate things shall also be recognized as consumable things.

#### Article 25. State Registration of Immovables

1. The ownership right and other property rights to immovables, including restrictions, emergence, transfer and cessation of rights shall be subject to state registration in the uniform state register. The following shall be subject to registration: ownership right, right of economic management, right of operative administration, right of a life-long inherited ownership, right of permanent use, mortgage, easements, as well as other rights as provided by this Code and other laws.

2. In cases provided by law, special registration or accounting concerning some types of immovables may be exercised along with state registration.

3. By the right-owner's petition, the organ which exercises state registration of the rights for and transactions with immovable property is obliged to certify the exercised registration by issuing a document on the registration of a right or transaction, or by signing the document submitted for registration.

4. The organ which exercises state registration of rights for and transactions with immovables is obliged to furnish information regarding the registration exercised and rights registered to any person.

Information shall be furnished at any organ which exercises registration of immovables, irrespective of the place the registration took place.

5. Denial of registration of a right for or transaction with immovables by a corresponding organ or evasion by an organ of registration may be appealed in a court.

6. State registration procedures and grounds for the denial of registration shall be established by the Law on Registration of Rights for and Transactions with Immovables, in accordance with this Code.

#### Article 26. Principal Thing and Accessory

An object designed for servicing another (principal) object which is related to it through a common business purpose, (an accessory) shall follow the principal object's legal future, unless otherwise stipulated by contract.

#### Article 27. Indivisible Things

A thing, the parts of which lose the qualities and purpose of the primary thing after fragmentation, shall be recognized as indivisible.

#### Article 28. Compound Things

1. If heterogeneous things form a single entity which can be used properly, as the design of the unit provides, they shall be considered as one thing (compound thing).

2. A transaction concerning a compound thing shall include all of the components of the compound thing, unless otherwise provided by law.

#### Article 29. Fruits, Output and Income

Proceeds gained as a result of property use (fruits, output, income) shall belong to the person legally having use of the property, unless otherwise provided by law or by a contract for the use of the property.

#### Article 30. Animals

General rules concerning property shall be applied with respect to animals, unless otherwise provided by law.

#### Article 31. Individual Things and Fungible Things

1. Individual things shall be those distinguishable from others by virtue of unique inherent features. Individual things are unreplaceable.

2. Fungible things shall be those possessing features which are inherent to all other things of the same kind, number, weight and measure. Fungible things are replaceable.

#### Article 32. Protected Results of Intellectual Activity

In cases and pursuant to the procedure provided by this Code and other laws, a citizen or legal entity has exclusive right to the objectively expressed results of its intellectual activity, or to the means of individualization of a legal entity which are equal to such results, to the products of a physical person or legal entity, and of works and services performed by them (firm brand, trade mark, service label, etc).

Third persons may only use the results of intellectual activity and means of individualization which are objects of exclusive rights with the permission of the right-holder.

#### Article 33. Enterprise

1. Enterprise as an object of civil rights is a property complex used for carrying out business activity.

An enterprise as a whole property complex shall be deemed immovable property.

2. As a property complex, an enterprise shall comprise all types of property used for its activity, including land plots, buildings, installations, equipment, inventory, raw materials, produce, rights of claim, debts, rights to designations which individualize its activity (firm brand, trade marks) and other exclusive rights, unless otherwise provided by law.

3. An enterprise, as a whole or in part, may be an object of purchase and sale, pledge, lease and other transactions involving the establishment, alteration, and termination of property rights.

#### Article 34. Official and Commercial Secrets

Any information which contains an official or commercial secret shall be protected by the civil legislation in cases when the information is of real or potential commercial value by virtue of its confidentiality from third persons; when there is no free legal access to such information; and when measures are taken by the owner of the information to protect its confidentiality.

Persons who have illegally obtained such information, as well as employees or counterparts who have revealed an official or commercial secret in violation of a labor contract or a civil law contract, shall be obligated to compensate for damages inflicted thereby.

#### Article 35. Money (Currency)

1. The monetary unit in the Kyrgyz Republic shall be the Som.

2. The som shall be the means of legal payment, acceptance of which is obligatory according to its nominal value, on the whole territory of the Kyrgyz Republic.

Payments on the territory of the Kyrgyz Republic shall be executed in cash or by written order.

3. Cases, procedures, and terms of foreign currency payments on the territory of the Kyrgyz Republic shall be determined by law.

#### Article 36. Currency Values

Types of property recognized as currency values and the procedure for transactions involving them on the territory of the Kyrgyz Republic shall be determined by the law on currency regulation.

An ownership right to currency values shall be protected in the Kyrgyz Republic on a universal basis.

#### Article 37. Securities

1. A security is a document or another legal method of fixing a right, which, in compliance with the established form and obligatory requisites, certifies property rights.

The transfer of a security entails the transfer of all rights provided by it.

2. The types of rights certified by securities, the obligatory requisites of securities, security form requirements and other necessary requirements shall be determined by the law of the Kyrgyz Republic or in accordance with procedures established by it.

The absence of obligatory requisites of a security or incompliance of a security with the established form standards shall entail its voidness.

3. In cases provided by law for exercise and transfer of rights provided by a security, it shall be sufficient to present proof of their record in the special register (ordinary or computerized) of an issuer, which is a person issuing a security on his own behalf and having responsibility on the obligation stated therein.

#### Article 38. Types of Securities

Securities shall include: bonds, bills of exchange, checks, bank certificate, bank bearer saving book, bills of lading, shares, and other documents attributed to securities by law or pursuant to procedures provided by this law.

#### Article 39. Dematerialized Securities

1. In cases specified by law or pursuant to the procedure established by this law, a person that has obtained a specific license may record the rights affixed by a registered security or an order security, including dematerialized securities (entry in the computer, etc.). This form of right record shall be governed by rules regulating securities, unless other arises from peculiarities of record.

Upon the right-owner's demand, the person to have recorded the rights in dematerialized form shall be obliged to issue a document certifying the affixed right.

The rights certified by the aforementioned record, the procedure for formal record of rights and right-owners, the procedure for documentary certification of entries, and the procedure for conducting operations with dematerialized securities shall be defined by law or pursuant to procedures provided by law.

2. Operations with dematerialized securities may be conducted only with recourse to the person which officially makes entries of rights. The transfer, grant and limitation of rights must be officially recorded by that person, who shall be liable for the safekeeping of official entries, ensuring their privacy, presentation of accurate data on these entries, and the drawing up of official entries on the operations conducted.

#### Article 40. Subjects of Rights Certified by Security

1. Rights certified by a security may belong to:

- 1) the bearer of a security ("a bearer security"), or
- 2) the person named in a security ("a registered security"), or
- 3) the person named in a security who can exercise these rights or appoint another authorized person ("an order security") by his instruction (order).

2. A law may ban the possibility of issuing securities of a certain type as a registered security, or as an order security, or as a bearer security.

3. A person shall not be deemed a lawful owner (holder) of a security if it is proved that he knew or should have known about the unlawfulness of his purchasing a security, and in particular, the fact that a security was purchased from a person who had no right to alienate it.

#### Article 41. Transfer of Rights Certified by Security

1. To transfer the rights certified by a "bearer security" to another person, it shall be sufficient to deliver the security to this person.

2. Rights certified by a bearer security shall be transferred pursuant to the procedures established for assignment of a claim (cession). Pursuant to point 4, Article 316 of this Code, a person transferring a right certified by a security shall be liable for the invalidity of a relevant claim, but not for its fulfillment.

3. Rights certified by "an order security" shall be transferred by a transference inscription on the security ("endorsement"). The endorser shall be liable for the existence of a right as well as for its exercise.

An endorsement of a security shall transfer all rights certified by that security to the person who acquired or ordered to transfer the rights certified by the security (endorsee). Endorsement may be in blank (without indication of the person for whose benefit execution is to be carried out) or by order (with indication of the person for whom or by whose order, execution is to be carried out).

An endorsement may be restricted only by an assignment to exercise the rights certified by a security, without transfer of such rights to the endorsee (pre-assignment endorsement). In this case, the endorsee shall act in the capacity of a representative.

#### Article 42. Fulfillment of a Security

1. A person that has issued a security and all persons that endorsed it shall be jointly liable to its lawful owner. In the event that one or several of persons liable under the security satisfy claims of the lawful owner of the security regarding the performance of an obligation certified by that security, those persons shall acquire a right of contribution (regress) against other persons liable under that security.

2. A refusal to perform an obligation certified by the security claiming absence of grounds for the obligation, or its invalidity shall not be allowed.

A security owner that has discovered forgery or counterfeit of a security shall be entitled to claim proper performance of the obligation certified by the security and indemnification from the person that had transferred him the security.

#### Article 43. Restoration of a Security

The rights to lost bearer securities and order securities shall be restored by the court in accordance with procedures established by the procedural legislation.

#### Article 44. Bond

A bond is a security which certifies a right of the holder to receive its nominal value or other equivalent property from the person that has issued the bond, within a time period set forth in the bond. A bond also provides its holder with a right to receive a fixed rate of the bond's nominal value or other property rights.

There may be bearer bonds, registered bonds, freely circulated bonds or bonds limited in circulation.

#### Article 45. Cheque

A cheque is a security which contains an unconditional written order of a drawer to a bank to pay the amount indicated in the cheque to a cheque holder.

The cheque must be submitted for payment within the term established by legislation.

#### Article 46. Bill of Exchange and Promissory Note

A bill is a security which certifies an unconditional obligation of a drawer (a promissory note) or that of another payer indicated in a bill (a bill of exchange) to pay a certain amount to an owner of the bill (bill holder) by the time stipulated in the bill.

#### Article 47. Share (Stock)

1. A share is a security which certifies the right of its holder (shareholder) to receive part of a joint-stock company's profits in the form of dividends, to participate in managing the joint-stock company, and to own part of its property left after its liquidation.

There may be bearer shares (stocks), or registered shares, freely circulated shares or shares limited in circulation.

2. A joint-stock company shall have a right to issue within limits established by legislation preferred shares (stocks) which, as a rule, guarantee its holders receipt of dividends on fixed percentage of a share's nominal value irrespective of the joint-stock company's business activity results, and grant them a privilege (compared with other shareholders) to receive part of the property left after the joint-stock company's liquidation, and grant other rights provided by the conditions of issuing such shares.

3. Preferred shares shall not give their holders a right to participate in managing a joint-stock company, unless otherwise provided by its Charter.

#### Article 48. Bill of Lading

A bill of lading is a document of title to goods, which certifies its holder's right to take charge of the freight indicated in the bill of lading and to receive it after transportation is over.

There may be bearer, order, or straight bills of lading.

When several original copies of a bill of lading are issued, the freight upon presentation of the first produced bill of lading shall entail invalidity of the other remaining copies.

#### Article 49. Bank Certificate

A bank certificate is a written bill of a bank regarding a money deposit which certifies a depositor's right, in any branch of a given bank, to receipt of the deposited amount and to interest on this amount at the expiration of an established term.

There may be bearer or registered bank certificates.

## Article 50. Personal Non-Property Rights and Other Intangible Benefits

1. Intangible benefits which belong to a citizen:  
life and health;  
personal dignity;  
personal inviolability;  
honor and good name;  
business reputation;  
privacy;  
personal and family secret;  
free movement, free choice of whereabouts and residence;  
and other intangible benefits are protected by legislation in cases when, in accordance with the essence of the intangible benefits, the means of enforcement of civil rights provided in this Code may be employed.
2. Personal non-property rights shall be exercised and protected in accordance with law.  
Such rights shall include: a right to use one's name, right of authorship, a right to one's own name, a right to inviolability of one's production and other non-property rights in accordance with laws on protection of rights to intellectual activity results.
3. In the cases and pursuant to the procedure provided by law, personal non-property rights and other intangible benefits of a deceased can be exercised and protected by other persons, including the right-owner's heirs.

## CHAPTER 4 CITIZENS (INDIVIDUALS)

### Article 51. The Concept of a Citizen (Individual)

Citizens of the Kyrgyz Republic, of other states, as well as persons without citizenship shall be understood as citizens (individuals). Provisions of this Code shall be applicable to all citizens, unless otherwise provided by legislation.

### Article 52. Legal Capacity of Citizens

1. The ability to have civil rights and obligations (civil legal capacity) shall be equally recognized for all citizens.
2. Civil legal capacity shall arise at the moment of a person's birth and shall be terminated by his death.

### Article 53. Substance of Civil Legal Capacity

A citizen can: have property by virtue of an ownership right; inherit and bequeath his property; engage in business or any other activity not prohibited by law; establish legal entities independently or jointly with other citizens and legal entities; engage in any transactions not prohibited by law and participate in obligations; choose a place of residence; have an authorship right to works of science, literature, arts, inventions and other results of intellectual activity; have other property and personal non-property rights.

### Article 54. Citizen's Name

1. A citizen acquires and implements his rights and obligations under his name, including a family name and a name itself, as well as a patronymic, if this complies with traditions of nationalities forming the people of Kyrgyzstan.  
In cases and pursuant to the procedure envisaged by legislation, a citizen can use a pseudonym (an invented name).
2. A citizen shall have a right to change his name pursuant to the procedures established by law. The change of a citizen's name shall not be considered as grounds for termination or alteration of his rights and obligations acquired under a former name.  
A citizen shall be obligated to take measures necessary to notify his obligors and obligees about the change of his name and shall assume the risk of any consequences from the unawareness of such persons regarding the change of his name.  
A citizen, after his name has changed, shall be entitled to demand, at his own expense, the respective amendment of documents issued in his former name.
3. A name received by a citizen at the moment of birth, as well as a change of name, shall be subject to registration in accordance with the procedures established by the law on registration of civil acts.

4. The acquisition of rights and obligations under another person's name shall not be allowed.

5. If a citizen disputes another person's right to a certain name, or if a citizen's interests are violated by another person's use of the same name, the citizen may demand termination of such a violation, in accordance with established procedure.

6. The damage inflicted on a citizen through unlawful use of his name shall be subject to indemnification in accordance with this Code.

In cases when a citizen's name has been distorted in a way or form which led to insult of his honor, dignity, or business reputation, the rules stipulated in Article 18 of this Code shall be applied.

#### Article 55. Citizen's Place of Residence

1. A citizen's place of residence shall be the place where he permanently or primarily resides.

2. The place of residence of minors under age of fourteen, or of adults under guardianship shall be the place of residence of their parents, adopters, or guardians.

#### Article 56. Citizen's Capacity

1. A citizen's ability to acquire and exercise civil rights through his actions, and to create for himself obligations and exercise them (civil capacity) shall arise to the full extent at the moment a citizen attains majority at the age of 18.

2. If the law permits marriage before the age of 18, a citizen under the age of 18 shall have full capacity from the moment of acquiring married status.

The full capacity acquired as a result of marriage, shall remain intact in the event the marriage is broken.

In the event the marriage is invalidated, a court can make a decision on the loss of full capacity by an underage spouse under age from the moment determined by the court.

3. All citizens shall have equal capacity unless otherwise provided by legislation.

#### Article 57. Inadmissibility of Deprivation and Restriction of Legal Capacity

1. No person shall be restricted in his legal capacity other than in the circumstances and in accordance with procedures established by law.

2. Failure to comply with the terms and procedures established by law for restriction of a citizen's capacity or of his right to engage in entrepreneurship and any other activity, shall result in the nullification of the act which gives rise to the respective restriction.

3. A citizen's full or partial waiver of his legal capacity, as well as other transactions which are intended to restrict legal capacity shall be without effect, except in those cases when such transactions are permitted by law.

#### Article 58. Citizen's Entrepreneurial Activity

1. From the moment of state registration, a citizen shall be entitled to engage in private business activity without formation of a legal entity, in the capacity of an individual entrepreneur.

2. Unless otherwise provided by legislation or emerging from the essence of legal relationships, the activity of legal entities or commercial organizations shall be subject to the rules of this Code regulating the activities of private citizens who do not form legal entities.

3. The law may provide for cases when a citizen can exercise his entrepreneurial activities without state registration.

#### Article 59. Citizen's Property responsibility

A citizen shall be responsible on his obligations with all the property that he owns with the exception of property not subject to execution in accordance with law.

A list of a citizen's property not subject to execution shall be established by the Code of Civil Procedure of the Kyrgyz Republic.

#### Article 60. Bankruptcy (Insolvency) of an Individual Entrepreneur

1. An individual private businessman who fails to honor his obligees' claims related to exercise of business activities by him may be acknowledged bankrupt (insolvent) by a court's decision. From the moment such decision becomes effective, the citizen's registration as an individual entrepreneur shall lose effect.

2. In the course of the procedure by which an individual private businessman is acknowledged as bankrupt (insolvent), his obligees whose claims are not connected with his business activity shall also be entitled to file their claims. The claims of the aforementioned obligees which have not been filed shall remain effective after the completion of the bankruptcy procedure of an individual entrepreneur.

3. After recovery of all expenses connected with bankruptcy process claims of the obligee to the individual entrepreneur - obligor shall be satisfied in the priority set forth in Art. 99 of this Code".

4. After all accounts with obligee are settled, the individual entrepreneur, acknowledged as a bankrupt, shall be excused from other obligations related to his entrepreneurial activities, as well as from other claims filed to be performed and taken into consideration while acknowledging the entrepreneur as a bankrupt.

5. The grounds for finding an individual entrepreneur to be bankrupt (insolvent) or for an entrepreneur's proclamation of his bankruptcy (insolvency) shall be established by the law on bankruptcy (insolvency).

The relationships connected with the process of bankruptcy of the individual entrepreneur - obligor shall be regulated by the rules on bankruptcy process of the legal entity.

6. By the court's decision, an individual entrepreneur adjudicated bankrupt may be prohibited to engage in entrepreneurial activities for a definite term of time, which term can not exceed the maximum term established by the law on bankruptcy (insolvency).

#### Article 61. Capacity of Minors Aged Fourteen to Eighteen

1. With the written permission of their legal representatives, parents, adopters, or guardians, minors aged fourteen to eighteen may engage in any transactions, except those indicated in point 2 of this Article.

A transaction entered into by such a minor may also be valid with the subsequent approval of his parents, adopters or guardians.

2. Minors aged fourteen to eighteen shall be entitled independently, without consent of their parents, adopters, or guardians, to:

1) dispose of their earnings, student allowance, and other incomes;

2) exercise an authorship right to works of science, literature, or arts, invention or other results of their intellectual activity protected by the law;

3) make deposits in credit institutions and dispose of these in accordance with legislation;

4) engage in small domestic transactions and other transactions stipulated in point 2, Article 48 of this Code.

3. Minors aged fourteen to eighteen shall independently bear property responsibility on transactions entered into by them in accordance with points 1 and 2 of this Article. Such minors shall be liable for damages inflicted by their actions in accordance with this Code.

4. In the event there are sufficient grounds, and on the petition of parents, adopters, guardians, or a guardianship body, the court can restrict a minor's (fourteen to eighteen years of age) right to independently dispose of his earnings, student allowance, or other incomes, or can deprive him of this right, with exception of cases when such a minor has become fully capable (point 2 of Article 56 and Article 62 of this Code).

#### Article 62. Adjudication of Minor as Fully Capable (Emancipation)

1. On reaching the age of sixteen, a minor can be adjudicated fully capable if he works under a labor agreement, including contract, or by the consent of his parents, adopters, or guardian is engaged in private business activities.

A minor shall be adjudicated fully capable (emancipated) by the decision of a guardianship body having the consent of both parents, adopters, or a guardian, or, in case there is no such consent, by court decision.

2. Parents, adopters, or guardians shall not be liable on an emancipated minor's obligations, particularly on those obligations that have emerged as a consequence of damage inflicted by him.

#### Article 63. Capacity of Minors under the Age of Fourteen

1. Transactions on behalf of minors under the age of fourteen (infants), except those indicated in point 2 of this Article, can be made in a minor's name only by their lawful representatives - parents, adoptive parents, or guardians.

2. Infants from seven to fourteen years of age shall have a right to independently enter into:

1) small domestic transactions;

2) transactions directed to gratuitous receipt of benefits, not requiring notarial certification or state registration;

3) transactions on disposal of funds provided by the lawful representative or given, by consent of the latter, by a third person for a certain purpose or for free disposal.

3. The right of minors under age fourteen to make deposits into crediting institutions and the right to dispose of them shall be established by the legislation.

4. The parents, adoptive parents, or guardians of a minor under the age of fourteen shall be economically liable on transactions made by the infant, including those made by him independently, unless they prove that the obligation was not breached through their fault. In accordance with law, these persons shall be also responsible for damage inflicted by infants.

#### Article 64. Acknowledgment of Citizen Incapable

1. A citizen who, because of mental disorder, is unable to understand the significance of his actions or to control them may be acknowledged incapable by a court, in which case such citizen may be placed under guardianship.

2. All transactions on behalf of a citizen acknowledged incapable shall be made by his guardian.

3. If the grounds on which the citizen was acknowledged incapable have ceased to exist, the court shall acknowledge him capable. Based on the court decision, the guardianship over the citizen shall be abolished.

4. If the court denies a petition to acknowledge a person incapable, and it turns out that such a claim had been asserted in bad faith, the person on whom moral harm was inflicted by such actions shall be entitled to claim indemnification from the petitioner.

#### Article 65. Restriction of Citizens' Capacity

1. A citizen that through alcohol and drug abuse worsens dramatically his family's financial position may be restricted by a court as to his capacity and may be placed under tutorship.

Such a citizen shall have a right to independently enter into small domestic transactions. He may enter into other transactions, and receive his wages, salary, pension, and other income, but may dispose of these only by consent of his tutor. However, such a citizen shall independently bear property responsibility on transactions entered into by him and for damages inflicted by him.

2. The court shall revoke its decision on restricting a citizen's capacity if the grounds for it has ceased to exist. Based on the court's judgement, the tutorship imposed on a citizen shall be abolished.

#### Article 66. Guardianship and Tutorship

1. Guardianship and tutorship shall be appointed in order to protect rights and interests of incapable or partially capable citizens. Guardianship and tutorship over minors shall also be appointed for the purpose of their upbringing. The rights and obligations of guardians and tutors shall be determined by the legislation on marriage and family.

2. Guardians and tutors shall, without special authorization, appear in defense of the rights and interests of their wards in relations with any persons, including in court.

3. Guardianship and tutorship over minors shall be appointed if they do not have parents, or adopters, or their parents have been deprived of the parental authority by a court, as well as in those cases when for other reasons such citizens have been left without parental guardianship, in particular when parents evade responsibility for the upbringing of their children or protection of their rights and interests.

#### Article 67. Guardianship

1. Guardianship shall be ascertained over infants, as well as over citizens acknowledged incapable by a court due to mental disorder.

2. Guardians shall be representatives of their wards by virtue of the law, and shall exercise on their behalf and in their interests all necessary transactions.

#### Article 68. Tutorship

1. Tutorship shall be ascertained over minors aged from fourteen to eighteen, as well as over citizens, whose capability had been restricted by the court, due to alcohol or drug abuse.

2. Tutors shall give their consent for exercise of those transactions, which their wards are not entitled to exercise independently.

Tutors shall assist their wards to exercise their rights and perform their duties, as well as protect them from abuse by third persons.

#### Article 69. Guardianship and Tutorship Bodies

1. Institutions of local self-government shall be bodies of guardianship and tutorship.

2. Within three days after the decision on deeming a person incompetent or limiting his competency comes into effect, the court shall be obliged to notify the agency of tutelage and curatorship at the citizen's place of residence, so that tutelage or curatorship shall be appointed.

3. The agency of tutelage and curatorship at the place of residence of wards shall perform oversight of the activities of tutors and curators.

#### Article 70. Guardians and Tutors

1. Within a period of a month after the aforementioned institutions are informed about the necessity of appointing guardianship or tutorship over a citizen, a guardian or tutor shall be nominated by the agency of guardianship and tutorship at the place of residence of the citizen who needs the guardianship or tutorship. If there are any deserving circumstances, a guardian or tutor can be nominated by an body of guardianship and tutorship at the guardians's (tutor's) place of residence. If within one month a guardian or tutor is not nominated, the responsibilities of guardianship or tutorship shall be temporarily performed by the institution of guardianship and tutorship.

The nominated candidacy of a guardian or tutor shall be subject to appeal by concerned persons.

2. Only competent adult citizens may be nominated as guardians or tutors. Citizens deprived of parental authority cannot be nominated guardians or tutors.

3. A guardian or tutor can be nominated as such only at his consent. His moral and other personal qualities, the ability to perform the guardian's or tutor's responsibilities, the relations which exist between him/her and the person who needs guardianship or tutorship, and, if possible, the wishes of the ward should be taken into consideration while nominating the guardian/tutor.

4. The guardians and tutors of persons who need guardianship and are stationed or sent to relevant foundling, medical institutions or institutions of social protection of population or other similar institutions, shall be such institutions.

#### Article 71. Performance of Duties by Guardians and Tutors

1. Guardianship and tutorship duties shall be performed for free, except in the cases specified by statute.

2. Guardians and tutors of minor citizens shall be obliged to live with their wards. With the permission of the agencies of guardianship and tutorship, a tutor and a ward who has reached the age of sixteen shall be allowed to live separately, provided that this will not affect the ward's upbringing or the protection of his interests.

Guardians and tutors must notify the agencies of guardianship and tutorship of a change in their place of residence.

3. Guardians and tutors shall be obliged to take care of their ward's maintenance, to provide care and treatment, and to protect their rights and interests.

Guardians and tutors of minors shall be obliged to take care of their instruction and education.

4. The duties, indicated in point 3 of this Article shall not be laid upon tutors of adult citizens whose competency has been limited by a court.

5. If the grounds on which a citizen had been deemed incapable or whose competency has been limited due to alcohol or drug abuse have ceased to exist, the guardian or tutor shall be obliged to file a petition in court to deem his ward capable, and to relieve himself of the guardian's or tutor's duties.

#### Article 72. Disposal of Ward's Property

1. Incomes of a ward, including those due to him from management of his property and excluding those incomes which can be disposed of by the ward independently, shall be spent by a guardian or tutor exclusively for the interests of the ward and with prior approval of the agency of guardianship and tutorship.

A guardian or tutor shall have the right to incur expenses necessary for maintenance of a ward at the expense of the amounts due to the ward as his income.

2. Without prior approval of an agency of guardianship and tutorship, a guardian shall not be entitled to enter into transactions, and a tutor shall not be entitled to give his consent to any transactions involving alienation of property, including exchange or donation of property belonging to the ward, its leasing (renting), its gratuitous use or pledge, or any transaction entailing a renunciation of rights of the ward, partition of his property or allotment of shares, as well as any other transaction entailing diminution of the ward's property.

The procedure for the management of the ward's property by a guardian or a tutor shall be determined by law.

3. A guardian or tutor, their spouses and next of kin shall not be entitled to enter into any transactions with a ward, except in cases of transfer of property to the ward, as a gift or for gratuitous use, nor shall a guardian or tutor be entitled to represent the ward when entering into transactions or in court disputes between the ward and the guardian's or tutor's spouse or his next of kin.

#### Article 73. Authorized Management of a Ward's Property

1. If there is a need with respect to the permanent management of ward's immovable and valuable movable property, the agency of guardianship and tutorship shall enter into a contract regarding the authorized management of such property with a manager. In this case a guardian or tutor shall reserve his authority in relation to property of the ward which has not been transferred for authorized management.

If a manager exercises authority related to the property of a ward, points 2 and 3 of Article 72 of this Code shall govern his actions.

2. Authorized management of a ward's property shall be terminated on those grounds provided by statute for termination of a contract for authorized management of property, as well as in cases when the guardianship or tutorship is terminated.

#### Article 74. Relief and Discharge of Guardians and Tutors From Their Duties

1. The body of guardianship and tutorship shall relieve a guardian or tutor of his duties if the minor returns to his parents or is adopted.

If a ward is sent to an appropriate educational or medical institution, an agency for social protection or any other similar institution, the body of guardianship and tutorship shall relieve the earlier appointed guardian or tutor of his duties, unless doing so would be contrary to the ward's interests.

2. If there is a valid cause (sickness, change of property status, lack of mutual understanding between the ward and the curator, etc) the tutor or the curator may be relieved of his duties upon his request.

3. If the tutor or curator does not exercise his duties properly, including use of the tutelage or curatorship for his own pecuniary purposes, or leaving the ward without oversight and necessary assistance, the agency of tutelage and curatorship can discharge the tutor or curator of his duties and take measures necessary to call the citizen to responsibility, as provided by law.

#### Article 75. Termination of Guardianship and Tutorship

1. Guardianship and tutorship over an adult citizen shall be terminated in cases when the court issues a determination that the ward is capable or removing any limitation on the ward's capacity on application of the guardian, tutor, or body of guardianship and tutorship.

2. When a minor reaches the age of fourteen, guardianship over him shall be terminated, and the citizen who exercises the duties of a guardian shall become the minor's tutor without any additional permission.

3. Tutorship over a minor shall be terminated without any special decision at the moment the minor ward reaches the age of eighteen, or the moment he gets married, or in other cases where he acquires full capacity before coming of age (point 2 of Article 56 and Article 62).

#### Article 76. Wardship of a Capable Citizen

1. At the request of a capable adult citizen, who cannot exercise and protect his rights and perform his duties due to bad state of health, a tutorship over him in the form of wardship may be established.

2. A tutor (an assistant) of a capable adult citizen may be appointed by a body of guardianship or tutorship only with the citizen's consent.

3. Management of a capable adult citizen's property can be exercised by his tutor (assistant) on the basis of the contract of agency or of trust management concluded with the ward. Conventional and other transactions intended for the maintenance and satisfaction of everyday needs of the ward shall be exercised by his tutor (assistant) upon the ward's consent.

4. Wardship of a capable adult citizen established in accordance with point 1 of this Article shall be terminated at the ward's direction.

A tutor (assistant) of a citizen under wardship shall be relieved of his duties in cases envisaged by Article 74 of this Code.

#### Article 77. Acknowledgment of a Citizen as a Missing Person

1. At the request of interested persons, a court may acknowledge a citizen to be a missing person if within one year there is no available information at the place of his residence about his whereabouts.

2. If it is impossible to establish a date when information about the whereabouts of an absentee was last available, the term for acknowledgment of a citizen to be a missing person shall be calculated from the first day of the month following the one in which the last information about the absentee was available, and if it is not possible to establish such month, then from the first day of January of the following year.

Article 78. Consequences of Acknowledgment of a Citizen as  
a Missing Person

1. If the property of a citizen acknowledged as a missing person requires protection, it may by court decision be transferred for trust management to a person appointed by the body of guardianship and tutorship who will act on the basis of a contract for trust management entered into with such body.

The manager of the property of a citizen acknowledged to be a missing person shall assume performance of civil obligations, shall pay off the person's debts by means of that person's property, and shall manage the property in that person's interest. At the request of interested persons, allowance shall be paid to the dependents of the missing person.

2. A body of guardianship and tutorship can appoint a manager to administer the missing person's property, prior to the expiration of one year from when the last information about the missing person's whereabouts was received.

3. Those consequences of acknowledgement of a person to be a missing person which are not envisaged by this Article shall be determined by legislation.

Article 79. Revocation of a Decision on Acknowledgement of  
a Citizen as a Missing Person

1. If a citizen acknowledged a missing person appears, or information about his whereabouts becomes available, the court shall revoke its decision on acknowledgment of him as a missing person. On the basis of the court's decision, management of such citizen's property shall be rescinded.

2. If, upon the expiration of three years after the manager was appointed, the decision of the court on acknowledgement of a citizen to be a missing person is not revoked, and no application to acknowledge the citizen deceased has been filed with the court, the body of guardianship and tutorship shall be obliged to petition the court to acknowledge the citizen deceased.

Article 80. Declaration of Death

1. A citizen may be declared deceased by a court if there has been no information about his whereabouts at the place of his residence during a three-year period, or during a six-month period, if the person disappeared under circumstances threatening to his life or which give reason to believe that he died in an accident.

2. A serviceman or other citizen missing in connection with military actions can be declared deceased by a court after two years following the conclusion of military actions.

3. The date of death of a citizen declared to be deceased shall be the date on which the court decision declaring the person deceased becomes effective. If the person disappeared under circumstances threatening to his life or which give reason to believe that he died in an accident, the court can recognize the day of the accident as the date of his death.

4. Declaration of a citizen as deceased shall entail the same consequences for his rights and obligations as would his actual death.

Article 81. Consequences of Reappearance of a Citizen Declared  
Deceased

1. If a citizen declared to be deceased reappears, or his whereabouts are discovered, the court's decision declaring him as deceased shall be revoked.

2. Irrespective of the time of his appearance, such a citizen shall be entitled to demand from any person return of any remaining property which had been transferred to such person after the citizen had been declared to be deceased, except in those cases envisaged by point 3 of Article 291 of this Code.

Persons to whom property of the citizen declared to be deceased had been transferred in a sales or exchange transaction, shall be obliged to return this property to the citizen, if it is proven that at the moment of acquiring his property they were aware of the citizen's being alive. If the property cannot be returned in kind, its value shall be reimbursed.

3. If the property of a person declared deceased had been transferred to the state by the right of inheritance and had been disposed of, the sum gained from the disposition of the property, accounting of its market value on the day of payment, shall be reimbursed to the citizen after the decision declaring the person as deceased is revoked.

## Article 82. Registration of Acts of Civil Status

1. The following civil acts shall be subject to registration:

- 1) birth;
- 2) marriage;
- 3) dissolution of marriage;
- 4) adoption;
- 5) establishment of paternity;
- 6) change of name;
- 7) death of a citizen;
- 8) change of nationality.

2. Civil registration shall be exercised by the civil registration agencies by entering corresponding records into books of civil registration (statute books) and by issuing certificates based on these records to citizens.

3. Civil registration acts may be amended and corrected by the civil registration agency if there are sufficient grounds and there are no disputes between the interested persons.

If a dispute arises between the persons concerned or the civil registration agency refuses amendment or correction of the act, the dispute shall be settled in court.

Invalidation and restoration of civil registration acts records shall be exercised by the civil registration agency, based on court decision.

4. The agencies exercising civil registration, the procedure of the registration, amending, restoration and validation of the civil registration records, the forms of registers and certificates, as well as the procedure and terms of register storage shall be determined by the law on civil registration acts.

## CHAPTER 5 LEGAL ENTITIES

### 1. BASIC PROVISIONS

#### Article 83. The Concept of a Legal Entity

1. An organization, which holds separate property under its ownership, business management, or operative administration, and is liable for its obligations with this property; and which can acquire and exercise property and personal non-property rights in its name, and which can sue and be sued, shall be recognized as a legal entity.

Legal entities shall have a separate balance or budget.

2. In connection with their participation in the establishment of the property of a legal entity, the founders (participants) of the legal entity may have rights of obligation in relation to the property of this legal entity, or material rights to its property.

Legal entities in which participants have rights of obligation shall be as follows: business partnerships and companies; producers and consumers cooperatives.

Legal entities in which founders maintain a right of ownership or any other real right shall be organizations which possess property based on a right of business management or operative administration.

3. Legal entities in which their founders do not have property rights shall be: public associations and religious organizations; charitable and other public foundations; associations of legal entities (associations and unions),

#### Article 84. Legal Capacity of a Legal Entity

1. A legal entity may have civil rights corresponding to the purposes specified in its founding documents, and shall bear the responsibilities related to these activities.

Commercial organizations, except those which possess property based on the right of business management or operative administration (state and municipal enterprises), shall have the civil rights and obligations necessary for the conduct of any kind of activities not prohibited by law. There are specific types of activities, enumerated by law, which a legal entity may conduct only with special permission (a license).

2. A legal entity can be limited in its rights only in the cases and in the manner provided by law. A decision on limitation of rights may be appealed by a legal entity in court.

3. The legal capacity of a legal entity shall emerge at the moment it is founded (point 2 of Article 86) and shall terminate at the moment of its liquidation (point 8 of Article 98).

The right of a legal entity to perform activities which require a license (point 1 of this Article) emerges at the moment such a license is issued and terminates at the expiration of its effect, unless the law establishes otherwise.

#### Article 85. Commercial and Non-Commercial Organizations

1. Legal entities may be organizations which pursue profit as their main purpose (commercial organizations), or organizations which do not pursue profit as their main purpose and do not distribute realized profit among their participants (non-commercial organizations).

2. Legal entities that are commercial organizations may be established in the form of business partnerships and companies, producers cooperatives, and state and municipal enterprises.

3. Legal entities that are non-commercial organizations may be established in the form of consumers cooperatives, public or religious organizations (associations), owner-funded institutions, charitable and other public foundations, as well as in other forms provided by law.

Non-commercial organizations can be involved in business activities only to the extent necessary for achieving the goals specified in their charters.

4. Establishment of associations of commercial and/or non-commercial organizations in the form of associations (unions) shall be allowed.

#### Article 86. State Registration of Legal Entities

1. A legal entity shall be subject to state registration by the institutions of justice in accordance with the procedure determined by the law on registration of legal entities. Details of state registration, including, for a commercial organization, the firm name, shall be included in a uniform register of legal entities, which will be open for public inspection.

A violation of the procedure for establishing a legal entity or non-compliance of the founding documents of the legal entity with the requirements of law, shall result in refusal of state registration of the legal entity. Refusal to register a legal entity because of inexpediency of establishing the legal entity is not permitted.

Refusal of state registration, as well as evasion of registration, shall be appealable in court.

2. A legal entity shall be considered established from the moment of state registration.

3. A legal entity shall be subject to re-registration only in the cases established by law.

#### Article 87. Creation and Founding Documents of a Legal Entity

1. A legal entity may be founded by one or several founders.

2. The founders of a legal entity may be property owners, as well as bodies or persons authorized by them, and in cases specifically provided by legislation, other organizations and citizens. At the same time, legal entities which possess property with a right of business management or operative administration may be founders of other legal entities, with the consent of the property owner or of an organ authorized by the owner.

3. A legal entity shall act on the basis of a charter, or a founding agreement and a charter, or solely on the basis of a founding agreement. In cases envisaged by law, a legal entity which is a non-commercial organization may act on the basis of a general regulation for organizations of this type.

The founding agreement of a legal entity shall be entered into by, and the charter shall be ratified by its founders (participants).

A legal entity, established in accordance with this Code by one founder, shall act on the basis of the charter ratified by this founder.

4. The charter and other founding documents shall specify the name of the legal entity, its location, the procedure for management of its activities, the purpose of its activities, as well as other data, as required by the law on legal entities of the corresponding type. The founding documents of non-commercial organizations, state and municipal enterprises, and, if provided by the law, of other commercial organizations, must specify the subject and purposes of the legal entity's activities. The subject and purposes of the activities of other commercial organizations may be specified in their founding documents.

In the founding agreement, the parties (founders) assume an obligation to establish a legal entity, define the order for joint activities dealing with its establishment, define the terms for transfer of their property to the legal entity, and the terms of participation in its activities. The agreement shall also define the terms and the order of distribution of profits and losses among founders, the terms of the management of the legal entity's activities, and the terms of the founder's withdrawal from the legal entity. By the founders' mutual consent, other terms may be included in the founding agreement.

5. Amendments to the founding documents shall become effective for third parties from the moment of state registration, or, in cases established by statute, from the moment of notification concerning the amendments to the agency which performs state registration. Legal entities and their founders (participants) are, nevertheless, not entitled to rely on the absence of registration of such amendments in their relations with third parties which have acted with the account of such amendments.

#### Article 88. Organs of a Legal Entity

1. A legal entity shall acquire civil rights and assume civil obligations through its organs, which act in compliance with legislation and the founding documents.

The procedure for appointment or election of the organs of a legal entity shall be determined by legislation and the founding documents.

2. In the cases specified by law, a legal entity may acquire civil rights and assume civil obligations through its participants.

3. A person acting on behalf of a legal entity, pursuant to the law or the founding documents, shall act in the interests of the represented legal entity, reasonably and in good faith. A person acting on behalf of a legal entity is obligated, on the demand of the founders (participants, members) of the legal entity, unless otherwise provided by law or the contract, to indemnify for losses which the person causes to the legal entity.

#### Article 89. Name and Location of a Legal Entity

1. A legal entity shall have a name, which indicates its type, its legal organizational structure, and the character of its activities.

Inclusion of the formal full or reduced title of the Kyrgyz Republic in the name of a legal entity, or inclusion of that title or of elements of the state symbol of the Kyrgyz Republic in the required elements of documents or in the advertising materials of legal entities, shall be permitted in accordance with the procedures determined by the Government of the Kyrgyz Republic.

2. The location of the legal entity shall be determined by the place of its state registration, unless otherwise provided by the statute concerning the founding documents of a legal entity.

3. The name and location of a legal entity shall be specified in its founding documents.

4. A legal entity which is a commercial organization must have a firm name.

A legal entity whose firm name has been registered in compliance with the established procedures shall have the exclusive right to use that name.

The procedures for registering and using firm names shall be determined by legislation in compliance with this Code.

A person who unlawfully uses another firm's registered name, shall, upon the demand of the rightful owner of the firm name, be obliged to stop using the name and to indemnify for any damage caused.

#### Article 90. Representative Offices and Affiliates

1. A representative office is a separate division of a legal entity situated outside of its main location, which represents and protects the interests of the legal entity, and carries out transactions and other legal actions on its behalf.

2. An affiliate is a separate division of a legal entity situated outside its main location, which carries out all or some part of its functions, including representation.

3. Representative offices and affiliates are not legal entities. They shall be provided with property by the legal entity which creates them, and act in compliance with the regulations established by the legal entity.

Managers of representative offices and affiliates shall be appointed by a legal entity and shall act on the basis of its warrant.

Representative offices and affiliates shall be indicated in the founding documents of the legal entity which creates them.

#### Article 91. The Obligations of a Legal Entity

1. Legal entities, except owner-funded institutions, shall be liable for their obligations with all the property belonging to them.

2. An owner-funded institution shall bear responsibility for its obligations in compliance with the procedure and the terms established by Article 164 of this Code.

3. A founder (participant) of a legal entity or an owner of its property shall not be liable for the obligations of the legal entity, and the legal entity shall not be liable for the obligations of its founder or owner, except in cases specified by this Code or by the founding documents of a legal entity.

#### Article 92. Reorganization of a Legal Entity

1. Reorganization of a legal entity (merger, annexation, division, separation, and transformation) may be performed by the decision of its founders (participants) or by an organ of the legal entity empowered to do this by the founding documents.

Basis and procedure for reorganization of the legal entity acknowledged by the court or declared by the meeting of obligees as bankrupt (insolvent) shall be established by legislation on bankruptcy.

2. For the purpose of restricting monopolistic activities, the law may envisage the circumstances and procedure of mandatory reorganization of commercial organizations by court decision.

If the founders (participants) of a legal entity, an organ authorized by them, or an organ of a legal entity authorized to carry out the reorganization by the legal entity's founding documents fail to carry out the reorganization of the legal entity within the term established by court decision, the court shall appoint an outside administrator for the legal entity and charge him to reorganize the legal entity. As of the moment the outside administrator is appointed, complete authority to administer the legal entity shall be turned over to him. The outside administrator shall represent the legal entity in court, calculate the split balance sheet and submit it for the court's approval, together with the founding documents which arise as a result of the reorganization of the legal entity.

Consideration of the aforementioned documents by the court shall be grounds for state registration of the newly emerging legal entities.

3. In cases provided by law, reorganization of legal entities in the form of merger, annexation, or transformation may be carried out only with the consent of the authorized state agencies.

4. Except in cases of reorganization in the form of annexation, a legal entity shall be considered reorganized as of the moment of the registration of the new legal entities.

In the case of reorganization of a legal entity by means of annexing another legal entity to it, the first legal entity shall be considered reorganized as of the moment the termination of the activities of the annexed legal entity is entered in the uniform state register of legal entities.

#### Article 93. Legal Succession After Reorganization of Legal Entities

1. In the case of the merger of legal entities, the rights and obligations of these legal entities shall be transferred to the newly emerging legal entity in accordance with the transfer deed.

2. In the case of annexing a legal entity to another legal entity, the latter shall acquire the rights and obligations of the annexed legal entity in accordance with the transfer deed.

3. In the case of division of a legal entity, its rights and obligations shall be transferred to the newly emerging legal entities in accordance with the split balance sheet.

4. In the case of separation of one or more legal entities from the legal entity, each of them shall acquire the rights and obligations of the reorganized legal entity, in accordance with the split balance sheet.

5. In the case of transformation of a legal entity of one type into a legal entity of another type (changing of organizational and legal structure), the newly emerging legal entity shall acquire rights and obligations of the reorganized legal entity in accordance with the transfer deed.

#### Article 94. Transfer Deed and Split Balance Sheet

1. A transfer deed and a split balance sheet shall include provisions on succession on all obligations of the reorganized legal entity which relate to all obligees and obligors, and include obligations challenged by the parties.

2. The transfer deed and the split balance sheet shall be affirmed by the founders (participants) of the legal entity, or by the organ which made the decision on reorganizing the legal entities, and shall be submitted, together with founding documents, for state registration of newly emerging legal entities, or for amending founding documents of the existing legal entities.

Failure to submit the transfer deed or split balance sheet along with the founding documents, and also the absence of provisions on the succession of obligations of the restructured legal entity, shall result in denial of state registration of the legal entities.

#### Article 95. Guarantee of the Rights of Obligees of a Legal Entity

## in Reorganization

1. The founders (participants) of a legal entity, or the organ which made the decision to reorganize a legal entity, shall be obliged to provide written notice to the obligees of the legal entity undergoing reorganization.
2. The obligee of a legal entity undergoing reorganization shall be entitled to claim for termination or early performance of an obligation for which the obligor is liable, and for indemnification of losses.
3. If the split balance sheet does not identify the successor of the reorganized legal entity, the newly emerged legal entities shall bear joint responsibility for obligations of the reorganized legal entity to its obligees.

### Article 96. Liquidation of a Legal Entity

1. Liquidation of a legal entity shall entail its termination without transfer of rights and obligations in succession to other persons.

2. A legal entity may be liquidated:

On the decision of the founders (participants) of the legal entity, or the decision of an organ of the legal entity empowered therefore by its founding documents, in connection with, inter alia, expiration of the term for which the legal entity was created, the achievement of the purposes of creating the legal entity, or a court-ordered invalidation of the registration of the legal entity due to an irremediable violation of legislation in the course of its founding; or

On the decision of a court, if the legal entity is conducting activities without proper authorization (license), or activities which are prohibited by law, or commits any other repeated or gross violations of legislation, or in the case of systematic conduct of activities which contradict the charter purposes of the legal entity.

3. A claim for liquidation of a legal entity based on the grounds stated in point 2 of this Article may be submitted to the court by a state body or by an agency of local self-government authorized by law to file such a claim.

In its decision to liquidate a legal entity, the court may charge the founders (participants) of this legal entity, or an organ of the legal entity which is authorized to liquidate by the founding documents, with responsibility for liquidating the legal entity.

Requirements of points 2, 3 of this Article and of Arts. 97, 98 of this Code shall not apply to liquidation of legal entities through bankruptcy process.

4. A legal entity which is a commercial organization or acting in the form of a consumers cooperative or a public foundation may be liquidated in accordance with Article 100 of this Code as a result of finding this legal entity bankrupt (insolvent).

If the value of the property of such legal entity is not sufficient to satisfy the claims of its creditors, it can be liquidated only in accordance with procedures established in Article 103 of this Code.

Provisions on liquidation of legal entities due to bankruptcy (insolvency) shall not extend to public institutions.

### Article 97. Obligations of the Person Deciding to Liquidate a Legal Entity

1. The founders (participants) of a legal entity or the body which makes a decision to liquidate the legal entity must immediately give written notification of the decision to the agency which carries out state registration of legal entities. This agency will make an entry in the uniform state register of legal entities that the legal entity is in the process of liquidation.

2. The founders (participants) of the legal entity or the organ which makes a decision to liquidate the legal entity shall appoint a liquidation committee (a liquidator) and establish the procedure and terms of liquidation in compliance with the present Code.

3. As of the moment the liquidation committee is appointed, it acquires the authority to supervise the organs of the legal entity in disposing of its property. In particular, all acts of the organs of the legal entity which are directed to alienation of its property or recovery of its debts may be issued only with the permission of the liquidation committee.

### Article 98. The Procedure for Liquidation of a Legal Entity

1. The liquidation committee shall place a notice regarding liquidation of the legal entity, including information on the procedure and the time period for submission of claims by creditors, in a press organ where information on the registration of legal entities is published. The term for submission of claims cannot be less than two months following the time of publication of the notice of liquidation.

The liquidation committee shall take all measures possible to identify obligees and to collect accounts receivable, and shall also notify obligees in writing regarding the liquidation of the legal entity.

2. After the expiration of the term for submission of claims by obligees, the liquidation committee shall calculate an interim liquidation balance, which shall contain a schedule of the composition of property of the liquidating legal entity, a list of the claims presented by obligees, and the results of the consideration of these claims.

The interim liquidation balance shall be approved by the founders (participants) of the legal entity or by the organ which made the decision to liquidate the legal entity.

3. If the cash assets of the liquidating legal entity (other than a public institution) are not sufficient to satisfy the claims of obligees, the legal entity may be liquidated only in the procedure established by Art. 100 of this Code.

4. In accordance with the interim liquidation balance, and starting with the day of its confirmation, the liquidation committee shall pay money sums to the obligees of the liquidating legal entity in the order envisaged by Article 99 of this Code.

5. After all debts are settled with obligees, the liquidation committee shall create a liquidation balance, which shall be approved by the owner of the property of the legal entity or the by the organ which made the decision to liquidate the legal entity.

6. If the cash assets of a public institution under liquidation are not sufficient to satisfy obligees' claims, the obligees shall be entitled to bring an action for the remaining part of their claims against the owner of property belonging to the institution.

7. The remaining property of the legal entity following the satisfaction of obligee's claims shall be transferred to its founders (participants) who have material rights to this property or rights to obligations in relation to this legal entity, unless otherwise provided by the founding documents or by law.

8. Liquidation of a legal entity shall be considered completed, and the existence of the legal entity shall be regarded terminated when a record to this effect is entered into the uniform state register of legal entities.

#### Article 99. Satisfaction of Obligees' Claims

1. In the case of liquidation of a legal entity, the claims of the obligees shall be satisfied in the following order:

in the first priority, the claims of citizens to whom the liquidating legal entity is liable for causing damage to life or health shall be satisfied by capitalizing the relevant periodical payments in the procedure established by the law;

in the second priority, severance and salary payments shall be furnished to persons who worked under a labor agreement (contract), but for not in excess of three months;

in the third priority, claims of obligees against the principal amounts and interests thereon of obligors not secured by a lien shall be satisfied;

in the fourth priority, recovery of balance due to budget and non-budgetary funds shall be made;

in the fifth priority, claims for forfeit (fine and penalty) of obligees of the third and the forth priority including interests on the principal amounts of payments due to budget and non-budgetary funds.

After satisfaction of all claims of obligees, the balance shall be paid (transferred) to the founders (participants) of the legal entity.

Claims of obligees secured by lien shall be satisfied in priority to other obligees within the limits of the amount received from sale of lien in accordance with Art. 324 of this Code;

2. Claims of each priority group of obligees are satisfied after the claims of the previous group are completely satisfied.

3. If the liquidation committee denies satisfaction of an obligee's claims or it evades consideration thereof, the obligee is entitled to bring an action in court against the liquidation committee, prior to the approval of the liquidation balance. By virtue of a court decision, an obligee's claims may be satisfied against the account of the remaining property of the liquidating legal entity.

4. Obligor's claims presented after the expiration of the term established by the liquidation committee are satisfied from the obligor's property remaining after satisfaction of those obligees' claims which were timely presented.

5. Upon bankruptcy (insolvency) process requirements of this Article shall apply with peculiarities established by Art. 100 of this Code.

#### Article 100. Bankruptcy (Insolvency) of a Legal Entity

1. Bankruptcy (insolvency) is an inability of the legal entity acknowledged by the court and declared by the meeting of obligees with the consent of the legal entity to satisfy claims of its obligees against money obligations to the full extent, including inability to provide payments due to budget and non-budgetary funds.

2. A legal entity shall be acknowledged bankrupt by a court.

Legal entity may be declared bankrupt (insolvent) in extra-judicial procedure in accordance with bankruptcy legislation.

3. Where the property of the liquidated legal entity is insufficient, that property shall be distributed among obligees of the respective priority in proportion to the amounts of claims subject to satisfaction, unless otherwise established by law.

4. Claims of obligees not satisfied because of insufficiency of the property of the liquidated legal entity shall be deemed canceled, except for the case provided by Art. 104 of this Code. Claims of obligees not acknowledged in the bankruptcy process where the obligee failed to apply to the court, as well as claims dismissed by the court judgement shall be deemed cancelled.

5. Grounds for court acknowledgement or declaration of the legal entity as bankrupt by the meeting of obligees, and the procedure for conducting bankruptcy process shall be established by bankruptcy legislation.

6. After recovery of expenses related to bankruptcy process, claims of obligees of the legal entity - obligor shall be satisfied in the procedure and under rules of Art. 99 of this Code, unless otherwise established by bankruptcy legislation.

7. Expenses of bankruptcy process are necessary expenses related to conduct of bankruptcy process and including expenses for publication of notification on bankruptcy procedure, court expenses, expenses for administrator, administrator's remuneration, and possible expenses of the legal entity - obligor for that period during which the administrator considered necessary to continue his economic activity and other expenses.

Administrator is a qualified specialist appointed by the court, National Bank of the Kyrgyz Republic or meeting of obligees and responsible for conduct of bankruptcy process of the legal entity-obligor.

#### Article 101. Receivership (Sanation)

1. In the event that an application to declare a legal entity bankrupt (insolvent) has been duly filed in court, this legal entity (obligor) or the owner of the property belonging to it may petition to suspend the proceedings on bankruptcy and to install a receivership.

Receivership means the carrying out of financial or other economic or organizational measures by an organ appointed by the court to restore an obligor's solvency with the purpose of making payments to obligees, within the time period established by the court.

2. In the absence of suretyship of third persons in relation to claims of obligees against the legal entity (debtor), including claims by obligees for recovery of court costs, the court shall provide notice in the press that there is to be a competition among legal entities and citizens wishing to assume the obligations of executing the receivership. If within a month following publication of the notice no one has come forward, or if the obligor does not accept the conditions of a potential receiver, the matter of bankruptcy shall be vested for consideration by the court.

3. If no claim to declare a legal entity (obligor) bankrupt (insolvent) has been filed with the court, then, by agreement between the obligor and his obligees, a receivership may be installed in accordance with the procedures and on the conditions provided by that agreement.

#### Article 102. Consequences of Initiation of Proceedings on Bankruptcy (Insolvency) of a Legal Entity

From the moment proceedings on bankruptcy (insolvency) of a legal entity in the judicial or extra-judicial procedure are initiated, the legal entity shall not be entitled to alienate the property belonging to it, or transfer the property to third persons on any basis, or voluntarily discharge obligations, unless otherwise provided by bankruptcy legislation.

#### Article 103. Consequences of Declaring a Legal Entity Bankrupt (Insolvent)

1. A court's declaration that a legal entity is bankrupt (insolvent), as well as a declaration of insolvency by the obligees shall entail the liquidation of such legal entity or other consequences provided by bankruptcy legislation.

2. From the moment of adopting decision in the judicial or extrajudicial procedure on the initiation of the bankruptcy process of legal entity - obligor:

- 1) all debt obligations of this legal entity not already current shall be deemed current;
- 2) calculation of forfeits (penalties, fines) and interest on all debt obligations of this legal entity-obligor shall cease;
- 3) forfeit (penalty, fine) and interests calculated as of the moment of initiation of bankruptcy process shall be paid in the procedure established by bankruptcy legislation;
- 4) data on financial status of the legal entity shall cease to refer to the category of data having confidential nature or being commercial secret;
- 5) transactions connected with alienation of the property of the legal entity - obligor or entailing transfer of its property to third parties for use, shall be allowed exclusively in the procedure established by bankruptcy legislation;

6) actions directed at implementation of court and other decisions on cancellation of debts and arrest of its assets and enforcement of obligations of the legal entity - obligor shall cease;

7) all property claims may be presented to the legal entity - obligor only within the framework of bankruptcy process;

8) obligee secured by lien shall file his claim to the administrator and have his claims satisfied in priority to other obligees in accordance with bankruptcy legislation.

3. In the case where a legal entity, with the agreement of its obligees, declares itself insolvent, the rules of point 2 of this Article shall apply, unless otherwise provided by the agreement with the obligees.

#### Article 104. Execution against the Property of a Legal Entity After Its Liquidation

In the event that, after liquidation of the legal entity, it is proved that in order to avoid its liabilities to its obligees, the legal entity transferred to another person or otherwise intentionally concealed at least some part of its property, those obligees whose claims were not fully satisfied during the liquidation process shall have the right to execute against this property within the limits of the unpaid part of the debt. In such case the rules of Articles 290, 291 hereof respectively shall apply. A person to whom property has been transferred shall be considered to have acted in bad faith, if this person knew or should have known about the intention of the legal entity to conceal the property from its obligees.

## 2. BUSINESS PARTNERSHIPS AND COMPANIES

### 1. General Provisions

#### Article 105. Basic Principles of Business Partnerships and Companies

1. Business partnerships and companies are considered to be commercial organizations with a charter capital which is divided into shares (contributions) and stock of the founders (participants). The property created by the founders' (participants') contributions, or by the acquisition of stock, as well as produced or acquired by the business partnership or the company in the course of its activities, shall belong to that partnership or company with a right of ownership.

In cases provided by this Code, a company may be established by one person, who becomes the sole participant of this company.

2. Business partnerships and companies may be established in the form of a full partnership, a limited partnership, a company with limited or extended liability, or a joint-stock company.

3. Participants in full partnerships, and general partners in limited partnerships may be individual businessmen and/or commercial organizations.

Participants in companies and investors in limited partnerships may be citizens and legal entities.

Agencies of state authority and of local self-government shall have no right to become participants in companies or investors in limited partnerships, unless otherwise provided by law.

Owner-funded institutions may be participants in companies and investors in limited partnerships, with the permission of the owner, unless otherwise provided by law.

Participation of certain categories of citizens in business partnerships and companies, with the exception of open joint-stock companies, may be prohibited or limited by law.

4. Business partnerships and companies may act as founders (participants) of other business partnerships and companies, except as provided by this Code and other laws.

5. Contributions in the property of a business partnership or company may be money, securities, other things, property rights or other alienable rights having monetary value.

Monetary valuation of the contribution of a participant in a company is carried out according to the agreement between the founders (participants) of the company and, in the cases provided by law, shall be subject to verification by an independent expert.

6. Business partnerships, as well as limited liability companies and extended liability companies, shall have no right to issue stock.

#### Article 106. Rights and Responsibilities of Participants in Business Partnerships or Companies

1. Participants in business partnerships or companies shall have the right: to participate in management of the business activities of the partnership or company, except those provided by point 2 of Article 124 of this Code and by other legislation:

to receive information on the activities of the partnership or company and to have an access to account books and other documentation in accordance with the procedure established by the founding documents; to participate in distribution of profits;

to receive a portion, or the value of that portion, of the property remaining after payment of all debts to obligees, in the event of liquidation of the partnership or company.

Participants in a business partnership or a company may also have other rights provided by this Code, by the laws on business partnerships and companies, and by the founding documents of the partnership or company.

2. Participants in a business partnership or company shall have the responsibility:

to make contributions in the amount, under the terms, and in accordance with the procedure provided by the founding documents; and

not to divulge confidential information about the activities of the partnership or the business company.

Participants in business partnerships and companies may have other responsibilities provided by their founding documents.

#### Article 107. Transformation of Business Partnerships and Companies

Business partnerships and companies of one type may be transformed into partnerships and companies of another type, or into production cooperatives, by resolution of the participants general meeting of participants in the instances and in accordance with the procedures established by this Code.

### 2. Full Partnership

#### Article 108. Basic Principles of Full Partnership

1. A full partnership is a partnership in which the participants (general partners), in accordance with the contract among them, carry out business activities on behalf of the partnership and are jointly and severally liable for its obligations with all of the property they own.

2. A person may be a participant of only one full partnership.

3. The firm name of a full partnership must contain the following:

the names (firm names) of all the participants, as well as the words "full partnership", or

the name (firm name) of one or several participants, with the added words "and company", as well as the words "full partnership".

#### Article 109. Founding Agreement of a Full Partnership

1. A full partnership shall be established and shall act on the basis of a founding agreement, which shall also serve as the charter of the full partnership. The founding agreement shall be signed by all participants of the partnership.

2. The founding agreement of the full partnership shall contain, in addition to the information stated in point 4 of Article 87 of this Code, clauses on the amount and composition of the charter capital (joint capital) of the partnership; on the amount and the procedure of amending the shares of each participant in the charter capital; on the amount, composition, terms and procedure of making contributions by them; and on the liability of the participants for breach of their obligation to make contributions.

#### Article 110. Management of a Full partnership

1. The activities of a full partnership shall be managed by the general consent of all the participants. The founding agreement may provide for cases when a decision shall be taken on the vote of a majority of participants.

2. Each participant in a full partnership shall have one vote, unless another procedure for determining the number of votes of participants is provided by the founding agreement.

3. Each participant in the partnership, irrespective of his authority to conduct the general affairs of the partnership, shall have the right to familiarize himself/herself with all documentation concerning the administration of the partnership's affairs. Waiver or restriction of this right, even by agreement of the participants, is void.

#### Article 111. Conduct of Business of a Full Partnership

1. Each participant in a full partnership shall have the right to act on behalf of the partnership, unless the founding agreement provides that all the participants shall conduct the business of the partnership jointly, or that particular participants are authorized to conduct the business of the partnership.

Under the terms of the joint conduct of the business by the participants in the partnership, the agreement of all participants in the partnership is required in order to enter into every transaction.

With respect to relationships with third persons, a partnership shall have no right to rely on any provision of the founding agreement which restricts the participants' authority, except in cases when the partnership can prove that at the moment of entering into the transaction, the third person knew or should have known that the participant did not have the right to act on behalf of the partnership.

2. A participant in a full partnership who acts in the general interest of the partnership but without authority, shall have the right to demand reimbursement from the partnership of his expenditures, if his actions are not ratified by the rest of the participants, and if he is able to prove that due to his actions, the partnership saved or acquired property, the value of which exceeds such expenditures.

3. In case of a dispute between participants in a partnership, the authority given to one or more participants to conduct the business of the partnership may be terminated by a court, upon the demand of one or more other participants alleging serious grounds, in particular, a gross breach of duty by an authorized person (or persons), or a demonstrated inability to reasonably conduct business. Based on the court's decision, necessary amendments shall be entered in the founding agreement.

#### Article 112. Duties of a Full Partnership Participant

1. A full partnership participant must participate in its activities, in compliance with the founding agreement.

2. A full partnership participant must make no less than 30 percent of his contribution to the charter capital by the time of the partnership's registration. The remaining part of it must be paid by the participant within the terms, established by the founding agreement. If the participant fails to fulfill the stated obligation, he must indemnify the inflicted damage to the partnership, unless other consequences have been established by the founding agreement.

3. A full partnership participant shall have no right, without other participants' consent, to conclude transactions on his behalf, and in his interests, or in the interests of a third person, similar to those, constituting the subject matter of the partnership's activities.

If this clause is broken, the partnership shall have the right, on its discretion, to claim from such a participant for either indemnification of the damage, inflicted to the partnership, or transference to the partnership of the entire profit, gained through such a transaction.

#### Article 113. Distribution of the Profits and Losses of a Full Partnership

1. The profits and losses of an full partnership shall be distributed among the participants proportionally to their shares in the charter capital, unless otherwise provided by the founding agreement or by another agreement of the participants. Any agreement to exclude any participant from participation in distribution of profit and losses is not allowed.

2. If, due to losses, the value of a partnership's net assets is less than its charter capital, the profit gained by the partnership shall not be distributed among the participants until the value of net assets exceeds the amount of the charter capital.

#### Article 114. Liability of a Participant in a Full Partnership for the Partnership's Obligations

1. The participants in a full partnership shall, with all their property, bear a joint secondary liability for the partnership's obligations.

2. A participant in a full partnership, who is not a founder of the partnership, shall be liable, equally with the other participants, for the obligations which arose before he joined the partnership.

3. A participant who leaves the partnership shall be liable, equally with the remaining participants of the partnership, for the obligations emerging prior to the moment of his retirement, within a period of two years following approval of the report of partnership activities for the year in which the participant retired from the partnership.

4. Any agreement of the partnership participants to limit or eliminate the liability envisaged by this Article is void.

#### Article 115. Transfer of Participant's Share in the Property of the Full Partnership

1. With the consent of the other participants, a participant in a full partnership has the right to transfer to another participant in the partnership or to a third person, all of his share in the property of the partnership, corresponding to his share in the charter capital, or part of it.

2. In the event of the transfer of a share (or a part of a share) to another person, the full rights or a corresponding part of those rights belonging to the participant shall be given to that person. The person who has received the share (or part of the share), bears liability for the obligations of the partnership in accordance with the procedure established by point 2 of Article 114 of this Code.

3. The transfer of an entire share to another person by a participant of the partnership shall terminate his participation in the partnership, and shall entail to him those consequences envisaged in point 3 of Article 114 of this Code.

#### Article 116. Execution Against the Share of a Participant in the Property of a Full Partnership

The share of a participant in the property of an full partnership may be executed with respect to debts unrelated to his participation in the partnership (personal debts) only in cases where the partner lacks other property sufficient to cover his debts. The obligees of such a partner have the right to demand from the full partnership payment of the monetary value of that part of the partnership property corresponding to the share of the debtor in the charter capital, or to demand partition of that part of property for the purpose of executing against it. The share of the partnership property to be partitioned, or its monetary value to be paid, is determined according to the balance sheet existing at the moment the obligees assert their claim.

Execution against the entire share of a participant in a full partnership terminates his participation in the partnership, and entails the consequences provided by point 3 of Article 114 of this Code.

#### Article 117. Retirement of a Participant from a Full Partnership

1. A participant in a full partnership shall have the right to retire from the partnership by announcing his refusal to participate in the partnership.

A participant's refusal to participate in a full partnership which was established for an indefinite period of time, must be announced by the participant no less than six months before his actual retirement from the partnership. In the case of a full partnership established for a definite period, leaving the partnership prior to the expiration of that term is permitted only for a good reason.

2. An agreement between the participants of the partnership to waive the right to retire from the partnership is void.

#### Article 118. Expulsion from a Full Partnership

1. If a participant in the full partnership is declared to be a missing person, to lack legal capacity or to be restricted in legal capacity, he may be expelled from the partnership by virtue of the unanimous decision of the remaining participants. The same procedure may apply to a legal entity which is a member of the partnership and against which reorganization procedures have been initiated by a court judgment.

2. Full partnership participants have the right to make a demand in court that a participant be expelled from the partnership, by virtue of the unanimous decision of the remaining participants and existence of good reasons for that, in particular, gross violation of his duties or discovered inability to reasonably conduct the business of the partnership.

3. Expulsion of a participant from the partnership shall terminate his participation in the partnership, and shall entail the consequences envisaged by point 3 of Article 114 hereof.

#### Article 119. Succession in a Full Partnership

1. In the event of a participant's death, his heir may join the full partnership only with the consent of all other participants.

2. A legal entity that is the legal successor to a reorganized legal entity which was a participant of the partnership prior to reorganization, shall have the right to join the partnership irrespective of the consent of other participants, unless otherwise provided by the founding agreement of the partnership.

3. To the extent of the property of the deceased participant transferred to him, a participant's heir (successor) who does not join the partnership is liable for the obligations of the partnership to third persons for which the retired participant would have been liable, as provided in point 3 of Article 114 hereof.

#### Article 120. Liquidation of a Full Partnership

A full partnership may be liquidated on the grounds provided by Article 96, 100 of this Code, or in case a single participant remains in the partnership. A sole remaining participant has the right, within six months after becoming the sole participant, to transform the partnership into a company, in accordance with the procedure established by this Code.

In the cases of the retirement from the partnership or death of any participant, the full expulsion of any participant from the partnership, liquidation of a legal entity which is a participant in the partnership, or execution by a creditor against a part of the partnership property, corresponding to a participant's share in the charter capital, the partnership may continue its activities, if so provided for by the founding agreement of the partnership, or by the agreement of the remaining participants.

#### Article 121. Settlement of Accounts in the Event of Retirement of a Participant from a Full Partnership

1. A participant, who has retired from the full partnership or been expelled from it, shall be paid the value of the part of the partnership's property which corresponds to such participant's share in the charter capital, unless otherwise provided by the founding agreement. By agreement between the retiring participant and the remaining participants, payment of the property's value can be substituted for by disbursing property in kind.

In case of the liquidation of a legal entity participating in the partnership, all settlement of accounts shall be performed by the corresponding liquidation committee.

Except as provided by Article 116 of this Code, the part of the property due to the retiring participant, or its value, shall be determined according to the balance existing at the moment of his retirement.

2. All settlement of accounts with respect to a participant's heir who did not join the full partnership, or with respect to a successor to a legal entity which had been a participant of the full partnership, shall be performed in compliance with point 1 of this Article.

3. If a participant retires from the partnership, the shares of the remaining participants in the charter capital shall increase proportionally, unless otherwise provided by the founding agreement, or by agreement of the participants.

### 3. Limited Partnership

#### Article 122. Basic Principles of Limited Partnership

1. A limited partnership shall be recognized as a partnership in which, along with participants who conduct business activities on behalf of the partnership and are liable for the obligations of the partnership with all their property (general partners), there are one or several participants (limited partners), who bear the risk of losses related to the activities of the partnership only to the extent of their contribution amounts, and who do not participate in the partnership's business activities.

2. The status of general partners participating in a limited partnership, as well as their liability for the partnership's obligations, are determined by the provisions of this Code with respect to participants in a full partnership.

3. A person may be a general partner of only one limited partnership.

Full partnership participant may not be also a general partner in a limited partnership.

A general partner in a limited partnership may not be a limited partner in the same partnership and may not be a participant in a full partnership.

4. The firm name of a limited partnership must contain:

the names (designations) of general partners, as well as the words "limited partnership", or

the name (designation) of no less than one general partner, with the added words "and Company", as well as the words "limited partnership".

If the firm name of a limited partnership includes the name of a limited partner, that partner becomes a general partner.

5. The provisions of this Code on full partnership apply also to a limited partnership to the extent not contradictory to the provisions of this Code on limited partnership.

#### Article 123. Founding Agreement of a Limited Partnership

1. A limited partnership shall be established and shall act on the basis of a founding agreement, which document shall also serve as the partnership's charter. The founding agreement shall be signed by all general partners.

2. In addition to the information provided for in point 4 of Article 87, the founding agreement of a limited partnership shall contain provisions on the amount and composition of the charter capital of the partnership; on the amount and the procedure for changing the shares of each general partner in the charter capital; on the amount,

composition, terms and procedure for making contributions, on the liability of partners for breach of the duty to make contributions; and the total amount of contributions by limited partners.

#### Article 124. Management and Conduct of Business in a Limited Partnership

1. The management of a limited partnership's activities shall be exercised by the general partners. The procedure for management and conduct of business in such a partnership by the general partners shall be based on the rules for full partnerships.

2. Limited partners shall have no right to participate in the management of the limited partnership or to challenge the general partners' actions related to the management of the partnership. They can act on behalf of the partnership only by proxy.

#### Article 125. Rights and Duties of a Limited Partner in a Limited Partnership

1. A limited partner in a limited partnership is obligated to make his contribution to the charter capital. The contribution shall be confirmed by a certificate of participation issued to the limited partner.

2. A limited partner in a limited partnership shall have the right:

1) to receive a part of the profit which is due to his contribution (share in the charter capital), in accordance with the procedure provided by the founding agreement;

2) to acquaint himself with the annual reports and balances of the partnership;

3) to retire from the partnership and receive his contribution at the end of the fiscal year, in compliance with the procedures established by the founding agreement;

4) to transfer his share in the charter capital, or a part of it, to another limited partner or to a third person. The transfer of a participant's share to another person shall terminate his participation in the partnership.

The founding agreement of a limited partnership may also provide for other rights of limited partners, including those related to participation in drafting the decisions of the partnership.

#### Article 126. Liquidation of a Limited Partnership

1. A limited partnership shall be liquidated in case of the retirement of all limited partners who participated in it. Nevertheless, the general partners shall have the right to transform the limited partnership into a full partnership.

A limited partnership may also be liquidated on the grounds for liquidation of full partnerships (Article 120). Nevertheless, the limited partnership shall continue if at least one general partner and one limited partner remain in it.

2. In the case of liquidation of a limited partnership, including the event of its bankruptcy (insolvency), the limited partners have the right of priority over general partners to receive contributions from the partnership's property remaining after all the obligees' claims have been satisfied.

The property remaining after liquidation of the partnership shall be distributed between the general partners and limited partners proportionally to their contributions to the partnership property, unless another procedure is established by the founding agreement or by agreement of the general and limited partners.

### 4. Limited Liability Company

#### Article 127. Basic Principles of a Limited Liability Company

1. A limited liability company shall be recognized as a company established by one or more persons, with charter capital divided into shares, the amount of which is determined by the founding documents; the participants of the limited liability company shall not be liable for its obligations and shall bear the risk of losses related to the activities of the company only to the extent of the value of their contributions.

Participants of the company who have not made their full contributions, bear joint responsibility for its obligations up to the value of the unpaid part of the share of each participant.

2. The firm name of the limited liability company shall contain the name of the company, as well as the words "limited liability".

3. The legal status of the limited liability company and rights and duties of the participants are set forth in this Code and in the law on companies and partnerships.

#### Article 128. Participants in a Limited Liability Company

1. The number of participants in a limited liability company shall not exceed thirty. If the number of participants exceeds thirty, the limited liability company is subject to reorganization (transformation) into a joint-stock company within one year. Following one year the company is subject to liquidation in compliance with court procedure unless the number of the participants decreases to the established limit.

2. A limited liability company may not have another company which has a single participant as its sole participant.

#### Article 129. Founding Documents of a Limited Liability Company

1. The founding documents of a limited liability company are the founding agreement, signed by all founders, and the charter approved by them. If the company is founded by a single person, the founding document of such company shall be the charter.

2. In addition to the information stated in point 4 of Article 87 of this Code, the founding documents of a limited liability company shall set forth provisions on the amount of shares of each participant; on the amount, composition, terms and the procedure for making contributions, the participants' liability for breach of the duty to make contributions; on the amount of the charter capital; on the composition and authority of the company's managing bodies and decision making procedures, including which issues can be decided unanimously or by a majority of qualified votes, as well as other information as provided by law.

#### Article 130. The Charter Capital of a Limited Liability Company

1. The charter capital of a limited liability company shall be composed of the value of the participants' contributions.

The charter capital determines the minimum amount of the company's property that secures the interests of its obligees. The amount of the charter capital cannot be less than the sum determined by law.

2. A participant in a limited liability company may not be absolved of the obligation to make a contribution to the charter capital of the company, including by means of set-off of claims against the company.

3. No less than half of the company's charter capital must be paid by the participants of the company by the time of registration of the company. The remaining unpaid part of the charter capital shall be subject to payment by the participants within the first year of the company's activities. In the event that this obligation is not met, the company must either announce a reduction of its charter capital, and register this reduction in accordance with the established procedure, or terminate its activities by means of liquidation.

4. If following the second or any further fiscal year, the value of the net assets of the limited liability company is less than that of the charter capital, the company is obligated to announce a reduction of its charter capital and register this reduction in accordance with established procedure. If the value of the company's assets becomes less than the minimal amount of the charter capital required by law (point 1 of this Article), the company shall be subject to liquidation.

5. The charter capital of a limited liability company may be reduced only after notification to all its obligees. In this event, the obligees shall have the right to demand early payment or performance of the corresponding obligations, and compensation for losses.

6. An increase in the charter capital is permitted only after payment in full of their contributions by all participants.

7. By a two-thirds majority vote of the company's participants taken at the general meeting, an obligation to make additional contributions proportional to their shares in the company's charter capital may be established.

#### Article 131. Management of a Limited Liability Company

1. The highest body of a limited liability company shall be the general meeting of its participants.

A limited liability company shall have an executive body (collegial or a single person) which performs day-to-day management of its activities and is accountable to the general meeting of the company. A one-person managing body of the limited liability company may be appointed from outside the group of participants.

2. The authority of the company's managing body, as well as the procedure for making decisions and representation on behalf of the company shall be determined by law in accordance with this Code.

3. Within the exclusive authority of a limited liability company's general meeting shall be:

- 1) amending the company's charter and changing the charter capital;
- 2) formation and recall of the company's executive bodies;
- 3) approval of the company's annual reports and account balances, as well as distribution of its profits and losses;
- 4) decisions on reorganization and liquidation of the company;
- 5) election of the company's auditing commission (auditor).

Other matters referred to the exclusive authority of the company's general meeting may be defined by law or by the company's charter.

Matters within the exclusive competence of the company's general meeting may not be delegated for consideration to the company's executive committee .

4. The procedure by which the company audits its activities and performs its accounting shall be determined by law and by the company's charter.

At the demand of any participant of the company, the annual financial statements of the company may be audited by a professional auditor not related to the company or to its participants by property interests (external audit).

5. Publication of the accounts of the company regarding the results of the management of its affairs shall not be mandatory, except as provided by law.

#### Article 132. Reorganization and Liquidation of a Limited Liability Company

1. A limited liability company may be voluntarily reorganized or liquidated by the unanimous decision of the participants.

Other grounds for reorganization and liquidation of the company as well as the procedure for reorganization and liquidation are determined by this Code and other laws.

2. A limited liability company has the right to restructure into a joint-stock company or a production cooperative.

#### Article 133. Transfer of a Participant's Share in the Limited Liability Company's Property to Another Person

1. A limited liability company participant has the right to sell or otherwise yield his share in the property of the company, which corresponds to his share in the charter capital of the company, or a part thereof, to one or several participants of the company.

2. A participant's transfer of his share (or a part of it) to third persons is permitted, unless otherwise provided by the company charter.

The participants of the company shall have the right of priority to buy a participant's share (or part of it) proportional to the amounts of their shares, unless the charter of the company or the participants' agreement provides for another procedure for exercising this right. If the participants do not use their priority right within one month following notification, or within a different time period provided by the charter of the company or by the participants' agreement, a participant's share can be transferred to any other person.

3. A limited liability company participant's share may be alienated before its complete payment only in that part which has been paid already.

4. If a participant's share (or a part thereof) has been acquired by the limited liability company itself, the company must realize it to other participants or third persons within the terms and in compliance with procedures, provided by law and the founding documents of the company, or to reduce the charter capital in accordance with points 4 and 5 of Article 130 of this Code.

5. Shares in the limited liability's company's property shall be transferred to the heirs of a citizen, or to the successor of a legal entity which had been a participant in the company, if the founding documents do not provide that such a transfer requires the consent of the other participants. Refusal to consent to the transfer imposes on the company the obligations provided by Article 137 of this Code.

#### Article 134. Limited Liability Company Participant's Retirement from the Company

A participant in a limited liability company has the right to retire from the company at any time, irrespective of the consent of other participants.

#### Article 135. Execution Against the Share of a Participant in the Property of a Limited Liability Company

1. With respect to personal debts, an execution against the share of a participant in a limited liability company is permitted only in the event the participant's other property is insufficient to cover such debts. Obligees of such a participant have the right to demand against the limited liability company for payment of the value of that part of the company's property corresponding to the debtor's share in the company's charter capital, or for partition of this property with the purpose of executing against it. The part of the property subject to partition, and its value, is determined by the balance, existing at the moment the obligees submit their claim.

2. An execution against the whole share of the participant in the property of the limited liability company shall terminate his participation in the company.

#### Article 136. Expulsion of a Participant from a Limited Liability Company

A participant in a limited liability company, who grossly violated the company charter and thereby damaged its interests, may be expelled from the company by decision at the company's general meeting of a no less than two-thirds majority vote of all participants of the company.

The decision of the general meeting to expel a participant from the company may be appealed in court.

#### Article 137. Settlement of Accounts in the Event of a Participant's Retirement from a Limited Liability Company

1. Unless otherwise provided by the company's charter, a participant who has resigned or was expelled from a limited liability company shall be paid the value of that part of the property which corresponds to the participant's share in the charter capital of the company. By agreement of the retiring person and the company, payment of the property's value can be substituted by delivering property in kind. Except in case provided by Article 135 of this Code, the part of the company's property or the value due to the participant is determined according to the balance existing at the moment the participant retires.

2. If the right of enjoyment of the property had been used as a contribution to the limited liability company's charter capital, the corresponding property shall be returned to the participant who is retiring from the company. In this case, the reduced value of the property due to natural wear and tear shall not be reimbursed.

3. Settlement of accounts with an heir of a participant in the company who did not join the company, or with the successor of a juridical person, shall be carried out in accordance with the rules of this Article.

### 5. Additional Liability Company

#### Article 138. Basic Principles on Additional Liability Companies

1. An additional liability company is recognized to be a company founded by one or a few persons, the charter capital of which is divided into shares with the amount determined by the founding documents; the participants of such a company jointly bear a secondary liability on its obligations with their own property in equal multiple proportions to the value of their contributions, as determined by the founding documents of the company. In case of insolvency (bankruptcy) of any participant, his liability on the company's obligations shall be apportioned among the other participants proportionally to their contributions, unless another procedure for apportionment of liability is provided by the company's founding documents.

2. The company's designation should contain the name of the company, as well as the words "with additional liability".

3. The rules of this Code dealing with a limited liability company shall apply to an additional liability company unless otherwise provided by this Article.

### 6. Joint-Stock Company

#### Article 139. Basic Provisions on Joint Stock Company

1. A joint stock company is recognized to be a company, the charter capital of which is divided into a definite number of shares. Participants of a joint stock company (shareholders) shall not be liable on its obligations and shall bear the risk of damages related to the company's activities within the limits of their shares value.

Shareholders who did not pay their shares in full bear a joint liability with respect to the company's obligations within the limits of the value of their unpaid shares value.

2. The firm name of the joint stock company must include its name and an indication that the company is a joint stock company.

3. The legal status of a joint stock company and the shareholders' rights and obligations are defined in accordance with this Code by the laws on business companies and partnerships.

The specific features of a legal status of a joint stock company created through privatization of state enterprises are defined also by the legislation on privatization of those enterprises.

#### Article 140. Open Joint Stock Company

1. A joint stock company in which participants can alienate their stocks without the consent of other shareholders is recognized as an open joint stock company. Such a joint stock company has the right to administer subscription for the shares issued by them, and to administer the free trade of such shares according to the conditions established by the law.
2. An open joint stock company must promulgate annually its annual report, financial and income statements.

#### Article 141. Closed Joint Stock Company

1. A joint stock company, the shares of which can be distributed only among its founders or another prior determined circle of persons, is recognized as a closed joint stock company. Such company has no right to conduct an open subscription for issued stocks or offer them in some other way for acquisition by the general public.
2. The number of participants of a closed joint stock company must not exceed the number established by law. Otherwise, it is subject to transformation into an open joint stock company within one year, and after the expiry of such term-to liquidation in accordance with court procedure, unless the number of participants is reduced to the established limit.
3. In cases provided by law, a closed joint stock company may be obligated to publish for public notice those documents listed in point 2 of Article 140 of this Code.

#### Article 142. Transfer of Rights on Stocks of Closed Joint Stock Company

1. Shareholders of a closed joint stock company have a priority right to buy the shares being sold by other shareholders of the company.  
If none of the shareholders uses his priority right within five days after the notice or within any other time limit provided by the company's charter, the joint stock company itself shall have the right to buy such stocks for the price agreed to with the owner of the shares. If the joint stock company declines to acquire the stocks or fails to arrive at an agreement on their price, the shares may be alienated to any other person.
2. In case of pledge of the closed joint stock company's stocks and further execution against them by the pledgeholder, the rules of point 1 of this Article shall apply. However, the pledgeholder shall have the right to reserve them for himself, rather than to alienate them to a third person.
3. The shares of a closed joint stock company are transferred to the heirs of a citizen or to the successor of a legal entity that had been the shareholder, if the company's charter does not provide that such a transaction is allowed only with the consent of the company. In the latter case, if the company refuses to transfer the shares, they must be acquired by other shareholders or by the company itself, in accordance with the rules of point 1 of this Article. Nevertheless, heirs (successors) shall have the right to retain these shares for themselves, rather than transferring them to third persons.

#### Article 143. Formation of a Joint Stock Company

1. Founders of a joint stock company enter into an agreement among themselves, which sets forth the procedure of administering joint activities regarding formation of the company; the amount of the charter capital of the company; categories of issued shares and the procedure for distribution, as well as other terms provided by law.  
A contract on formation of joint stock companies shall be entered into in written form.
2. A joint stock company's founders bear joint liability on obligations which emerged before the registration of the company. The joint stock company bears liability on founders obligations that are related to its formation, only in the case of subsequent approval of their actions by the general meeting of shareholders.
3. The founding document of a joint stock company shall be its founding agreement and charter, approved by the founders.  
Besides the data indicated in point 4 of Article 87 of this Code, the charter of a joint stock company must also contain the conditions on categories of stocks issued by the company, their nominal value and amount; the rights of the holders; the amount of the company's charter capital; the composition and the competence of the company's managing bodies and decision making procedure, including the issues which shall be decided unanimously or by the qualified majority of the votes. The joint stock company's charter must also contain other data provided by law.
4. The procedure for performance of other activities related to the formation of the joint stock company, including the procedure of the founding meeting and its authority, shall be determined by law.

5. A joint stock company may be established by one person or consist of one person, in the event of acquisition of all the stock of the company by one holder. This data must be stated in the company's charter, must be registered and must be published for general information.

A joint stock company may not have as its sole participant another business entity, consisting of only one person.

#### Article 144. Joint Stock Company's Charter Capital

1. A joint stock company's charter capital is comprised of the value of the shareholders' contributions, made in exchange for the acquisition of shares.

Joint stock company's charter capital shall determine the minimal amount of the company's property that secures its obligees' interests. The charter capital shall be equal to the aggregate nominal value of the stocks, issued by the company, and cannot be less than the amount provided by law.

2. It is not allowed to relieve a shareholder from his duty to pay for the shares, also by way of set-off of his claims to the company.

3. An open subscription for the company's shares shall not be allowed before the charter capital is fully paid. At the time the joint stock company is founded, all of its shares must be distributed among the participants.

4. If upon the termination of the second and of each following fiscal years, the value of the company's net assets is less than its charter capital, the company must announce the reduction of the charter capital, and register this fact in accordance with established procedure. If the value of the aforementioned assets becomes less than the minimum amount of the charter capital, as determined by law (point 1 of this Article), the company shall be subject to liquidation.

5. The law or the charter of the company may establish limitations on the number of shares, total nominal value of the shares, or on the maximum number of votes, which may belong to one shareholder.

#### Article 145. Increase to the Joint Stock Company's Charter Capital

1. Pursuant to the decision of a general meeting, a joint stock company has the right to increase its charter capital by means of increasing the nominal value of a share, or issuing an additional number of shares.

2. An increase to a joint stock company's charter capital is permitted after it is fully paid. An increase of a joint stock company's charter capital in order to recover losses suffered by the company, is not permitted.

3. In cases provided by law or by the company's charter, the right of priority for acquiring additional stocks issued by the company may be provided to shareholders who own common shares (ordinary shares), or other voting shares.

#### Article 146. Decrease to a Joint Stock Company's Charter Capital

1. Pursuant to the decision of a general meeting of shareholders, a joint stock company shall have the right to decrease the charter capital by reducing the shares' nominal value, or by purchasing some part of the shares in order to reduce their total number.

Reduction of the company's charter capital shall be allowed following notice to all obligees according to procedure determined by law. In this case, the company's obligees shall have the right to demand early termination or performance of the company's corresponding obligations and compensation for losses.

2. Reduction of the company's charter capital by means of purchasing and canceling a part of the stocks shall be permitted if provided for in the company's charter.

3. Reduction by the joint stock company of its charter capital below the minimal amount, provided by the statute (point 1 of Article 144), shall entail the liquidation of the company.

#### Article 147. Limitations on Issuance of Securities and Payment of Dividends by a Joint Stock Company

1. The proportion of preferred shares in the charter capital volume of the company must not exceed 25 per cent.

2. After the charter capital is fully paid, and not before the third year of the company's existence, and provided that the company's two annual balances have been properly approved by this time, the joint stock company shall have the right to issue bonds in an amount which does not exceed the amount of the charter capital or the amount of security given to the company for these purposes by third persons.

3. A joint stock company shall have no right to announce and pay dividends: prior to the time that the entire charter capital is fully paid-in; if the value of the company's net assets is less than the sum of its charter capital and reserved capital, or payment of the dividends will result in a reduction of capital below the sum amount of the above capital accounts.

## Article 148. Management of a Joint Stock Company

1. The highest managing body of a joint stock company is the general meeting of its shareholders.

The general meeting of shareholders has the following exclusive authority:

- 1) to amend the charter, including changing of the charter capital;
- 2) to elect the company's Board of Directors and the auditing committee (auditor), as well as to form and dissolve the company's executive bodies, unless the company's charter refers these issues to the authority of the Board of Directors;
- 3) to approve the annual reports, accounting balances, accounts of the company's profits and losses, and distribution of its profits and losses;
- 4) to make decisions on reorganization and liquidation of the company.

By law, other issues may be relegated to the exclusive authority of the general meeting of shareholders.

Issues relegated to the exclusive authority of the general meeting, cannot be assigned to the company's executive body for consideration.

2. In a company in which the number of shareholders exceeds fifty, a Board of Directors shall be created.

In case of formation of the Board of Directors, its exclusive authority should be defined according to the legislation. Issues which the charter relegates to the exclusive authority of the Board of Directors, cannot be transferred for consideration of the company's executive bodies.

3. A company's executive body can be collegiate (board, directorate), or a single person (director, director general). It shall exercise the day-to-day management of the company's activities, and shall be accountable to the board of directors or to the general meeting of shareholders.

The authority of a company's executive body shall include the resolution of all issues that are not related to the authority of the company's other managing bodies, as defined by statute or by the company's charter.

By decision of the general meeting of shareholders, the executive body's authority can be transferred by contract to another commercial organization or to an individual businessman (manager).

4. The authority of the managing body of a company, as well as the procedure for making decisions and representations on behalf of the company, shall be determined by statute and by the company's charter, in accordance with this Code.

5. A joint stock company that is obliged in accordance with this Code and other statutes to publish documents indicated in point 2 of Article 140 of this Code, for the purpose of confirming that its fiscal accounting is proper, must engage a professional auditor, who has no connection to the property interests of the company or of its shareholders (external auditing).

An auditing of a company's activities, including those companies which are not obligated to publish the aforementioned documents for public notice, must be conducted at any time upon demand of the shareholders whose joint share in the charter capital makes 10 or more per cent.

The procedure for auditing a joint stock company's activities is defined by law and by the company's charter.

## Article 149. Reorganization and Liquidation of a Joint Stock Company

1. A joint stock company may be voluntarily reorganized or liquidated by the decision of the shareholders. Other grounds, and the procedure of reorganization and liquidating a joint stock company, shall be determined by this Code and other laws.

2. A joint stock company has the right to restructure itself into a limited liability company or a production cooperative.

## 7. Affiliated and Dependent Companies

### Article 150. Subsidiary Business Company

1. A company shall be recognized as a subsidiary company if another (principal) company or the partnership has the possibility to determine decisions, made by such a company, due to its dominant participation in the charter capital, or in accordance with an executed agreement, or in any other way.

A subsidiary company is a legal entity.

2. A subsidiary company is not liable for the principal company's (partnership's) debts.

The principal company (partnership), which, according to the agreement with the affiliated company has the right to give the latter mandatory instructions, shall be liable jointly with the affiliated companies on transactions, concluded by the latter for the purpose of carrying out such instructions.

In case of the affiliated company's bankruptcy (insolvency) due to the principal company's fault, the latter shall bear secondary liability on its debts.

3. Participants (holders) of an affiliated company shall have the right to demand from the principal company (partnership) indemnification of losses caused to the affiliated company by its fault unless otherwise provided by law.

4. Peculiarities of the status of affiliated companies, not provided by this Article, shall be determined by law.

#### Article 151. Dependent Business Company

1. A business company is recognized as being dependent, if another participating company holds more than twenty per cent of its voting stocks.

A dependent business company is a legal entity.

2. A participating partnership is obliged to immediately publish information regarding to its acquisition of a corresponding part of a dependent business company's charter capital, in accordance with the procedure provided by law.

3. Limits of the mutual participation of business companies in each other's charter capitals, and the number of votes which can be used by one of such partnerships at the general meeting of another company's participants or holders, shall be determined by law.

### 3. PRODUCTION COOPERATIVES

#### Article 152. Concept of a Production Cooperative

1. A production cooperative is recognized to be a volunteer association of citizens whose membership is formed for joint production or other business activities, and is based on their personal labor and on the pooling by the cooperative members of property share contributions. The law and the founding documents of the production cooperative may provide for the participation, through membership, of other persons in the cooperative's activities.

A production cooperative is a commercial organization.

2. Members of a production cooperative bear secondary liability on the cooperative's obligations, in the amounts and in compliance with the procedure provided by law and the cooperative's charter.

3. The cooperative's firm name must include its name, as well as the words "production cooperative".

4. The legal status of the production cooperative and the rights and duties of its participants are determined in accordance with this Code and the laws on cooperatives.

#### Article 153. Formation of Production Cooperatives

1. The founding document of a production cooperative is its charter, approved by the general meeting of its members.

2. Aside from the information specified in point 4 of Article 87 hereof, the charter of the cooperative must contain the conditions on the amount of the share contribution of the cooperative members; on the composition and the procedure for making share contributions by the cooperative members and their liabilities for breach of obligations on making share contributions; on the nature and procedure of the labor participation of a member in the cooperative's activities, and on his liabilities for breach of obligations on personal labor; on the procedure of distribution of the profits and losses of the cooperative; on the amounts and conditions of subsidiary liability to its members for the debts of the cooperative; on staffing and authority of the cooperative's managing bodies, and the procedure for making decisions, including issues which are adopted unanimously or by qualified majority voting of shares.

3. The number of members in a cooperative must not be less than three.

#### Article 154. Property of a Production Cooperative

1. The property owned by the production cooperative is divided by the shares of its members, in compliance with the cooperative's charter.

2. At the moment of the cooperative's registration, cooperative members are obliged to pay at least 10 per cent of share contribution, and the remaining portion shall be paid within a year after the registration date, unless another date is provided by the cooperative's charter.

3. Cooperatives have no right to issue stocks.

4. The profits of the cooperative are distributed among its members, in accordance with their labor participation, unless otherwise provided by the cooperative's charter.

The property remaining after liquidation of the cooperative and satisfaction of all obligees' claims, is distributed in accordance with the same procedure.

#### Article 155. Management of a Production Cooperative

1. The cooperative's highest managing body is the general meeting of its members.

In a cooperative which consists of more than fifty participants, a supervisory board shall be created, which exercises control over the activities of the cooperative's executive bodies. Supervisory board members have no right to act on behalf of the cooperative.

Executive bodies of the cooperative are the board and/or its chairperson. They perform the day-to-day management of the cooperative's activities and are held accountable to the supervisory board and the general meeting of cooperative members.

Only members of the cooperative may be the members of the supervisory board or of the board, or the chairperson of the cooperative.

A member of the cooperative may not concurrently be a member of the supervisory board and member of the managing board or chairperson.

2. The authority of the cooperative's managing bodies, as well as the procedure for making decisions and representation on behalf of the cooperative, is determined by the law on cooperatives and the cooperative's charter.

3. The following issues relate to the exclusive authority of the general meeting of the cooperative members:

- 1) amendment of the cooperative's charter;
- 2) formation and recall of the supervisory board members, as well as the cooperative's executive bodies, unless this authority had been given to the supervisory board by the charter;
- 3) acceptance and expulsion of the cooperative members;
- 4) approval of the cooperative's annual reports and accounting balances, and distribution of its profits and losses;
- 5) decision-making on the restructuring and liquidation of the cooperative.

Other issues can be relegated by the law on cooperatives or the cooperative's charter to the exclusive authority of the general meeting.

Issues relegated to the exclusive authority of the cooperative's general meeting or supervisory board may not be raised by them for consideration to the cooperative's executive bodies.

4. When voting at the general meeting, each member shall have only one vote.

#### Article 156. Termination of Membership in a Production Cooperative and Transfer of Share

1. A cooperative member has the right, at his discretion, to leave the cooperative. In this event, the value of the share must be paid to him, or property issued to him which corresponds to his share must be given to him, as well as other payments provided by the cooperative's charter.

The share's value and other property shall be given to the retiring member after the approval of the cooperative's accounting balance at the end of the fiscal year.

2. By decision of the general meeting, a cooperative member can be expelled from the cooperative if he fails to perform or does not perform properly the functions assigned to him by the cooperative's charter, and in other cases provided by law and the cooperative's charter.

By decision of the general meeting, a member of a production cooperative can be expelled from the cooperative for being a member of a similar cooperative.

A cooperative member, who has been expelled from the cooperative, has the right to receive shares and other payments provided by the cooperative charter, in accordance with point 1 of this Article.

3. A cooperative member has the right to transfer his share or a portion thereof to another member of the cooperative, unless otherwise provided by law and by the cooperative's charter.

Transfer of a share (or a portion thereof) to a citizen who is not a cooperative member is permitted only with the cooperative's consent. In this event, the other cooperative members have the right of priority to buy this share (or a portion thereof). If the cooperative members do not use their right of priority within one month after notification, or another time limitation provided by the cooperative charter or its members' agreement, the share can be transferred to any third person.

4. In the event of the death of a cooperative member, his heirs may be accepted for membership in the cooperative, unless otherwise provided in the cooperative's charter. Otherwise, the cooperative pays the value of the deceased participant's share to his heirs.

5. Execution upon the participant's share owing to his own debts, in accordance with the procedure provided by law and by the cooperative's charter, is permitted only if his other property is not sufficient to cover such debts.

6. In the event that a production cooperative share was pledged and there is a subsequent execution against this share by the pledgeholder, the provisions of the second sub-point of point 3 of this Article shall be applied.

#### Article 157. Reorganization and Liquidation of Production Cooperatives

1. A production cooperative may be voluntarily reorganized or liquidated by decision of its members at the general meeting.

Other grounds and the procedure for the cooperative's reorganization and liquidation are determined by this Code and other laws.

2. A production cooperative may be reorganized into a business partnership or company by the unanimous decision of the cooperative members.

### 4. STATE ENTERPRISES

#### Article 158. State enterprises based on the right of economic management

1. The enterprise based on the right of economic management is a legal entity which property and profit are owned by the state and are assigned to such enterprise in order to carry out its business activities.

2. The firm name of the enterprise based on the right of economic management must indicate that it is a state enterprise of the Kyrgyz Republic.

3. The rights of the enterprise for the property assigned to it under conditions of economic management are established by Article 230 hereof.

4. The legal status of an enterprise based on the right of economic management is determined by law.

#### Article 159. State Enterprises Based on the Right of Operative Management

1. The enterprise, carrying out operative management of the property assigned to it, may be formed on the basis of the state property.

2. The firm name of the enterprise based on the right of operative management, shall include an indication that it is a state enterprise of the Kyrgyz Republic.

3. Rights of the enterprise to the assigned property are determined in accordance with Article 231 hereof.

4. The Kyrgyz Republic bears secondary liability on the obligations of a state-owned enterprise based on the right of operative management, if the property of the enterprise is not sufficient to clear off the debts.

### 5. NON-PROFIT ORGANIZATIONS

#### Article 160. Consumer Cooperative

1. A consumer cooperative is a volunteer association of citizens on the basis of membership with the purpose to satisfy the material (property) needs of the participants by means of joining the property (contribution) shares.

2. Aside from the information specified in point 4 of Article 87 hereof, the charter of a consumer cooperative must contain provisions on the amount of the cooperative members' share contributions and their liability for breach of their obligations to pay contributions; on the composition and powers of the cooperative's managing bodies, and the procedure of decision-making, including the issues which shall be decided unanimously or by qualified majority of votes; and on the procedure for indemnification of losses by members of the cooperative.

3. The name of a consumer cooperative must contain an indication of the main purpose of its activities, as well as the word "cooperative", or words "consumer union" or "consumer company".

4. Members of the consumer cooperative must clear off the current losses within three months after approval of the annual balance by way of additional contributions. Failure to perform this duty may result in judicial liquidation of the cooperative by demand of its obligees.

Consumer cooperative members bear secondary liability on the cooperative's obligations within the limits of the unpaid portion of each participant's additional contribution. In this event, cooperative's members bear joint and several liability.

5. Revenues received by consumer cooperatives cannot be distributed among its members.

6. The legal status of consumer cooperatives, as well as the rights and responsibilities of their members, are determined in accordance with this Code and the law on cooperatives.

#### Article 161. Public Associations and Religious Organizations

1. Public associations and religious organizations are volunteer associations of citizens joined in accordance with the established procedure on the basis of common interests to satisfy their spiritual or other non-material needs.

Public associations and religious organizations are non-profit organizations. They have the right to carry out production and other business activities only for the purpose of achieving the goals for which they had been created, and which correspond to such goals.

2. Funding of the political parties, public associations, pursuing political goals, and trade unions by foreign legal entities and foreign citizens, foreign states and international organizations, is not allowed.

3. Participants (members) of public associations and religious organizations do not retain a right in the property transferred to them for ownership by these associations and organizations, including membership fees. They shall not be liable for obligations of public associations and religious organizations in which they participate as members; likewise, the indicated associations and organizations are not liable for their member's obligations.

4. The legal status of public associations and religious organizations is determined by law.

#### Article 162. Public Foundations

1. A public foundation (foundation) is a non-profit organization without membership, founded by citizens and/or legal entities and based on volunteer non-governmental donations of property in order to pursue social, charity, cultural, educational and other public goals.

The property transferred to the foundation by the founders is the ownership of the foundation. The founders are not liable for the obligations of their foundation, and the foundation shall not be liable for the obligations of its founders.

2. The foundation shall use the property for the goals determined in its charter. The foundations have the right to carry out production and other business activities necessary for achievement of the public goals for which the foundation had been created and which correspond to these goals.

3. The procedure for managing the foundation and creating of its bodies is determined by its charter approved by the founders.

4. Besides the information specified in point 4 of Article 87 hereof, the foundation's charter shall contain: the name of the foundation, which includes the word "foundation"; information on the purpose of the foundation; information on the foundation's bodies, including the supervisory board, or another body which exercises the oversight of the foundation's activities; the procedure for appointment and discharge of the foundation's officials; the disposition of the foundation's property in the event of its liquidation.

#### Article 163. Amendment of the Charter and the Liquidation of a Public Foundation

1. A foundation's charter can be amended by its bodies, if the charter provides for possibility of its amendment in such a way.

If keeping the charter in its original form entails consequences which could not be foreseen when the foundation was created, and the possibility of amending the charter was not provided by the charter, or the charter is not amended by the authorized persons, the right of amending the charter is given to the court by the petition of the foundation's bodies, supervisory board or other body authorized to oversight the foundation's activities.

2. The decision on liquidation of the foundation can be made only by the court, on the petition of the concerned persons.

The foundation can be liquidated in the following cases:

- if the foundation's property is not sufficient for achievement of its goals and the possibility of acquiring necessary property is futile;

- if the foundation's goals cannot be achieved, and the goals can not be changed;

- if the foundation deviates in its activities from the goals established by the charter;

- in other cases provided by law.

3. In the event of the foundation's liquidation, the property which remains after the obligees' claims are satisfied, shall be used for the goals which are stated in the foundation's charter.

#### Article 164. Institutions

1. An institution is recognized as a state-owned or other organization created by an owner for the purpose of carrying out managerial, public, cultural and other non-profit functions, and funded by the owner in full or in part.

2. Rights of an institution in the property assigned to it and acquired by it, are determined in accordance with Article 231 hereof.

The legal status of certain categories of state-owned and other institutions is determined by law.

#### Article 165. Associations of Legal Entities (Associations and Unions)

1. For the purpose of coordination of their business activities, as well as for representation and protection of common property interests, commercial organizations can establish associations in the form of associations (unions), being nonprofit organizations.

If, by the decision of its participants, the association (union) has to carry out business activities, such association (union) is subject for reorganization into a business company or a partnership in accordance with the procedures provided herein. To carry out business activities, the associations (unions) have the right to create business companies or participate in those companies.

2. Public and other non-profit organizations, including institutions, may voluntarily unite into associations (unions) of such organizations.

An association of non-profit organizations is a non-profit organization.

3. Associations are legal entities.

Association members maintain their independence and the rights of a legal entity.

4. An association shall not be liable for obligations of its members. Association members bear secondary liability for its obligations in the amounts and in accordance with the procedure provided by the founding documents of the association.

5. The firm name of the association must contain an indication of the main subject of its activities, and the main subject of its members' activities, including the word "association" or "union".

#### Article 166. The Founding documents of an Association (Union)

1. The founding documents of an association (union) are constituted by a founding agreement, signed by its members, and a charter, approved by its members.

2. Aside from the information specified in point 4 of Article 87 hereof, the association's (union's) founding documents must include provisions on the composition and authority of the association's managerial bodies and on procedure for making decisions, including the issues, which are to be decided unanimously, or by the qualified majority of association members, and on the procedure for distribution of property, remaining after liquidation of the association.

#### Article 167. Rights and Duties of Association (Union) Members

1. Association (union) members have the right to use its services free of charge, unless otherwise provided by the association's founding documents or the nature of the services.

2. At his discretion, an association member has the right to leave the association after the fiscal year is over. In this event, he bears secondary liability for the association's obligations, proportional to his contribution, within a period of two years from his departure.

An association member may be excluded from an association by the decision of the remaining participants in cases and in accordance with the procedure established by the association's founding documents. The rules which are applicable to departure from the association are also applied in regard to the liability of a member who has been excluded from the association.

3. With the consent of the participants of the association, a new member may join the association.

### CHAPTER 6 PARTICIPATION BY THE STATE IN RELATIONS REGULATED BY CIVIL LEGISLATION

#### Article 168. The Kyrgyz Republic as a Subject in Civil Law Relationships

1. The Kyrgyz Republic may participate in civil law relationships on an equal basis with citizens and legal entities.

2. Norms which determine the participation of legal entities in these relationships shall also apply to the Kyrgyz Republic as a subject of civil relationships, unless otherwise provided by law or by the particularities of the Kyrgyz Republic as a subject of such relationships.

Article 169. Manner of Participation of the Kyrgyz Republic in  
Civil Law Relationships

1. Agencies of state authority, within the limits of their competence as established by laws or other acts determining the status of those bodies, may in the course of their activities acquire and exercise both property and individual non-property rights and obligations and appear in court on behalf of the state.

2. In the circumstances and in the manner provided by legislation, other legal entities or citizens may act on behalf of the state by special appointment.

Article 170. Liability for Obligations of the Kyrgyz Republic.

1. The state shall meet its liabilities with the property over which it has the right of ownership (the state treasury, point 3 of Article 225), except for the property which has been assigned to legal entities established by it with the right of economic or operative management.

2. A legal entity, which is established by the state, shall not be liable for the obligations of the state.

3. The state shall not be liable for the obligations of legal entities established by it, except as provided by this Code and other laws.

4. Points 2-3 of this Article shall not apply to the cases where, by entering into an agreement, the state has undertaken to guarantee the obligations of a legal entity, or in cases where the legal entities have undertaken to guarantee obligations of the state.

Article 171. The Features of the Kyrgyz Republic's Liability in  
Civil Law Relationships with Foreign Juridical  
Persons, Citizens and States.

The features of the Kyrgyz Republic's liability in civil law relationships with participation of foreign legal entities, citizens and states shall be determined by this Code, other laws of the Kyrgyz Republic and international treaties and agreements entered into by the state.

CHAPTER 7  
TRANSACTIONS

1. The Concept, Types and Forms of Transactions

Article 172. The Concept and Types of Transactions

1. Transactions are actions of citizens or legal entities for the purpose of establishing, changing or terminating rights and obligations under civil law.

2. Transactions may be unilateral, bilateral or multilateral (contracts).

3. A transaction is unilateral if, in accordance with legislation or an agreement of the parties, an expression of the will of only one party is necessary and sufficient for its creation. A unilateral transaction creates duties for the person who made the transaction. It can create duties for other persons only in cases established by law or by agreement with those persons.

4. To create a contract, an expression of the concerted will of two parties (bilateral transaction), or three or more parties (multilateral transaction) is necessary.

5. General provisions on obligations and contracts (Section Three of this Code) shall also apply to unilateral transactions, insofar as this does not contradict to the law, the nature and substance of the transaction.

Article 173. Conditional Transactions

1. A transaction shall be considered made under a suspensive condition if the parties put the rise of rights and obligations in dependence on a circumstance which is not known whether it will arise or not.

2. A transaction shall be considered made under a dissolving condition if the parties established the termination of rights and duties dependent on a circumstance which is not known whether it will arise or not.

3. If onset of a condition is dishonestly impeded by a party which would be disadvantaged thereby, the condition shall be considered to have been met. If a party dishonestly promotes onset of a condition by which it gains advantage, the condition shall be considered not to have been met.

#### Article 174. Form of Transactions

1. Transactions may be made in either verbal or written form (simple or notarial).
2. A transaction which may be made verbally shall be considered entered into also in cases where a party by its behavior indicates its intention to make the transaction.
3. Silence is considered as an expression of the intention to make a transaction in cases provided by law or by agreement of the parties.

#### Article 175. Verbal Transactions

1. A transaction may be made in verbal form if the written (simple or notarial) form is not required by law or by agreement of the parties.
2. Unless otherwise provided by agreement of the parties, all transactions, which are completed at the same time they are entered into, may be made in oral form, except for those transactions for which notarial form is prescribed, or which are invalid unless the simple written form is observed.
3. By agreement of the parties, subsequent transactions made in performance of a written contract may be made in a verbal form, unless otherwise provided by law or by the contract.

#### Article 176. Written Transactions

1. A transaction shall be made in written form by creation of a document which expresses the substance of the transaction, and is signed by the person or persons making the transaction, or by persons properly authorized by them. Bilateral transactions may be made by exchange of documents, each signed by the party which originates it (point 2 of Article 395).

Additional requirements as to the form of a transaction (use of a preprinted form, authentication by seal, etc.), and the consequences of failure to meet those requirements may be established by law or by the agreement of the parties. Otherwise the consequences of non-compliance with the simple written form of transactions shall apply.

2. A facsimile reproduction of a signature by means of mechanical or other copying, digital signature or any other analogue of a personal signature is permitted if provided for by law or by agreement of the parties.
3. If a citizen cannot make his signature due to physical disability, sickness or illiteracy, at his request the transaction may be signed by another citizen. The signature of the latter shall be certified by a notary or other official authorized to take notarial action, along with an indication of the reasons why the person making the transaction could not sign by his own hand.
4. However, in making the transactions set forth in point 3 of Article 204 of this Code, or authorizing the making of such transactions, the signature of a person making the transaction and who is unable to sign by his own hand may be attested to by the organization where this citizen works, or by the administration of a medical institution where he is receiving a course of treatment.

#### Article 177. Simple Written Form of Transactions

1. Except for those transactions which require certification by a notary, the following must be made in simple written form:
  - 1) transactions between legal entities, and those between legal entities and citizens;
  - 2) transactions between citizens for an amount in excess of ten times the monthly minimum payment for labor, or as provided by law regardless of the amount of the transaction.
2. For transactions which may be made verbally, as provided in Article 175 of this Code, the simple written form is not required.

#### Article 178. Consequences of Failure to Comply with the Simple Written Form of Transactions

1. Failure to comply with the simple written form of transactions shall deprive the parties of the right, in case of a dispute, to refer to the testimony of witnesses to corroborate the transaction and its provisions, but shall not deprive them of the right to submit written and other evidence.

2. Failure to comply with the simple written form of transaction entails invalidity of the transaction in cases provided expressly by law or by the agreement of the parties.

3. Failure to comply with the simple written form of foreign economic transaction entails invalidity of the transaction.

#### Article 179. Transactions Certified by a Notary

1. Notarial certification of transactions is accomplished by the signature of a notary or other official authorized to make a notarial act on a document complying with requirements of Article 176 of this Code.

2. Notarial certification is compulsory:

- 1) in cases provided by law;
- 2) on the demand of any party of the transaction.

#### Article 180. State Registration of Transactions

1. Transactions with immovable property (alienation, mortgage, transfer by inheritance, etc) are subject for state registration.

The procedure for registration of real property transactions and the maintenance of corresponding registers are established by law.

2. The law may provide for state registration of the transactions with certain types of movable property.

#### Article 181. Consequences of Noncompliance with Notarial Form of Transactions and Registration Requirements

1. Noncompliance with the notarial form of transactions or state registration requirements entails invalidity of the transaction. Such transaction is considered null and void.

2. If one party, in whole or in part, has performed a transaction which requires notarial certification, and another party evades notarial certification of the transaction, a court may, on demand of the party which has performed the transaction, recognize the transaction as valid. In this case, subsequent notarial certification of the transaction is not required.

3. If a transaction, requiring state registration, has been performed in proper form, but one of the parties evades registration, a court can make a decision, on demand of the other party, on registration of the transaction. In this case the transaction is registered in compliance with the court's judgment.

4. In cases provided for by points 2 and 3 of this Article, the party which evades unreasonably notarial certification or state registration of a transaction must indemnify the other party the losses caused by the delay in performance of the transaction.

#### Article 182. Exchange Transactions

1. An agreement on mutual transfer of rights and obligations related to property (goods, securities, etc.) circulated on an exchange, shall be made by participants of the exchange at an exchange meeting in accordance with the procedures established by law on commodity and stock exchanges and by exchange charters (exchange transactions).

Exchange transactions may be formalized by means of broker's notes. These transactions are subject for registration at the exchange.

2. The rules for the corresponding types of contracts (purchase-and-sale, commission, etc.) shall apply to exchange transactions, depending upon their contents, unless otherwise provided by law, agreement of the parties, or the substance of the transaction.

The law or exchange charters may provide for exchange transaction conditions which constitute a trade secret of the parties and are not subject for disclosure without their consent.

## 2. Invalidity of Transactions

#### Article 183. General Provisions on Invalidity of Transactions

1. A transaction shall be invalid on the grounds established by this Code, by virtue of a court finding of invalidity (a voidable transaction) or independent of any court finding (void transaction).

2. The claim on recognizing a voidable transaction invalid may be brought by the persons indicated in this Code.

The claim on use of void transaction invalidity consequences may be brought by any interested person. A court may use such consequences on its own initiative.

#### Article 184. General Provisions on the Consequences of Invalidity of a Transaction

1. An invalid transaction does not entail legal consequences, except for those related to its invalidity, and it is invalid from the moment of its inception.

2. If a transaction is invalid, each party shall return to the other(s) everything acquired in the transaction, or, if it is impossible to return in kind what was acquired (including use of property, work performed, or services provided), shall reimburse its value in cash, unless other consequences of invalidity are provided by law.

3. If it follows from the substance of a voidable contract that it can only be abrogated prospectively, a court having recognized the transaction invalid, terminates effect of the transaction for the future.

#### Article 185. Invalidity of a Transaction not Corresponding to Legislation

A transaction which does not comply with the law requirements is void, unless the law establishes that such a transaction is voidable or provides other consequences for the law violation.

#### Article 186. Invalidity of an Unlicensed Transaction

A transaction made without a necessary license or after expiration of the license is invalid.

#### Article 187. Invalidity of a Transaction Made with the Purpose Expressly Contradicting to Public and State Interests

A transaction made with the purpose expressly contradicting to public and state interests is void. The grounds of the contradiction are determined by law.

Where there is intent of both parties to the transaction, and in case the transaction has been performed by both parties, everything which was acquired by them in the transaction shall be collected by the Kyrgyz Republic as revenue, and if the transaction has been performed by one of the two parties, everything that was acquired by the other party and everything that this party owes to the first party as compensation for that which was acquired shall be collected by the Kyrgyz Republic as revenue.

Where there is intent of only one party to the transaction, everything that the party acquired in the transaction must be returned to the other party, and everything acquired by the latter or which is owed to it as compensation for the performance of the transaction, is to be collected to the budget of the Kyrgyz Republic.

#### Article 188. Invalidity of Sham and Deceptive Transactions

1. A sham transaction, that is a transaction made only for form's sake without intention to establish the corresponding legal consequences, is void.

2. A deceptive transaction, that is a transaction made with the purpose of concealing another transaction, is void. The transaction which the parties actually intended, taking into account the nature of the transaction, is subject for application of the corresponding rules.

#### Article 189. Invalidity of Transactions Made by a Citizen Who Has Been Found Incompetent

1. A transaction made by a citizen who has been found incompetent as a result of mental disorder is void. Each party to such a transaction must return in kind to the other(s) everything acquired, or if it is impossible to return what was acquired in kind, shall reimburse its value in cash (point 2 of Article 184).

Moreover a competent party must indemnify the actual losses suffered by the other party if the competent party knew or should have known about the incompetence of the other party.

2. In the interests of a citizen who has been found incompetent as a result of mental disorder, a transaction made by him which is to his advantage may be found valid by a court on the petition of his guardian.

#### Article 190. Invalidity of a Transaction Made by a Minor under

## the Age of Fourteen

1. A transaction made by a minor under the age of fourteen (juvenile) is void. Rules established in sub-point 2 and 3 of point 1 of Article 189 of this Code shall be applied to such a transaction.

2. In the interests of the minor a transaction performed by him which is to his advantage may be found valid by the court on the petition of his parents, adopter, or guardian.

3. The rules of this Article shall not apply to small everyday transactions which minors may conduct independently in accordance with Article 63 of this Code.

## Article 191. Invalidity of a Transaction Made by a Minor Between the Ages of Fourteen and Eighteen

1. A transaction performed by a minor between the ages of fourteen to eighteen without the consent of his parents, adopters, or guardian, where such consent is required by this Code, may be found invalid by a court on an action by his parent, adopter, or guardian.

The rules provided in point 1 of Article 189 of this Code apply when such a transaction has been found invalid.

2. The rules of the present Article shall not apply to transactions made by minors who have gained full legal capacity (point 2 of Article 56, Article 62).

## Article 192. Invalidity of a Transaction Made by a Citizen whose Legal Capacity has been Limited by a Court

1. A transaction involving the disposal of property made by a citizen whose legal capacity has been limited by a court as a result of alcohol or narcotics abuse, where the transaction has been made without the consent of his guardian, may be found invalid by the court on petition of the guardian.

Rules stipulated in point 1 of Article 189 of this Code apply when the transaction is found invalid.

2. Rules of this Article shall not apply to small everyday transactions made by a citizen with limited legal capacity who has the right to make these transactions independently in accordance with Article 65 of this Code.

## Article 193. Invalidity of a Transaction Made by a Citizen Unable to Comprehend the Significance of his Actions

1. A transaction performed by a citizen, who, though competent, at the moment of making the transaction was unable to comprehend the significance of his actions or govern them, may be found invalid by a court on petition of the citizen or of any other person whose rights or legally-protected interests are violated by the transaction.

2. A transaction performed by a citizen subsequently found incompetent (Article 64) may be invalidated by a court on petition of his guardian where it is proved that at the moment of making the transaction the citizen was already unable to comprehend the significance of his actions or to govern them.

3. Rules stipulated in point 1 of Article 189 of this Code shall apply to a transaction found invalid in accordance with this Article.

## Article 194. Invalidity of a Transaction of a Legal Entity which is Beyond the Limits of its Legal Capacity

A transaction made by a legal entity in contradiction to the purposes defined in its founding documents, or by a legal entity not licensed to engage in such activity (point 1 of Article 84) may be found invalid by a court on an action filed by the legal entity, or its founder (participant), or by a state agency, exercising control or supervision over the activity of the legal entity, where it is proved that the other party to the transaction knew or should have known about the illegality of the transaction.

## Article 195. Consequences of Limitation of Powers to Perform a Transaction

Where the authority of a person to enter into a transaction is limited by contract, or where the authority of a body of a legal entity is limited by its founding documents in a way that differs from the way that its powers are defined in a power of attorney, by law, or which may be considered obvious under the circumstances in which the transaction is made, and, where in making the transaction the person or the body went beyond these limitations, the transaction may be

found invalid by a court on the claim of a person in whose interest the limitations were established, only in cases where it is shown that the other party to the transaction knew or wittingly should have known about the mentioned limitations.

#### Article 196. Invalidity of a Transaction Made under a Delusion

1. A transaction made under a delusion, having material significance, may be found invalid by a court on the claim of the party which acted under the influence of the delusion.

2. Rules stipulated in point 2 of Article 184 of this Code shall apply to transactions found invalid because they were made under a delusion.

Moreover, the party on whose claim the transaction was found invalid shall have the right to demand from the other party indemnification of actual losses where it is shown that the delusion occurred by fault of the other party. Where this is not proved, the party on whose claim the transaction was found invalid shall have to indemnify on the demand of the other party all the losses suffered by that party, even if the delusion occurred for reasons beyond the control of the deluded party.

#### Article 197. Invalidity of Transactions Made under the Influence of Deceit, Duress, Threat, Collusion between a Representative of One Party and the Other Party or Extremity

1. A transaction made under the influence of deceit, duress, threat, or collusion of a representative of one party with the other party, or a transaction which a person was forced to make on very disadvantageous terms as the result of concurrence of extreme circumstances which the other party made use of (unconscionable transaction), may be found invalid by a court on the claim of the victim.

2. Where the transaction is found invalid on one of the grounds established in point 1 of this Article, the other party must return everything acquired in the transaction to the victim, or if it is impossible to return the acquired in kind, return the value of what was acquired in cash. The property acquired by the injured party from the other party in the transaction, or due to it in return for that which was transferred to the other party shall become revenue of the Kyrgyz Republic. Where it is impossible to transfer the property to the state revenue in kind, its value in cash shall be collected. Moreover the other party must indemnify to the victim the caused actual losses.

#### Article 198. Consequences of Invalidity of a Part of a Transaction

The invalidity of a part of a transaction shall not result in the invalidity of the remaining parts if it can be assumed that the transaction would have been made without the inclusion of its invalid part.

#### Article 199. Invalid Transactions' Limitation Terms

1. The suit for application of consequences of invalidity of a void transaction may be brought within five years from the date when the performance of the transaction has been started.

2. The suit for invalidation of a voidable transaction and for application of consequences of its invalidity may be filed within one year from the date of termination of the duress or threat under the influence of which the transaction was made (point 1 of Article 197) or within one year from the date the plaintiff learned or should have learned about other circumstances which were used as the grounds for invalidation of the transaction.

### CHAPTER 8 REPRESENTATION, POWER OF ATTORNEY

#### Article 200. Representation

1. A transaction entered into by one person (representative) on behalf of another person (principal) by virtue of authority based on power of attorney, a provision of law, or the act of a government agency or agency of local self-government which is authorized to make such an act, immediately creates, changes and terminates the civil law rights and obligations of the principal.

A representative's authority may also be clear from the circumstances in which the representative acts (retail salesperson, cashier etc.).

2. Persons acting in another persons' interests but on their own behalf (auction managers in bankruptcy, executors of wills in inheritance, etc.) as well as persons authorized to enter into negotiations concerning possible future transactions shall not be representatives.

3. A representative may not make transactions on behalf of the principal with respect to himself. Nor may he make such transactions with respect to another person whom he represents simultaneously, except in cases of commercial representation.

4. A transaction which by its nature may only be entered into personally, shall not be entered into through a representative.

#### Article 201. Transaction Entered Into by Unauthorized Person

1. A transaction entered into on behalf of another person by a person not authorized to make the transaction or with excess of his powers to make the transaction shall create, change and terminate civil rights and obligations for the principal only in cases where the principal subsequently approves the transaction.

Such a transaction shall also be deemed approved in cases where the principal commits an action indicating agreement to perform the transaction.

2. Subsequent approval of the transaction by the principal shall create, change and terminate the civil law rights and obligations of the principal in the given transaction from the date it was entered into.

#### Article 202. Commercial Representation

1. A commercial representative is a person who permanently and independently represents entrepreneurs in the creation of contracts in the sphere of business activities.

2. Simultaneous commercial representation of different parties to a transaction is allowed with the consent of the parties or in other cases provided by law. In such cases the commercial representative must perform his tasks with the care of an ordinary businessman.

A commercial representative shall have the right to demand in equal portions from both parties to the contract payment of contingent fee and reimbursement of expenses occurred in performing his tasks, unless otherwise provided by the agreement between them.

3. A commercial representative must keep confidential all information he obtains about sales transactions even after the completion of his task.

4. The legislation shall establish particularities of commercial representation in separate spheres of business activities.

#### Article 203. Power of Attorney. Term of Power of Attorney

1. A power of attorney is a written authorization given by one person to another person for representation before third parties.

The principal may present the power of attorney to the appropriate third party.

2. A power of attorney of a legal entity shall be issued with the signature of its director or other person so authorized in its founding documents, and affixed with the seal of the organization.

A power of attorney issued on behalf of a legal entity based on government or communal ownership, to receipt or issuance of money and other pieces of property, must be signed by the chief (senior) accountant of this organization.

3. The effective period of a power of attorney may not exceed three years. If the effective period is not indicated in the power of attorney, it shall remain effective within one year after the date of its execution.

A power of attorney without the date of execution shall be invalid.

4. A notarized power of attorney for activities abroad without indication of effective period remains effective until revoked by the person who issued this power of attorney.

#### Article 204. Notarized and Similar Powers of Attorney

1. A power of attorney for a transaction requiring notarization must be notarized, except in instances provided by law.

2. The following are equivalent to a notarized power of attorney:

- powers of attorney issued by persons undergoing treatment in hospitals, sanatoriums and other medical institutions, certified by the chair or the chief physician of such institution;

- powers of attorney issued by servicemen, or by employees, members of their families and of the families of servicemen in places of stationing of military units, formations, establishments and military training institutions where

there are no notaries, and other agencies carrying out notarial actions, certified by the commander (chief) of a unit, establishment, formation or institution;

- powers of attorney issued by imprisoned individuals or individuals under arrest, certified by the head of the relevant institution;

- powers of attorney issued by operationally capable major individuals, in social security institutions, certified by the administration of this institution or by the chair (or his deputy) of the relevant social security institution.

3. A power of attorney for receipt of salary or other payments related to labor relationships, for author's and inventor's fees, pension allowances, benefits and scholarships, citizens' bank deposits, and for receipt of correspondence including cash and parcels may also be certified by an institution where the principal works or studies, by the building management [domoupravlenie] at his place of residence or by the administration of in-patient medical institution where he is undergoing the treatment.

#### Article 205. Appointment of a Subagent

1. A person with the power of attorney must personally perform the actions he is authorized for. He may appoint a subagent if he is authorized to do so in the power of attorney or if he is forced by circumstances to do so in order to protect the interests of the person who issued the power of attorney.

2. A power of attorney appointing a subagent must be notarized, except as provided by Article 203 of this Code.

3. The effective period power of attorney appointing a subagent must not exceed the effective period of the power of attorney on which it is based.

4. A person who appoints a subagent must inform the person who issued the power of attorney about such appointment, and provide him with all necessary information about the subagent. Failure to perform this duty imposes on the person transferring authority responsibility for the actions of the subagent as for his own.

#### Article 206. Termination of a Power of Attorney

1. A power of attorney shall be terminated in the following instances:

1) expiration of the effective period of the power of attorney;

2) revocation of a power of attorney by the person who issued it;

3) refusal by the person to whom the power of attorney was issued;

4) termination of the legal entity on whose behalf a power of attorney was issued;

5) termination of the legal entity to whom a power of attorney was issued;

6) death of the citizen who issued a power of attorney, or finding him operationally incapable, or a person with restricted operational capability, or a missing person;

7) death of a person to whom the power of attorney was issued, or finding him operationally incapable, or a person with restricted operational capability, or a missing person.

2. A person who issued a power of attorney may at any time revoke the power of attorney or a subagent power of attorney, and a person to whom the power of attorney was issued may at any time refuse it. An agreement on waiver of these rights shall be void.

3. A subagent power of attorney shall become ineffective with the termination of the power of attorney.

4. A person who issued the power of attorney must inform the person to whom the power of attorney was issued, and all third parties known to him before whom the power of attorney authorized representation, on the revocation of the power of attorney (see point 1 of this Article). The same responsibility is laid upon the legal successors of a person who issued a power of attorney terminated on the grounds provided by subpoints 4 and 6 of point 1 of this Article.

5. Rights and obligations arising as a result of the actions of a person to whom the power of attorney was issued before this person knew or should have known about its revocation shall remain effective for the person who issued the power of attorney and for his legal successors with respect to third persons. This rule shall not apply if the third person knew or should have known about the termination of the effect of the power of attorney.

6. In case of termination of a power of attorney, the person to whom the power of attorney was issued or his legal successors must surrender the power of attorney immediately.

## CHAPTER 9 TERMS. STATUTE OF LIMITATIONS

### 1. TERMS

#### Article 207. Definition of Terms

A term established by legislation, or by a transaction, or assigned by a court shall be defined either as a calendar date or as the expiration of a period of time measured by years, months, weeks, days, or hours.

A term may also be defined with reference to an event which must inevitably occur.

#### Article 208. Beginning of Term Defined as Period of Time

A term defined as a period of time shall begin on the next day after the calendar date or occurrence of the event which defines its beginning.

#### Article 209. End of Term Defined as Period of Time

1. A term measured in years shall expire in the corresponding month and date of the last year of the term.

Rules applicable to a term measured in months shall apply to a term defined as half a year.

2. Rules applicable to a term measured in months shall apply to a term measured in quarters of a year. In that case a quarter is considered to be equal to three months and the first quarter starts with the beginning of the year.

3. A term measured by months expires on the corresponding date of the last month of the term.

A term defined as half a month shall be regarded as a term measured by days and shall be considered equal to fifteen days.

In case the expiration of the term measured in months occurs in a month where there is no corresponding date, the term shall expire on the last day of the month.

4. A term measured by weeks shall expire on the corresponding day of the last week of the term.

5. If the last day of the term falls on a non-work day, the first following working day shall be considered the end of the term.

#### Article 210. Performance of Action on Last Day of Term

1. If a term is established for the performance of a certain action, the action must be performed by midnight of the last day of the term.

However if this action must be performed at an organization then the term expires at the hour when the corresponding operations close, in accordance with the fixed rules of the organization.

2. Written applications and notices submitted to post or telegraph before midnight of the last day of the term shall be considered timely.

## 2. STATUTE OF LIMITATIONS

#### Article 211. Concept of Statute of Limitations

The statute of limitations on lawsuits is the period of time for enforcement of a right by filing a lawsuit by a person whose right was violated.

#### Article 212. General Term of Statute of Limitation

The general term of statute of limitations shall be three years.

#### Article 213. Special Term of Statute of Limitations

1. For certain types of claims the law may establish a special term of statute of limitations which may be longer or shorter than the established general period of statute of limitations.

2. The rules of Articles 211, 214-220 of this Code shall also extend to special terms of statute of limitations, unless otherwise provided by law.

#### Article 214. Invalidity of Agreement to Change Term of Statute of Limitations

The term of statute of limitations and calculation thereof cannot be changed by agreement of the parties. This Code and other laws establishes the grounds for suspension or interruption of the statute of limitation.

#### Article 215. Application of Statute of Limitations

1. A court may review a claim for enforcement of a violated right irrespective of the expiration of the statute of limitations.

2. The court shall apply the statute of limitations only by the petition of a party to the dispute, filed prior to the court decision.

3. Expiration of the term of statute of limitations prior to filing a lawsuit provides the grounds for the court to dismiss a lawsuit, unless the court establishes that the reason for running the term of the statute of limitations is valid.

4. Reasons for which the running of statute of limitations was admitted may be found valid, if such reasons occurred within the last six months of the period of statute of limitations, and where the established period of statute of limitations is six months or less within this period.

5. Expiration of the term on a primary claim shall entail expiration of the term for any additional claims (penalty, pledge, surety, etc).

6. Changing of obligated parties shall not entail alteration of the term of statute of limitations and calculation thereof.

#### Article 216. Calculation of Term of Statute of Limitations

1. The procedure for calculation of the term of statute of limitations is determined by the general rules for calculation of periods provided by this Code.

2. The duration of the term of statute of limitations starts from the date when the person learns or should have learned of the violation of his right. The Code and other laws may establish exceptions to this rule.

3. For obligations with a defined term of performance, the statute of limitations commences upon expiration of the term of performance.

For obligations with no determined term of performance, or where the term of performance is determined at the moment of demand, the statute of limitations shall start as of the moment when the obligee acquires the right to demand the performance of the obligation, or, where the obligor is given a grace period for performance of such a demand, the statute of limitations shall start upon expiration of that period.

4. For regressive obligations the statute of limitations shall start from the moment of performance of the primary obligation.

#### Article 217. Suspension of Statute of Limitations

1. Duration of a statute of limitations may be suspended:

1) if a lawsuit could not be brought to court due to extraordinary circumstances, which could not be prevented in the given conditions (force majeure);

2) if the plaintiff or defendant are members of the Armed Forces, acting under the conditions of military situation;

3) due to postponement of time for performance of obligations, established by the Government and based on law (moratorium);

4) due to suspension of effect of the law which governs the respective relationship.

The statute of limitations on indemnification of harm inflicted to a citizen's life or health may be suspended in cases where a person submits an application for a pension or welfare benefits to the corresponding agency, pending the grant or denial of the pension or welfare benefit.

2. The statute of limitations shall be suspended if the circumstances indicated in this Article emerge or continue to exist within the last six months of the statute of limitations, or within the statute of limitations, if this term is six months or less.

3. The statute of limitations shall resume on the day when the circumstances which served the grounds for the suspension cease to exist. The remaining part of the statute of limitations shall be extended to six months, or to the length of the statute of limitations, if this terms is six months or less.

#### Article 218. Interruption of Statute of Limitations

A statute of limitations shall be interrupted by filing a lawsuit in compliance with the established procedure, or if an obligor commits an action demonstrating his acknowledgment of a debt or other obligation.

After the interruption, the statute of limitations shall start de novo; the time which passed prior to the interruption is not counted in the new term.

#### Article 219. Running of Statute of Limitations in Case of Dismissal of Lawsuit

Where the court dismisses a lawsuit, the statute of limitations which commenced prior to filing of the lawsuit shall continue in general course.

Where the court dismisses a lawsuit filed in a criminal case, the statute of limitations which commenced prior to the filing of the lawsuit shall be stayed pending entry into force of the sentence by which the lawsuit was dismissed.

The term in which the statute of limitations was stayed shall not be counted in the statute of limitations. In such case, if the remaining part of the term is less than six months, it shall be extended to six months.

Running of the Statute of Limitations ceases and starts de novo where the plaintiff acquires a right in compliance with the law, to file a new lawsuit on the same matter in connection with failure to execute judgement in the case.

#### Article 220. Performance of Obligation Upon Expiration of Statute of Limitations

A person who performs an obligation after expiration of the term of statute of limitations cannot demand reversal of performance, even though he did not know of the expiration of the term at the moment of performance.

#### Article 221. Claims Not Covered by Statute of Limitations

Statute of Limitations shall not apply to:

- 1) claims for protection of personal non-property rights and other intangible benefits, except as provided by law;
- 2) depositors' claims to banks for return of deposits;
- 3) claims for indemnification of damage inflicted to a citizen's life or health. However, claims filed after three years as of emergence of the right to such indemnification shall be granted for the past period not exceeding three years prior to filing of such a claim;
- 4) claims by owners and other possessors of property for elimination of any infringements of his rights, even though these infringements are not combined with dispossession;
- 5) claims by property owners or other persons for invalidation of acts of organs of state administration or organs of local self-government which infringe that persons' rights of possession, use and disposal of property belonging to them; and
- 6) where provided by law - to other claims.

## SECTION II OWNERSHIP RIGHT AND OTHER SUBSTANTIVE RIGHTS

### CHAPTER 10 GENERAL PROVISIONS

#### Article 222. Definition and Content of Ownership Right

1. The ownership right is a right of an individual to possess, enjoy and dispose of property at his own discretion, recognized and protected by legislative acts.

2. The owner is given the right to possess, enjoy, and dispose of his property.

The right of possession is the legally secured opportunity to exercise an actual possession of property.

The right of enjoyment is a legally secured opportunity to extract useful natural qualities of the property, and to gain revenue from it. The revenue can be manifested by income, accession, fruit, increase of animals, and other forms.

The right of disposition is a legally secured opportunity to determine the future legal status of the property.

3. An owner is entitled to take any actions related to his property at his own discretion, which actions do not contradict the legislation and do not infringe other persons' rights and interests protected by law, including the right to transfer his own property to the ownership of other persons, to transfer the authority of possession, enjoyment and disposition of property to another person while remaining the owner, to pledge the property and otherwise encumber it, or to dispose of the property in other ways.

4. The ownership right is permanent. The ownership right can be compulsorily terminated only upon the grounds provided in this Code.

5. Unless otherwise provided by law or contract, an owner bears the burden of maintenance of his property, and may not shift this burden to a third person on a unilateral basis.

6. An owner bears the risk of accidental loss or accidental damage to property unless otherwise provided by law or contract.

#### Article 223. Subjects of Ownership Rights

1. Property may be under the ownership of citizens and legal entities, as well as under ownership of the state. Private and state property shall be recognized.

2. The particularities of acquisition and termination of the right of ownership, holding, enjoyment and disposition of the property, can be established only by law, subject to whether the property is owned by a citizen, legal entity, or the state.

The law shall define types of property which may be owned only by the state.

3. The rights of owners shall be protected equally.

#### Article 224. Ownership Rights of Citizens and Non-State Legal Entities

1. Any property may be owned by citizens and non-state legal entities, except for individual types of property that may not be owned by citizens and non-state legal entities, as provided by law.

2. The amount and value of property owned by citizens and non-state legal entities shall not be restricted, except in cases when such restrictions had been established by law for the purposes provided by point 2 of Article 3 of this Code.

3. Commercial and non-commercial organizations, except state-owned and municipal enterprises, as well as institutions funded by the owner, shall own the property that had been transferred to them by founders (participants, members) as investments, as well as the property which had been acquired by these legal entities on other grounds.

4. With respect to property belonging to an organization by the right of ownership, founders (participants, members) of a commercial organization shall have rights of obligation, as defined in the company's founding documents.

5. Public associations and religious organizations, and other public foundations shall own the property acquired by them, and can use it only to achieve the goals provided in the founding documents. The founders (participants, members) of such organizations shall lose the right of ownership on property transferred to the ownership of the organizations. In the event of liquidation, such property of the organization which remains after the recovery by obligees of their claims, shall be used for the purposes stated in the founding documents.

#### Article 225. The Right of State Property

1. The state may have ownership over any property necessary for implementation of its functions.

2. State property shall consist of the state treasury, and property attached to state-owned republican legal entities in accordance with legislative acts.

Money from the republican budget, gold stock, objects of exclusive state property, including lands, subsoils, water, air space, forests, flora and fauna, all natural resources, and other state property not attached to any state-owned legal entities, shall constitute the state treasury of the Kyrgyz Republic.

3. Property owned by the state is assigned to state enterprises by virtue of the right of business conduct and operative management, and to institutions by virtue of the right of operative management (Articles 230 and 231).

#### Article 226. Ownership Rights on Land, Subsoil and Other Natural Resources

Ownership rights on land, subsoil and other natural resources shall be determined by the Constitution of the Kyrgyz Republic, the Land Code and other legislation.

#### Article 227. Communal Ownership Right

1. A local community can own any property necessary for performance of its functions (communal ownership).

2. Communal ownership consists of the treasury of the local community and of property attached thereto by organs of local self-government and other legal entities.

Moneys from the budget of the local community and other communal property not attached to legal entities of the local community constitute the treasury of the local community.

3. Disposal and management of communal property is performed by an organ of self-government, which has the rights of a legal entity.

4. Property in communal ownership is attached to communal enterprises by the right of economic management, to institutions, by the right of operative management (Articles 230 and 231).

#### Article 228. Substantive Rights of Persons other than Owners

1. Along with ownership rights, the following rights shall be substantive rights:
  - right of economic management (Article 229);
  - right of operative management (Article 231);
  - right of a life-long inherited possession of a land plot (Article 234);
  - right of termless (permanent) use of a land plot (Article 236);
  - right of restricted use of other person's real estate (easement) (Article 242);
  - other substantive rights to the property of persons other than owners of this property in cases provided by law.
2. A person other than owner shall exercise his rights of possession and use of property within the limits established by the law, or by a contract entered into with the owner.
3. If not otherwise provided by law or by contract, a possessor of the property other than owner, may not dispose of his property and to appropriate the fruit, production and revenue derived from use of such property.
4. The transfer of ownership right to the property to another person shall not be grounds for termination of other substantive rights to this property.
5. Substantive rights of the persons other than owner shall be protected against violation of any person, according to procedures provided by Article 294 of this Code.

#### Article 229. Privatization of State Property

State-owned property can be transferred into private ownership by privatization thereof in cases and in compliance with procedures provided by the laws on privatization of state property.

#### Article 230. The Right of Economic Management

1. State-owned or communal enterprises which owns property on the right of economic management shall possess, enjoy and dispose of this property within the limits determined by this Code.
2. In accordance with the law, the owner of property under economic management shall resolve issues of establishment of the enterprise, determination of the subject and objectives of its activities, its restructuring and liquidation, shall appoint the director (leader of the enterprise), and exercise control over the proper use and maintenance of the property owned by the enterprise.

The owner shall be entitled to a part of the profit received from use of the property under economic management of the enterprise created by him.
3. The enterprise may not sell, lease or pledge immovable property owned by it by virtue of the right of economic management, contribute it as an investment (share) in the authorized capital of business companies and partnerships, or otherwise dispose of it without the owner's consent.

Except in cases established by legislation, the enterprise shall independently dispose of other property owned by virtue of economic management.

#### Article 231. The Right of Operative Management

1. If property is allocated to an institution on the right of operative management, the institution shall exercise the ownership right in respect to this property, to the extent of its enjoyment and disposal of this property within limits established by the law, and in accordance with the goals of its activities, and with the owner's directives and the designated purpose of the property.
2. The owner of property allocated to an institution on the right of operative management shall be entitled to take excess property, or property which is not used properly, and to dispose of it at his own discretion.
3. The institution shall be entitled to alienate or otherwise to dispose of the allocated property with the owner's consent. The procedure for distribution of the revenues of this institution shall be determined by the owner of the property.
4. The institution shall not be entitled to alienate or otherwise to dispose of the allocated property or of property acquired through funds allocated to it under the budget estimate. If in accordance with founding documents, the institution is granted the right to engage in revenue producing activities, the revenues derived from such activities, and the property acquired at the expense of such revenues, shall be directed toward independent management of the institution and shall be accounted for on a separate balance sheet.

#### Article 232. Use of Widely Accessible Objects of State and Communal Ownership

Citizens have right openly to use forests, reservoirs, roads and state-owned and municipal objects, which are widely accessible due to custom and developed practice.

The use of such objects can be restricted in compliance with legislation for the purpose of enforcement of public order and security, people' health and environment protection.

#### Article 233. Rights to Land Plots of Persons other than Owners of Land Plots

1. Land plots, and immovable property situated on such plots, can be transferred by their owners to other persons for a life-time inheritable possession, and for permanent or temporary enjoyment, including leasing.

2. A person other than owner of a land plot shall exercise his rights to possess and use the plot on the conditions and within the limits established by law or by contract with the owner.

3. If not otherwise provided by law or by contract, a possessor of a land plot other than the owner may not dispose of such land plot.

#### Article 234. The Right of Lifetime Inheritable Possession of Land Plot

The right of life-time inheritable possession of a land plot under state ownership shall be acquired by citizens on the grounds and in the manner provided by land legislation.

#### Article 235. Possession and Use of Land Plot by Virtue of Right of Life-Time Inheritable Possession

1. A citizen who has a right of life-time inheritable possession (possessor of a land plot) shall have the right of possession and use of the land plot transferred by inheritance.

2. If not otherwise stated in the conditions for the use of a land plot as provided by the law, the possessor of the land plot may erect a building, do construction on it and create other immovable property in which an ownership right may be acquired.

3. The possessor of a land plot may lease it out or transfer for gratuitous term use to other persons.

A sale of a land plot and performance of any other transactions by its possessor which entail or may entail alienation of the land plot shall not be allowed.

#### Article 236. Right of Termless (Permanent) Use of Land Plot

1. The right of termless (permanent) use of a land plot under state ownership may be granted to citizens and legal entities, based on the resolution of a body of state power, which is authorized to grant such land plots for the purposes of such enjoyment.

2. In case of the restructuring of a legal entity, its right of permanent enjoyment of a land plot shall be transferred in accordance with the procedure for succession.

#### Article 237. Possession and Enjoyment of Land on the Right of Termless (Permanent) Use

1. A person who has been granted a land plot for permanent use shall exercises the permanent possession and enjoyment of such plot within the limits established by legislation and by the deed on the granting of the plot for use.

2. Unless otherwise provided by the law, a person who has been granted a plot for permanent use may use the plot for the purposes it was granted for, including erection or creation in other ways of buildings, constructions and other immovable property. Buildings, constructions, and other immovable property created by the person for himself, shall be his property.

3. A person who had been granted a land plot for permanent use, may lease it, or transfer it for gratuitous term use, only with the consent of the owner of the plot.

#### Article 238. Term Use of Land Plot Based on Lease Conditions

The right of term use of a land plot based on lease conditions, shall be acquired and exercised by citizens and legal entities in accordance with the procedures and conditions provided by the land legislation.

Article 239. The Right of Owner of Immovable Property to Use Land  
Plot

1. The owner of a building, construction and other immovable property located on a land plot which belongs to another person, shall have the right to use the part of the land plot allocated by the land plot owner for such immovable property.

Unless otherwise arises from the law, the deed granting a land plot which is a part of state or communal ownership, or a contract, the owner of the building or construction shall have a right of permanent use of that part of the land plot where such immovable property is located.

2. Upon transfer of ownership right to immovable property to another person, the transferee shall acquire the right to use the corresponding part of the land plot on the same conditions, and in the same volume, as the previous owner of the immovable property.

The transfer of ownership right to a land plot shall not serve as grounds for termination or amendment of the right of the owner of immovable property to use such land plot.

3. The owner of immovable property shall have a right to possess, enjoy and dispose of this property at his discretion, including demolition of the respective buildings and constructions, to the extent that it does not contradict the conditions regarding use of this plot, as established by law or by contract.

Article 240. Consequences of Forfeiture of Right to Use Land Plot  
by Owner of Immovable Property

1. Upon termination of the right to use a land plot granted to the owner of the immovable property located on such land plot (Article 238), the right to the immovable property left on the land plot by its owner shall be determined according to the agreement between the owner of the land plot and the owner of the corresponding immovable property.

2. In the absence of, or failure to arrive at, the agreement specified in point 1 of this Article, the consequences of termination of the right to use the land plot shall be determined by court, upon the demand of the owner of the land plot or of the owner of the immovable property.

The owner of the land plot may demand in court that upon termination of the right to use the land plot, the owner of the immovable property should vacate the land plot of this property and restore the land plot to its initial condition.

In cases when demolition of the building or construction located on the land plot is prohibited by law (residential houses, historical and cultural monuments, etc.) or cannot be exercised due to the obvious excess of the value of a building or construction in comparison to the value of the land plot allocated for it, and considering the grounds for termination of the right to use the land plot and upon the presentation of the appropriate claims by the parties, the court may recognize the right of the immovable property owner to acquire the land plot on which this property is located into his ownership, or the land plot owner's right for acquisition of the remaining property, or the right of the owner to establish conditions for use of the land plot by the immovable property owner for a new term.

Article 241. Transfer of Right for Land Plot In Case of Alienation  
of Buildings or Constructions Located Thereon

In case of transfer of an ownership right to a building or construction possessed by the owner of the land plot where this building or construction is located, the rights to the land plot determined by the agreement of the parties shall be transferred to the acquirer.

Unless otherwise provided by a contract on alienation of a building or construction, the acquirer shall obtain the right of ownership for that part of the land plot which is occupied by the building or construction, and is necessary for disposition of the plot.

Article 242. Right of Restricted Use of Other Person's Property  
(Easement)

1. The owner of immovable property (land plot, other immovable property) may claim for the right of restricted use (easement) from the owner of a neighboring land plot, and in cases of necessity from the owner of another land plot (hereinafter - neighboring plot).

An easement can be established for the purpose of providing access and passage through a neighboring plot, for laying and operation of electric transmission lines, communications and pipelines, providing water supply and land improvement, as well as other needs of the owner of real property, which cannot be ensured without establishment of the easement.

2. The encumbrance of a land plot with an easement shall not deprive the land plot owner of the right to possess, enjoy and dispose of this plot.

3. An easement shall be established by agreement between the person demanding the establishment of an easement and the neighboring plot owner, and shall be subject to registration as provided by the procedure for registering immovable property. In case of failure to reach an agreement, the dispute on establishment and terms of easement shall be resolved by the court, upon the motion of the person demanding establishment of the easement.

4. In compliance with terms and procedure, provided by points 1 and 3 of this Article, an easement can be established in the interests and by the demand of the person to whom a plot had been conferred with the right of lifetime inheritable possession or a right of permanent use.

5. The owner of a land plot encumbered by an easement may claim commensurate payment for use of the plot from persons in whose interests this easement had been established.

6. With respect to Articles 1-5 of this Article, buildings, constructions and other immovable property can be encumbered with an easement, if restricted use of such property is necessary irrespective of any relation to the use of the land plot.

#### Article 243. Retention of Easement upon Transfer of Rights to Immovable Property

1. An easement shall be retained in the event of the transfer of rights for immovable property encumbered by such easement to another person.

2. An easement cannot be an independent object of purchase, sale, or pledge and cannot in any way be transferred to persons other than owners of the immovable property for the use of which the easement was established.

#### Article 244. Termination of Easement

1. By the demand of the owner of a land plot encumbered by easement, such easement can be terminated due to a cessation of the reasons for which such easement had been established.

2. In cases when immovable property possessed by a citizen or legal entity cannot, owing to an encumbrance by virtue of an easement, be used in accordance with the designated purpose of the property, the owner may sue in court for the termination of the encumbrance on this property.

### CHAPTER 11 OWNERSHIP RIGHT AND OTHER MATERIAL RIGHTS TO RESIDENTIAL PREMISES

#### Article 245. Ownership of Residential House or Apartment

1. An owner shall exercise the right of possession, enjoyment and disposition of residential premises which belong to him in accordance with the designated purpose of such premises.

2. Residential premises shall be used for housing citizens.

A citizen who is an owner of residential premises can use it for his personal habitation apart from, or with, his family and other relatives.

Residential premises owned by citizens, legal entities or the state, can be leased by the owners to citizens or legal entities for habitation based on contract.

3. Location of industrial enterprises in residential premises shall not be allowed. Owners shall be allowed to locate enterprises, institutions, organizations and their subdivisions in their residential premises, after these premises are converted into non-residential premises. The conversion of residential premises into non-residential premises shall be exercised in accordance with the procedure determined by Housing Legislation.

#### Article 246. Apartment as Object of Ownership Right

Together with his premises used as an apartment, and the elements of household installed in these premises, the owner of the apartment in a multi-residence building also possesses a share in the ownership right for the common property of the building (Article 247).

#### Article 247. Common Property of Owners of Apartments in Multi-Apartment Building

1. The owners of apartments in a bloc of apartments possess as common shared property the basic constructions of the house, any mechanical, electrical, sanitary - sewerage equipment and other construction outside and within the apartments that serve more than one apartment.

The size of shares of the owners of apartments in the right of ownership for the common property of the bloc of apartments and the order of allocation of costs on maintenance and preservation of this property between the owners shall be defined in accordance with the housing legislation.

2. No owner of the apartments shall have a right to alienate his share of the ownership right to the common property of the bloc of apartments, or to take any other actions that lead to a transfer of this share apart from the ownership right to the apartments.

#### Article 248. Partnership of Owners of Housing (Condominium)

1. Owners of apartments may establish a partnership of apartments (housing) owners to arrange for utilization of the building, and to provide the conditions of use of the apartments and their common property.

2. A partnership of housing owners is a non-commercial organization, established and acting in accordance with legislation.

#### Article 249. Rights of Family Members of Owners of Residential Premises

1. Family members of the owner who reside in the residential premises belonging to the latter shall have a right to use the residential premises under the conditions provided by the housing legislation.

2. Any assignment of the ownership right to the dwelling house or apartments to another person shall be the ground for termination of the right of the former owner's family members to use the residential premises unless otherwise provided by the housing legislation.

#### Article 250. Termination of Ownership Right to Mismanaged Residential Premises

1. If the owner of the residential premises uses them for the wrong purpose, or systematically or considerably violates the rights and interests of the neighbors, or mismanages the residential premises, allowing for its destruction, the respective bodies or persons whose rights are violated may give notice to the owner regarding the necessity of eliminating the violations and if such violations entail the destruction of the premises, also to define an appropriate period of time during which the owner must repair the premises.

2. If the owner, even after notice, continues to violate the rights and interests of the neighbors or to use the residential premises for the wrong purposes, or fails to do required repairs without valid reason, the court may, upon an action of the relevant body or person whose rights are violated, order the sale of these residential premises through a public auction, with the proceeds to be distributed to the owner, less the costs of judgement enforcement.

### CHAPTER 12 ACQUISITION OF OWNERSHIP RIGHT

#### Article 251. Basis for Acquisition of Ownership Right

1. The ownership right to property may be acquired on the basis of a contract on purchase - and-sale, exchange, gift or any other transaction on alienation of such property.

In case of an individual's death, the ownership right to the property shall be inherited by another person in accordance with the will or the law.

In case of restructuring of a legal entity, the ownership right to the property that had belonged to this legal entity shall be transferred to the legal entities which are the successors of the restructured legal entity (Article 93).

2. The ownership right to a new object produced or created by a person for himself in accordance with legislation shall be acquired by such person.

The ownership right to the fruits, production, or revenues obtained as a result of utilization of property shall be acquired on the basis of the principles provided by Article 29 of this Code.

3. In cases and according to the procedures stipulated by this Code, any person may acquire an ownership right to the property that is not owned by any owner, to property where the owner is unknown, or to property which the owner has abandoned, or to which he has lost the ownership right owing to other grounds.

4. A member of a housing, housing-constructing, dacha, garage or other consumer type cooperative, other persons that have the right to accumulate shares, or that have paid their share for the apartments, dacha, garage, or other premises in full, or other persons to whom premises have been granted by the cooperative for utilization, acquire the ownership right to said property.

#### Article 252. Establishment of Ownership Right to Newly-Created Immovable Property

The ownership right to a building, installations and other newly-created real estate subject to state registration shall be established from the moment of such registration.

#### Article 253. Processing

1. Unless otherwise provided by a contract, the ownership right to any new movable thing manufactured by a person by processing materials he does not own, shall be acquired by the owner of the materials.

However, in cases when the cost of processing substantially exceeds the cost of materials, the ownership right to a new thing shall be acquired by the person who has in good faith undertaken the processing for himself.

2. Unless otherwise provided by contract, the owner of materials who has acquired the ownership right to a thing manufactured from these materials, must reimburse the cost of processing to the person who has performed it, and should this person acquire the ownership right to the new thing, the latter must respectively reimburse the cost of materials to the owner thereof.

3. An owner of materials who has forfeited them as a result of careless actions of a person who had performed processing, may claim the transfer of the new thing into his ownership and indemnification of inflicted losses.

#### Article 254. Acquisition of Ownership to Things Generally Accessible for Collection

In cases when, in accordance with the law, or with the general permission given by an owner, or with local customs, fishing, the collection of berries, or the collection or extraction of other generally accessible things is allowed in woods, reservoirs, or other places, the ownership right to such things shall be acquired by the person who has collected or extracted them.

#### Article 255. Time of Commencement of Ownership Right with Acquirer under Contract

1. The ownership right of an acquirer of a thing under a contract shall arise from the moment of transfer thereof, unless otherwise provided by the legislation or the contract.

2. In cases where the contract on alienation of a property is subject to state registration, the ownership right shall arise from the moment of its registration.

#### Article 256. Transfer of Thing

1. A delivery of a thing to a new owner, as well as surrender to the carrier for transporting to an acquirer, or surrender to the post office for shipping to an acquirer of things alienated without an obligation to deliver, shall be recognized as a transfer.

A thing shall be considered delivered to the acquirer from the moment of its actual arrival into the possession of the acquirer or of any person designated by him.

2. In cases where a thing has already been in the possession of the acquirer by the moment of entering into the contract on alienation thereof, the thing shall be considered transferred to him commencing from that moment.

3. Transfer of a bill of lading or any other document for the forwarding of goods shall be equal to a transfer of a thing.

#### Article 257. Ownerless Things

1. Ownerless thing is a thing which has no owner or the owner of which is unknown or the owner of which has given up the ownership right to these things.

2. Unless excluded by the rules of this Code on acquisition of the ownership right to the abandoned property (Article 258), on a finding (Article 259), on stray animals (Article 262) and on treasure (Article 261), the ownership right to such ownerless property may be acquired by virtue of prescriptive acquisition (Article 265).

3. Ownerless immovable things shall be registered by the body responsible for the state registration of immovable property on the basis of a statement of the relevant state agency.

Upon expiration of three years period from the date of registration of ownerless immovable thing, the body authorized to govern state property may apply to a court and claim acknowledgment of this thing as transferred into state ownership.

Ownerless immovable thing which was not acknowledged by a court as transferred into state ownership may be reacquired by the owner who had abandoned it to own, use and dispose of, or it may be acquired into ownership by virtue of prescriptive acquisition (Article 265).

#### Article 258. Abandoned Movable Things

1. Movable things abandoned by its owner or in any other way left by him (abandoned things) with the purpose of giving up his ownership right (point 2 Article 280) may be appropriated by another person according to the procedures determined by point 2 of this Article.

2. Any person who owns, manages or uses a land plot, water reservoir or any other object where abandoned property is found, and the value of such abandoned property is obviously less than 5 minimal salaries, or such abandoned property consists of abandoned scrap-iron, industrial waste, cinders, lost floated timber, waste of extraction of minerals, etc., may take possession of such things, and start using them or take other actions that certify to his appropriation of such things.

Other abandoned things shall become the property of the person who has obtained them for possession, in case when they are acknowledged ownerless by the court on the petition of that person.

#### Article 259. Finding

1. A finder of a lost thing must immediately inform the person who has lost the thing or some other person that he knows has the right to receive the thing, and to return the found thing to such person.

If a thing has been found within some premises or some vehicle, it shall be subject to surrender to the person who represents the owner of the premises or the vehicle. The person to whom the thing has been surrendered, shall acquire the rights and bear the obligations of the person who has found the object.

2. If the identity or location of the person who has the right to demand the return of the found thing are unknown, the finder of the thing must inform the agency of internal affairs or the local self-governance agency about his finding.

3. The finder of an object shall have the right to keep it at his residence or hand it over for storage to the militia, or to the relevant government agency or the local self-governance agency.

4. The finder of a thing shall bear the responsibility for its forfeiture or damage only in the case of intentional or gross negligence, and only to the extent of the value of the thing.

5. If within three months after informing the militia or the local self-governance agency, the person authorized to receive the thing has not been identified and has not claimed his right to the thing from the person who has found the thing or from the militia or local self-governance agency, then the finder of the thing shall acquire the ownership right to the thing.

If the finder of the thing refuses to acquire the thing into his possession, it shall be taken into communal ownership.

#### Article 260. Reimbursement of Expenses Associated with Finding and Remuneration to Founder

1. A person who found and returned a thing to the person authorized to receive it shall be entitled to reimbursement of necessary expenses associated with storage, surrender or sale of the thing, as well as of expenses to find the person authorized to receive the thing, from such person, and in case of transfer of the thing into state ownership, from the relevant state body.

2. A finder shall have the right to demand a remuneration of up to twenty percent of the value of a found object from the person authorized to receive such object.

If a found document or other thing has value only for the person authorized to receive the thing, then the amount of the remuneration shall be defined by agreement with such person and, in case of failure to reach an agreement, by a court. In a case when a person authorized to demand the return of a found thing publicly promised a remuneration for the found thing, the remuneration shall be paid pursuant to the conditions of the public promise.

The finder of a thing shall have a right to retain the found thing until the remuneration is paid (Article 342), except for documents which may be used only by the person authorized to demand return thereof.

A right to remuneration shall not arise if the founder of the thing failed to declare the finding or else tried to conceal it.

#### Article 261. Treasure

1. Treasure, i.e., currency or any other valuables buried in the earth or hidden in any other way, whose owner cannot be identified or has lost any ownership right thereon by virtue of law, shall be owned in equal portions by those who have found the treasure and by the person who possesses the land plot, buildings, etc., within which, or in which the treasure was hidden, unless otherwise agreed upon between them. In case the treasure was found by someone that carried out excavating or searching for the valuables without consent from the owner of the land plot or any other property where the treasure was buried, this treasure must be given to the owner of the land plot or of any other property where the treasure was found.

2. In the event of finding a treasure referred to memorials of history or culture, it shall be subject to transfer into state ownership. In this case the owner of the land plot or any property within which the treasure has been found, and the finder of the treasure, shall be entitled to remuneration in the amount of 50% of the value of the treasure. The remuneration shall be shared by such people according to the rules provided by item 1 of this Article.

A finder of treasure referred to the memorials of history or culture may retain this property until payment of remuneration (Article 342).

#### Article 262. Stray Animals

1. Any one who has caught stray cattle or any stray animals must return them to the owner, and if the owner of the animals or his location is unknown, the finder must within three days from the moment of capture of such animals inform the organ of internal affairs or a local self-governance agency about the animals, and they will take measures to search for the owner.

2. During the time of the search for the owner of the animals, the animals may be kept and used by the person that has found them, or given to another person that has the required facilities to keep and use the animals. If requested by the person that has captured the stray animals, the organ of internal affairs or local self-governance agency may search for the person that has the facilities required to keep and use the animals and take the animals to such a person.

3. Any person that has caught any stray animals and a person that has received the animals to keep and to use shall be obliged to keep them properly and shall be liable for the death or injury of animals to the extent of the value of the animals.

#### Article 263. Acquisition of Ownership Right to Stray Animals

1. If the owner has not been found and has not claimed rights to stray cattle within three months of filling out a notice about the capture of stray cattle, the ownership right to these animals shall be transferred to the person who has possessed the animals for keeping and using.

In case such a person declines to own the animals that he has kept, the animals shall be taken into communal ownership and shall be used according to the procedures determined by the local self-governance agency.

2. In case the former owner of animals appears after they have been transferred into the ownership of another person, and in case there is evidence that the animals still have an affection to the ex-owner, or evidence of cruel or improper treatment of the animals on the part of the new owner, the former owner shall have a right to demand that the animals should be returned to him on conditions determined by an agreement with the new owner, or by court in the event the agreement is not achieved.

#### Article 264. Reimbursement of Expenses for Maintenance of Stray Animals and Remuneration for Finding Them

1. In the event any stray domestic animals are returned to the owner, the person who has captured the animals and the person who has been keeping and using the animals, shall be entitled to reimbursement of the necessary expenses related to the maintenance of the animals, crediting the benefits derived from utilization of the animals.

2. Any person who has captured stray domestic animals shall be entitled to request a remuneration from the owner in accordance with point 2 of Article 259 of this Code.

#### Article 265. Positive Prescription

1. An individual or a legal entity who is not the owner of the property but who has conscientiously, openly and continuously possessed certain immovable property as his own for 15 years and any other property for 5 years, will acquire rights of ownership on the property (positive prescription).

The ownership right to real estate and other property which a person has acquired as a result of positive prescription and which is subject to state registration, shall belong to the person as of the moment of such registration.

2. Prior to the time that a person who has been possessing property as his own has acquired the ownership right to the property by virtue of positive prescription, he has a right to protect his possessions against third parties other than the owners of the property, as well as against those who are not entitled to own property owing to other grounds provided by law or by agreement.

3. A person who refers to prescription of possession may add to the time of his possession the entire time during which the property was in the possession of the person of whom the current possessor is the legal successor.

4. The running of the time period for positive prescription concerning objects which may be demanded from the person possessing them according to Articles 288-290, 293 of the present code, begins not earlier than the expiration of the limitations period for commencing a lawsuit regarding such demands.

## CHAPTER 13 RIGHT OF COMMON PROPERTY

### Article 266. The Concepts and Grounds for the Emergence of Common Property

1. Property which belongs to two or several people belongs to them with the right of common ownership.

2. Property may be held in common ownership in such a way that the share of each of the owners in the ownership right is either defined (shared ownership) or not defined (joint ownership).

3. Common ownership of property is a shared ownership, except in cases when the law permits the establishment of joint ownership to this property.

4. Common ownership emerges when two or several people assume ownership of property which cannot be divided without changing the purpose of the property (indivisible things), or when a division of the property is prohibited by virtue of law.

Common ownership of divisible property may arise in cases provided by law or by contract.

5. Common property of people may achieve the status of shared ownership by an agreement of the participants in joint property, and in case of a failure to reach an agreement, by a decision of the court.

### Article 267. Definition of the Shares in the Right of a Shared Ownership

1. If the size of the share of each participant in a shared ownership cannot be defined on the basis of the law and is not defined by an agreement among all of the participants, the shares are considered equal.

2. An agreement among all participants in a shared ownership may specify the procedures for determining and changing their shares depending on the contribution of each of them in the development, acquisition and increase of the common property.

3. In the event that a participant in a shared ownership has at his own expense made improvements to the shared property which, owing to the way the property is used, cannot be separated from the property, that participant has a right to a respective increase of his share in the right to the common property.

Improvements to the common property which are separable are owned by the participant who has made such improvements, unless otherwise provided by an agreement of the participants of the shared ownership.

### Article 268. Consequences of Building on, Extension or Reconstruction of Dwelling or Another Construction in Common Shared Ownership

If an owner, in accordance with established rules, increases the space of the dwelling or another construction in shared ownership by extension, building on, or reconstruction at his own expense, then he may demand as his share of the common ownership respective changes to the dwelling or other construction, the order for the use of dwelling in it is subject to the respective changes.

### Article 269. Possessing, Utilization and Management of Property

## under Shared Ownership

1. Possession and utilization of property under shared ownership will be established by an agreement of all the participants of such property, and in case such an agreement cannot be reached, according to the procedures established by the court.

Any participant of the shared ownership that has at his own expense made improvements to this property, which, owing to the way the shared property is used, cannot be separated from the property, shall have a right to a respective increase in his share of the right on the common property.

Separable improvements of the common property, unless otherwise stipulated by an agreement among the participants of the shared ownership, shall be owned by the participant who has made such improvements.

2. Property under the shared ownership shall be managed upon an agreement of all the participants (partners). Any participant of the shared ownership shall have a right to, at his own discretion, sell, present, devise, pledge or dispose of it any other way, observing the rules established by Article 270 of this Code.

3. Each participant of the shared ownership must participate in the payment of taxes, fees and other payments for the shared ownership, as well as the costs for its maintenance and safekeeping, unless the law or the contract indicates otherwise.

4. Expenses which are not necessary and were spent by one of the owners without the consent of the rest of the owners shall be borne by that owner. Any disputes arising hereunder shall be solved in court.

5. Fruits, products and revenues from use of property under shared ownership will be taken into common possession. Further distribution of fruits, products and revenues will be made among the participants of the shared ownership pro rata to their shares, unless otherwise stipulated by an agreement between them.

### Article 270. Preferential Right to Buy Share in Common Ownership Right

1. In case of sale of a share in the common ownership right to an outside person, other participants of the shared ownership shall have a preferential right to purchase the share offered at the sale price and on other equal terms, except in cases of sale through open auction.

In case there is not agreement by all of the participants in a shared ownership that a share should be sold at public auction, public auctions for the sale of a share in the right of common ownership may be held in cases provided in point 2 of Article 274 of this Code and in other cases provided by legislation.

2. A seller of a share is bound to provide written notice to other participants in a shared ownership about his intention to sell his share to a stranger, and such notice will indicate price and other selling terms. If other participants in the shared ownership refuse to buy the share, or else fail to purchase a share in the ownership right on immovable property within a month, and with respect to other property within 10 days after notification, a seller has a right to sell his share to any person.

3. If, during a share sale, a breach of the preferential right occurs, any other participant in the shared ownership shall have a right to file a claim in court within three months, in order to have the buyer's rights and liabilities transferred to him.

4. No cession of a preferential right to another person shall be allowed.

5. The rules of this Article shall also apply in the case of a share's alienation under an exchange contract.

### Article 271. Division of Property in Shared Ownership and Partition of Share from Property

1. Property in shared ownership may be divided among its participants by agreement between them.

2. Any participant of the shared ownership shall have a right to demand the partition of his share out of the common property.

3. In cases where shared ownership participants fail to reach an agreement on the method and terms of division of the shared property, or on a partition of a participant's share, a participant in a shared ownership shall have the right to demand the partition in kind of his share out of the common property.

If an in-kind share partition is not allowed by the law, or is impossible without disproportionate damage to the property existing within the shared ownership, a withdrawing owner shall have a right to receive a disbursement of his share value from the other shared ownership participants.

4. In the event of a disproportionate allocation of in kind shared property to a shared ownership participant, the imbalance of allocation shall be removed by appropriate monetary or other compensation.

Disbursement by other owners of compensation to a participant in a shared ownership, rather than in-kind partition of his share, must take place with his consent. In cases where the share of an owner is inessential, or it cannot actually be

partitioned, and the owner does not have a substantial interest in the use of the common property, a court may, without consent of such owner, obligate him to deliver his share to the other participants in exchange for compensation to be paid out to him.

5. If an owner receives compensation in compliance with points 3 and 4 of this Article, he will forfeit the right for a share in the common property.

6. A common ownership share shall pass to the acquirer under a contract as of the moment of the contract's conclusion, unless otherwise stipulated by the parties' agreement. The moment of delivery of a joint ownership share under a contract which is subject to state registration, shall be determined in compliance with point 2 of Article 254 of this Code.

#### Article 272. Possession, Utilization and Disposition of the Property in Joint Ownership

1. Participants of a joint ownership shall jointly own and use common property, unless otherwise stipulated by an agreement between them.

2. Disposal of property which is in joint ownership shall be performed with the consent of all of the participants, which is inferred notwithstanding which of the participants has entered into a transaction on the disposal of the property.

3. Each participant of the joint ownership shall have a right to enter into transactions regarding the disposal of the common property, unless otherwise provided in the agreement of the participants. In the event that one of the joint ownership participants entered into a transaction related to the disposal of common property, that transaction may be voided upon the claim of the remaining participants that the participant who had entered the transaction lacked authority to do so, but only if it is proved that the other party who participated in the transaction knew or should have known beforehand about the lack of authority (Article 195).

4. The rule of this Article shall be applied in cases, unless otherwise provided by this Code, or by other laws concerning individual types of joint ownership.

#### Article 273. Division of Property in Joint Ownership and Partition of Share from Property

1. Division of common property between participants of a joint ownership, as well as the partition of an individual share, may be carried out only under the condition that the share of each participant in the common ownership has been previously defined.

2. Unless otherwise provided by legislation or by agreement between the participants, if common property is being divided or a share partitioned, their shares shall be considered equal.

3. The grounds and procedures for the division and share partition of common property shall be provided by the rules of Article 271 of this Code, to the extent that other rules for special types of joint ownership are not provided by this Code, or by other laws, and do not follow from the essence of the relationship between the participants of the joint ownership.

#### Article 274. Recovery Against Share in Common Property

1. An obligee of a participant of shared or joint ownership shall have a right to demand partition of the obligor's share in the common property and recovery against it in the event the participant's other property is insufficient.

2. If, in such cases, an in-kind partition of a share is impossible, or if other participants of the shared or joint ownership object to it, the obligee shall have a right to demand from the obligor that he have his share in the common property sold to the other participants at a price commensurate to the market value of that share, and to use the proceeds collected from the sale to clear his debt.

In case the other participants of the common ownership refuse to acquire the debtor's share, the obligee shall have a right to sue in court for recovery against the share the obligor has in the common ownership.

#### Article 275. Common Property of Spouses

1. Property earned by spouses during their marriage shall be their joint property, unless the law or a contract between them provides otherwise.

2. Property that belonged to spouses before they were married, as well as property that they acquired as a gift, or inherited during their marriage, as well as another property defined by law, shall constitute the property of each of them.

Items of individual use, such as clothes, footwear, jewelry and other items provided in the Marriage and Family Law, though purchased during the marriage at the expense of common funds, shall be recognized the property of the spouse who uses them.

The property of each of the spouses may be recognized as their joint property if it is ascertained that during the marriage investments which considerably increased the value of such property (overhaul repair, reconstruction, refurbishment, etc.), were made at the expense of their joint funds.

3. Under obligations of one of the spouses, the recovery may be imposed against such a property that is owned by him, as well as against his share in the common property, that would be due to him after division of family property.

4. If division of each spouse's share in their common property occurs, the rules to determine each spouse's share, as well the procedures for the division, shall be stipulated by the legislation on marriage and the family.

#### Article 276. Property of Peasant (Farming) Enterprise

1. The property of a peasant (farming) enterprise belongs to its members on the basis of joint ownership, unless the agreement between them stipulates otherwise.

2. Joint property of a peasant (farming) enterprise's members shall consist of the plantings in the land site, household and other constructions, repairs and other premises, productive livestock and work stock, poultry, agricultural and other machinery and equipment, vehicles, and inventory and other property purchased by the enterprise for the common money of its members.

3. Fruits, products and revenues gained as the result of the activity of the peasant (farming) enterprise shall be considered the common property of the members of the peasant (farming) enterprise and shall be disposed of by an agreement between them.

#### Article 277. Property of Members of Peasant (Farming) Enterprise

Personal earned incomes and savings of a member of a peasant (farming) enterprise, as well as the property purchased by him from personal funds, or acquired by other means provided by this Code, and which has not been transferred into the enterprise's ownership, shall be such person's property.

#### Article 278. Division of Property of Peasant (Farming) Enterprise

1. Upon termination of a peasant (farming) enterprise due to withdrawal of all its members, or for any other reasons, the common property shall be subject to division according to the rules provided by Article 271 of this Code.

2. Means of production that belong to a peasant (farming) enterprise shall not be subject to partition due to one member's withdrawal. The member who has withdrawn from the enterprise shall have a right to receive a cash compensation proportional to his share in the common ownership of that property.

3. In cases provided by points 1 and 2 of this Article, the shares in the joint ownership right to the property of a peasant (farming) enterprise, which belongs to the members of the peasant (farming) enterprise, shall be deemed equal unless otherwise stipulated in the agreement between them.

#### Article 279. Property of a Peasant (Farming) Enterprise, Founded in the Form of Economic Partnership or Cooperative

1. Members of a peasant (farming) enterprise may establish an economic partnership or manufacturing cooperative on the basis of the property of the enterprise. As a juridical person, such a restructured peasant (farming) enterprise shall have a right of ownership in the property transferred to it in the form of investments and other contributions made by the members of a farming enterprise, as well as on the property received as a result of its activity and otherwise acquired, as permitted by law.

2. The amount of investments of the members of a peasant (farming) enterprise who are participants of a partnership or members of a cooperative, shall be calculated on the basis of their shares in the joint ownership right to the property of a peasant (farming) enterprise, as determined in the manner provided by point 3 of Article 278 of this Code.

### CHAPTER 14 TERMINATION OF OWNERSHIP RIGHTS

#### Article 280. Grounds for Termination of Ownership Rights

1. An ownership right is terminated when the proprietor alienates his property to other persons, abandons his ownership right in case of death or destruction of the property, as well as the loss of the ownership right to the property, or in any other cases provided by the law.

2. A citizen or a juridical person may abandon the ownership right to the property that belongs to him by announcing this fact, or by committing other actions that definitely attest to his withdrawal from the ownership, utilization, or disposal of the property without intention to preserve any rights in this property.

Rejection of the ownership right shall not entail the termination of the rights and liabilities of the proprietor with respect to the relevant property, until the moment the ownership right to such property is acquired by another person.

#### Article 281. Compulsory Taking of Property from Owner

Compulsory taking of property from an owner shall not be allowed, except in cases where, according to the grounds provided by the law, the following is performed:

- 1) filing of claim against property on the basis of the owner's obligations (Article 282);
- 2) compulsory alienation of property, which, by force of law, may not belong to the individual in question (Article 282);
- 3) alienation of immovable property due to taking of the plot of land on which it is situated (Article 284);
- 4) purchase of uneconomically maintained cultural valuables (Article 285);
- 5) requisition (Article 286);
- 6) confiscation (Article 287);
- 7) restructuring or liquidation of a juridical person pursuant to the court's decision (Articles 92, 96);
- 8) compulsory alienation of property in cases stipulated in Articles 240, 250, 271 of this Code;
- 9) denationalization and privatization (Article 228);
- 10) nationalization (Article 288).

#### Article 282. Execution Against Property on Owner's Obligations

1. Taking of property through execution against the property on the basis of the owner's obligations shall be effectuated by a decision of the court, unless other method of execution is provided by law or by contract.

2. The ownership right to the property which is executed against shall be terminated when the ownership right to the property vests with the person to whom the property is transferred.

#### Article 283. Termination of Individual's Ownership Right to Property That May Not Belong To Him

1. If, according to the law, an individual owns property that by virtue of law may not belong to him, the property in question shall be alienated by the owner within a one-year period from the date the ownership right to the property arose, unless other time period is established by law.

2. In case property has not been alienated by its owner within the time period indicated in point 1 of this Article, then such property, after its character and purpose have been taken into account, and according to the court's decision made upon the claim of a state agency or local self-governance agency, shall be subject to a compulsory sale whereby proceeds of the sale would be delivered to its ex-owner, or to transformation into state or public property whereby compensation would be given to its owner for the value of the property, as determined by a court. In such cases, the costs of the alienation of property shall be deducted from the amount turned over to the original owner.

3. If, as provided by law, a citizen or legal entity possesses an object for the possession of which one needs a special permit, and the owner was refused such permit, such object shall be subject to alienation according to procedures established for property that may not belong to the owner in question.

#### Article 284. Alienation of Immovable Property Due to Taking of the Plot of Land On Which the Immovable Property Was Situated

1. In such cases that taking of land for state or communal needs, or due to improper land utilization, is impossible without termination of ownership rights on dwellings, constructions, or other immovable property located on this plot of land, such property can be taken from the owner by the state through redemption, or through auction sales, according to procedures provided by the legislation of the Kyrgyz Republic.

A claim to take immovable property shall not be granted unless a proper state agency or local self-governance agency, having filed a claim with the court, substantiates that utilization of the land according to the purposes for which it is being confiscated is impossible without termination of ownership rights to the immovable property in question.

2. The rules of this Article shall apply to terminate ownership rights to immovable property by virtue of a decision of a state agency to take mountain deposits, water area basins and other plots of land on which the property is located.

#### Article 285. Redemption of Economically Mismanaged Cultural Valuables

If, with respect to cultural valuables which according to legislation are recognized as extraordinary valuable and are protected by the state, the owner economically mismanages such valuables in such a way that may result in the loss of their value, such valuables may be taken by the state from the owner by a decision of the court and by redemption or sale through public auction.

In the event of purchase of cultural valuables, their value shall be paid to the owner in an amount stipulated by agreement between the parties, and, in event of a dispute, by the court. In the case of a sale by public auction, the owner shall receive the proceeds of the auction less the costs spent on conducting the auction.

#### Article 286. Requisition

1. In case of natural disasters, accidents, epidemics, epizootic and other circumstances of emergency character, for the public benefit and according to the resolution of a state agency, property may be taken from the owner by paying him the market price of the property (requisition) according to the procedures and terms established by law.

2. The assessed value according to which the owner shall be reimbursed for his requisitioned property may be appealed in court.

3. A person whose property has been requisitioned shall have the right, upon completion of the circumstances which have led to requisition, to claim for the return of the remaining property in court.

#### Article 287. Confiscation

1. In cases stipulated by law the property may be taken from the owner without compensation by court decision as a sanction for committing a crime or any other infraction (confiscation).

2. In cases stipulated by law, confiscation may be made according to administrative procedure. Decisions regarding confiscation made in accordance with administrative order may be challenged in court.

#### Article 288. Nationalization

Transfer to state ownership of property owned by citizens and legal entities by virtue of nationalization shall be allowed only on the basis of the law on nationalization of such property, adopted in accordance with the Constitution, and pursuant to reimbursement to the person whose property was nationalized, of the value of the property and other losses caused.

### CHAPTER 15 PROTECTION OF OWNERSHIP RIGHT AND OTHER REAL RIGHTS

#### Article 289. General Principles of Ownership Rights Protection

1. An owner shall have a right to reclaim his property from the illegal possession of a stranger.

2. An owner may demand the recognition of his ownership right, as well as the elimination of other violations of his right not connected with dispossession.

#### Article 290. Reclaim of Property from Possessor in Bad Faith

In the event that property is reclaimed from the illegal possession of a stranger, an owner has the right to demand from a person who knew or should have known that his possession was illegal (possessor in bad faith) the return or reimbursement of all revenues which such person derived or should have derived within the entire period of his possession, whereas from a good faith possessor, the owner may demand all revenues which such person has derived or

should have derived from the time he discovered or should have discovered the illegality of his possession, or from the time he received a summons about an owner's suit for the return of property.

#### Article 291. Reclaim of Property from Acquirer in Good Faith

1. If property was acquired for value from a person who had no right to alienate it, and the acquirer did not know, and had no reason to know, about that fact (good faith acquirer), then the owner shall have the right to reclaim the property in question from the acquirer, provided that the property was lost by the owner or by a person to whose possession he had delivered the property, or the property was stolen from the owner or the person to whom he'd given possession of the property, or the property in any other way left their possession against their will.

2. If property was acquired without compensation from a person who had no right to alienate it, the owner shall have the right to claim the property in all cases.

3. Money as well as bearer securities cannot be demanded from a good faith acquirer.

#### Article 292. Protection of Ownership Right upon its Termination Due to Grounds, Provided by Legislative Enactments

In case of the adoption of legislative enactments terminating the ownership right, losses suffered by the owner as the result of the adoption of these enactments shall be reimbursed to the owner in full by the state. Disputes about reimbursement of losses shall be settled in court.

#### Article 293. Invalidity of Enactments Violating Proprietor's Rights

If an owner's rights have been violated as a result of issuance of an enactment of executive authorities or of a local self-governance agency, which enactment is inconsistent with the law, then upon the demand of the owner, such enactment shall be held to be invalid by the court.

Losses suffered by the owner as a result of issuance of the enactment in question shall be reimbursed in full by the relevant executive authority or local self-governance agency.

#### Article 294. Protection of Other Material Rights

The rights provided in Article 291 of this Code shall also belong to a person who, though not an owner, has possession of the property by virtue of inherited lifetime interest, of a right of economic management or operational administration, or due to other grounds provided by law or contract. Such person has the right to protect his ownership against the owner.

#### Article 295. The Right of Good Faith Acquirer and Possessor in Bad Faith for Reimbursement of Operating Costs

1. Both good faith and bad faith possessors in turn shall have the right to demand from the owner reimbursement of operating and necessary expenses on the property, commencing from the time that income on property is due to an owner.

2. A good faith possessor shall have the right to keep the improvements made by him, provided such improvements can be separated without damages to the property. If such a separation of improvements is impossible, a good faith possessor shall have the right to claim reimbursement of costs incurred in the improvements, but such amount must not exceed the increased value of the property.

### SECTION III OBLIGATIONS LAW (General Part)

#### CHAPTER 16 DEFINITION AND PARTIES TO OBLIGATIONS

#### Article 296. Definition of Obligation

By means of an obligation, one person (obligor) shall be obliged to commit a certain action in favor of the other person (obligee) such as: to transfer property, to perform work, to pay money and so on, or to restrain from a certain action, and the obligee shall have the right to demand performance from the obligor.

#### Article 297. Grounds for Obligation

An obligation shall emerge:

- 1) from a contract;
- 2) as a result of creating works of science, literature, art, purchasing, and other results of intellectual activity;
- 3) as result of damage to another person;
- 4) as a result of inheriting property of a deceased citizen;
- 5) from other grounds specified in Article 7 of this Code.

#### Article 298. Parties to Obligation

1. One or more persons may be parties to an obligation.
2. If each of the parties to a contract has an obligation in favor of the other party, each party shall be deemed an obligor to the other party with respect to what it is obliged to do in favor of that party, and it shall simultaneously be the obligee to that party with respect to that which it is entitled to demand from the other party.

3. An obligation shall not create obligations to persons who do not participate in the liability as a party (for third persons).

In cases provided in legislation or by the contract between the parties, an obligation may be created in favor of third parties with respect to one or both parties to the obligation.

### CHAPTER 17 ENFORCEMENT OF OBLIGATIONS

#### Article 299. Ways of Enforcing Obligations

Obligations should be enforced in a proper manner and within the established period in accordance with the terms of the contract and requirements of legislation, and in the event such terms and requirements are absent, in accordance with business norms and other usually provided requirements.

#### Article 300. Prohibition of Refusal by One Party to Perform Obligation

Neither of the parties shall be allowed to refuse the performance of an obligation nor shall it be allowed to alter terms of the contract except in cases envisaged by legislation or by the contract.

#### Article 301. Partial Performance of Obligations

The obligee shall have the right not to accept partial performance of an obligation unless otherwise provided by the legislation, by the terms of the liability itself, or arises from business norms or the essence of the obligation.

#### Article 302. Performance of Obligation in Favor of Proper Person

Unless otherwise provided by the contract between the parties and not derived from business norms, or from the essence of the obligation, the obligor shall have the right to demand, upon performance of his obligations, evidence verifying that performance is accepted by the obligee himself or by an authorized person, and he shall risk the consequences for the failure to demand this.

#### Article 303. Performance of Obligation by Third Person

1. If not provided by legislation, conditions of an obligation, or its essence that the obligor should personally perform his obligation, a third person may be obliged to perform the obligation. In that event, the obligee shall be obliged to accept the performance proposed by the third person for the obligor.

2. A third person who is susceptible to losing his right to the property of the obligor (leasing, pledge right or others) as a result of the imposition of levy by an obligee to that property, may comply on his own account with the demand of

the obligee without the obligor's consent. In that case the obligee's rights on obligation shall transfer to the third person according to Article 313 of this Code.

#### Article 304. Performance of Obligations in the Most Efficient Manner. Assistance on Performance

Each of the parties to the obligation shall perform its obligations in the most efficient manner and provide assistance to the other party in the performance of its obligations.

#### Article 305. Term for Performance of Obligation

1. If the obligation provides or makes it possible to identify the date of its performance or a period of time within which the obligation should be performed, the obligation shall be performed on that day, or correspondingly on any day within that time period.

2. In cases when a obligation does not specify a time period for its performance and does not contain conditions which could make it possible to identify that time period, it shall be performed within a reasonable time period after the obligation has arisen.

In the event of failure to perform an obligation within a reasonable time period, or an obligation within the time period determined by the moment of demand, the obligor shall be obliged to perform the obligation within seven days from the date the obligee demanded performance of the obligation if any other time period to perform the obligation is not provided by legislation, by terms of the obligation, by business norms, or by the essence of the obligation.

3. The obligee shall have the right to perform an obligation prior to the time period unless otherwise provided by legislation or by the terms of the obligation, or contemplated from the essence of the obligation. However, early performance of an obligation related to business activity shall be allowed only in the event that the possibility to perform the obligation prior to the time period is provided by legislation, or the terms of the obligation, or is derived from business norms, or from the essence of the obligation.

#### Article 306. Place of Performance of Obligation

1. If the place of performance has not been determined by the legislation or contract and is not clear from business norms, local customs and traditions or from the essence of the obligation, performance shall take place:

- 1) for an obligation to transfer real property - at the place where the property is located;
- 2) for an obligation to transfer goods and other property, including its carriage - at the place where the property is transferred to the first carrier for delivery to the obligee;
- 3) for other liabilities of the obligor to transfer goods and other property - at the place where the property is produced or stored, if such place was known to the obligee at the time when the obligation emerged;
- 4) for monetary obligation - at the place where the obligee resides at the time when the obligation arose, or, if the obligee is a corporation - at the place where the corporation is located at the time when the obligation emerged; or, if the obligee changed the place of residence or location by the time the obligation is to be performed at the new place of residence or location of the obligee and in such event, the expenses resulting from changing the place of performance shall be borne by the obligee;
- 5) for all other obligations - at the place where the obligor resides or place where the company is located if the obligor is a legal entity.

#### Article 307. Currency in which Obligations are Performed

1. A monetary obligation shall be converted and paid in the national currency. Use of foreign currency as well as payment documents in foreign currency, when paying on a obligation in the territory of the Kyrgyz Republic, shall be allowed under the conditions and according to the procedure established by the legislation.

2. A monetary obligation may provide that it shall be paid in the national currency in an amount equivalent to the same amount in a foreign currency or in conventional monetary units. In such event, the amount payable in a foreign currency shall be determined according to the official exchange rate for the corresponding currency or monetary units on the day of payment, if another rate or other date is not provided by the legislation or by the agreement between the parties.

#### Article 308. Increase in Citizens's Maintenance

The amount directly paid on a monetary obligation for a citizen's maintenance (compensation for damages to health and life based on the contract of maintenance thereto) shall increase in accordance with the increase in minimal wage rate stipulated by the law.

#### Article 309. Priority of Payment on Monetary Obligation

If insufficient to perform an obligation completely, a payment amount shall cover first, the costs to the obligee on acceptance of performance, then, the interest and penalty, and in the remaining part, the principal amount of the debt.

#### Article 310. Performance of Obligation by Transfer of Debt to Deposit

1. The obligor shall have the right to deposit money or securities due, into a notary office, and in cases envisaged by law, into court, if the obligation cannot be performed by the obligor as a result of:

- absence of the obligee or a person authorized to make a decision at the place where the obligation should be performed;

- disability of the obligee or the absence of his representative;

- obvious uncertainty as to who is the obligee to the obligation, in particular, in connection with the dispute in that regard between the obligee and other persons;

- evasion by the obligee from acceptance of performance or by virtue of other delay by the obligee.

2. Deposit of money or securities into a notary office shall be considered performance of the obligation.

The notary or court in which the money or securities have been deposited shall notify the obligee.

#### Article 311. Conditions for Creation of Joint and Several Responsibility or Joint and Several Claims

Joint and several responsibility or joint and several claims shall arise if the jointness or severalness of the responsibility (liability) or claim is provided by a contract or established by law, particularly in the event the subject-matter of the obligation is indivisible.

#### Article 312. Joint and Several Responsibility or Joint and Several Claim Under Obligation Related to Business Activity

Responsibility of several obligors under an obligation related to business activity, as well as claims of several obligees to such obligation, shall be joint and several, unless otherwise provided by legislation or by the conditions of the obligation.

#### Article 313. Responsibility of Obligor on Joint and Several Liability. Obligees' Rights on Joint and Several Liability

1. In the event of joint and several responsibility of obligors, the obligee shall have the right to demand performance both from all obligors simultaneously and from every individual obligor with respect both to the entire debt and to a part of the debt.

2. The obligee who has not received full satisfaction from one of the joint and several obligors shall have the right to demand the unreceived obligation from the rest of the joint and several obligors.

Joint and several obligors shall remain obliged until the obligation is liquidated completely.

3. In cases of joint and several responsibility, an obligor shall have no right to object to the demand of the obligee by referring to a relationship that the other obligors may have with the obligee, but in which the obligor is not a participant.

4. The complete performance of a joint and several obligation by one of the obligors shall release the rest of the obligors from performance to the obligee.

5. Unless otherwise arising from the relationship between joint and several obligors:

1) the obligor, who has performed the joint and several obligation, shall have the right to claim over the co-obligors in equal shares less his share;

2) an amount, which was not paid by one of the co-obligors to the obligor, who performed the joint and several obligation, shall be equally imposed on that obligor and on the rest of the co-obligors.

6. The rules of this Article shall correspondingly apply to the termination of the joint and several obligation through set-off for the counterclaim of one of the obligors.

CHAPTER 18  
EXCHANGE OF PERSONS IN OBLIGATION.  
TRANSFER OF DEBT

Article 314. Grounds for Transfer of Obligee's Rights to Another  
Person

1. The right (claim) belonging to the obligee by virtue of an obligation may be transferred by the obligee to another person by transaction (assignment of claim) or transferred to another person by operation of the law.
2. The obligee's rights on the obligation shall transfer to another person on the following grounds:
  - 1) as a result of universal succession to the obligee's rights;
  - 2) upon the decision of the court to transfer the obligee's right to another person when the possibility of such a transfer is provided by law;
  - 3) as a result of performance of the obligor's obligation by his surety (Article 345) or by his pledgor, who is not the obligor to that obligation;
  - 4) on subrogation (transfer) of the obligee's rights to the insurer responsible for the insured case;
  - 5) in other cases provided by law.

Article 315. Procedure for Transfer of Obligee's Rights to Another  
Person

1. The consent of the obligor shall not be required for the transfer of the obligee's rights to another person, unless otherwise provided by the law or the contract.
2. Unless the obligor has been notified in writing that the rights of the obligee have been transferred to another person, the new obligee shall bear the risk of unfavorable consequences. In such event, performance of an obligation in favor of the original obligee shall be recognized as performance of an obligation in favor of the proper obligee.
3. Transfer to another person of rights directly related to the person of an obligee, in particular alimony claims and claims for compensation for damage to health and life, shall not be allowed.
4. Unless otherwise provided by law or contract, the right of the original obligee shall transfer to a new obligee in the same amount and on the same conditions which existed at the time of transfer of the right. Such rights shall include in particular, the rights securing for the performance of the obligation, as well as other rights related to the claim, including the right to unpaid interest.
5. The rules about transfer of the obligee's rights to another person shall not apply to regressive (claimover) claims.

Article 316. Conditions and Form of Assignment of Obligee's Rights

1. Assignment of the obligee's rights to another person shall be allowed, unless it contradicts the legislation or the contract.
2. Assignment of a claim on an obligation in which the personal nature of the obligee has a significant importance to the obligor shall not be allowed without the consent of the obligor.
3. The obligee who assigned the claim to another person must transfer to that person documents certifying the right to claim and provide data which are significant to the performance of the claim.
4. The original obligee who has assigned the claim shall be held liable to the new obligee for the invalidity of the claim assigned, but he shall not be held liable for the obligor's failure to perform that claim, except when the original obligee assumed the surety for the obligor with respect to the new obligee.
5. An assignment of a claim based on a transaction concluded in writing (simple or notarized) must be in the same form.

Assignment of a claim on a transaction requiring government registration must be registered in the procedure established for registration of that transaction.

Assignment of a claim on an order security shall be carried out through endorsement on that security.

Article 317. Obligor's Objection to Claim by New Obligee

1. The obligor shall have the right not to perform the obligation to the new obligee until he is presented with evidence certifying the transfer of the claim to that person.

2. At the time he receives notice about the assignment of rights under the obligation to a new obligee, the obligor shall have the right to object to claims of the new obligee on the basis of objections which he had against the original obligee.

#### Article 318. Transfer of Debt

1. Obligor's transfer of his debt to another person shall be allowed only with the consent of the obligee.
2. The rules on the form of claim assignment shall apply respectively to the form of transfer of the debt.
3. The new obligor shall have the right to object to the obligee's claim on the basis of the relationship between the obligee and the original obligor.

### CHAPTER 19 SECURING PERFORMANCE OF OBLIGATIONS

#### 1. GENERAL PROVISIONS

##### Article 319. Ways of Securing Performance of Obligations

1. Performance of an obligation may be secured by penalty, pledge, retention of obligor's property, surety, guaranty, advance or any other way established by the legislation or the contract.
2. Invalidity of an agreement on securing an obligation shall not result in invalidity of the obligation (principle obligation).
3. Invalidity of the principle obligation results in invalidity of the obligation securing the same.

#### 2. PENALTY

##### Article 320. Concept of Penalty

1. Penalty (fine) shall be a sum of money or any other piece of property determined by the legislation or the contract, which the obligor must pay or transfer to the obligee, in the event of the failure to perform or improper performance of an obligation. Upon a claim for penalty, the obligee must not prove damages suffered.
2. The obligee shall have no right to claim for penalty, if the obligor is not liable for the failure to perform or improper performance of the obligation.

##### Article 321. Lawful Penalty

1. The obligee shall have the right to claim for penalty established by law (lawful penalty) irrespective of whether the obligation to pay the same is established in the agreement between the parties.
2. The amount of the lawful penalty may be increased by the agreement of the parties, unless it is prohibited by law.

##### Article 322. Form of Agreement on Penalty

An agreement on penalty must be made in writing irrespective of the form of the principle obligation. Failure to comply with the written form shall invalidate the agreement on penalty.

##### Article 323. Reduction of Penalty

If the penalty payable is obviously disproportionate to the consequences of the violation of the obligation, the court shall have the right to reduce the penalty assigned.

Rules of this Article shall not affect the rights of the obligor to reduce the amount of his liability by operation of Article 356 of this Code and the rights of the obligee to receive compensation for the damages as provided by Article 358 of this Code.

#### 3. PLEDGE

##### Article 324. Concept of Pledge and Grounds for Its Creation

1. By virtue of pledge, in the event of the obligor's failure to perform the obligation, the obligee of a secured obligation (pledgeholder) shall have the right to receive satisfaction from the value of the pledged property prior to all other obligees of the person who owns the pledged property (pledgor), except as established by law.

The pledgeholder shall have the right to obtain satisfaction from the insurance compensation for the loss of or damage to the pledged property irrespective of whose benefit it is insured for, unless the pledgeholder is liable for occurrence of the loss or damage.

2. The pledge shall arise by virtue of a contract or by operation of Law.

The rules of this Code on pledge arising by virtue of the contract shall correspondingly apply to a pledge arising by operation of law, unless otherwise established by the law.

#### Article 325. Types of Pledge

A pledge may be in the form of a possessory pledge, mortgage, as well as pledge of rights, securities, and cash, etc.

A possessory pledge is a form of pledge which envisages delivery of the pledgor's property into the possession of the pledgeholder.

Mortgage is a form of pledge according to which the pledgor or a third party retains the possession and use of the pledged property. The subject of a mortgage may include enterprises, buildings, constructions, structures, apartments in a multi-apartment building, vehicles, goods in turnover, and other property which has not been removed from civil turnover. The subject of pledge of goods in turnover may include raw materials, semifinished produce, associated items, and finished products.

Pledge of land parcels, enterprises, buildings, structures, apartments and other immovable property (mortgage) shall be regulated by the legislation on pledge.

The subject of a pledge of rights shall include property rights which may be alienated, in particular the rights to develop and exploit deposits of mineral resources, lease rights to enterprises, buildings, constructions, structures, debt claims, copyrights, inventor's rights and other property rights.

Unless otherwise established by the legislative acts or by an agreement of the parties, a pledge of securities shall be effected by delivering a security to the pledgeholder and issuing a pledge certificate to the pledgor.

Cash which is the subject of pledge shall be kept on a deposit account in a bank or a notary office. Interest accrued to that sum shall belong to the pledgor.

#### Article 326. Pledgor

1. The obligor himself or a third party may become a pledgor.

2. The owner of the thing or a third party which has the right of economic management to such thing may become the pledgor of the same.

A person who holds the thing on the right of economic management shall have the right to pledge the same with the consent of the owner.

3. The person holding property rights may become the pledgor of the same.

Pledge of the lease right or any other right to other person's thing shall not be allowed without the consent of its owner, if the law or the contract prohibits alienation of this right without the consent of the said persons.

#### Article 327. Property to Which Pledgeholder's Rights Extend

1. The rights of a pledgeholder to a thing (pledge right) which is a subject of pledge shall extend to its accessories, unless otherwise established in the contract.

The pledge right shall extend to fruits, products and income received as a result of using the pledged property as established in the contract.

2. In the event of a mortgage of an enterprise or any other property complex as a going concern, the pledge right shall extend to all its assets, both movable and immovable, including the right to claim and exclusive rights, including those acquired during the period of the mortgage, unless otherwise established by the law or the contract.

3. The mortgage of a building, or structure shall be allowed only with a simultaneous mortgage under the same contract of the right to the land parcel where the building or structure is located, or of the right to a part of the land parcel securing the functioning of the pledged facility.

4. The contract on pledge, or the law, if the pledge arises by operation of the law, may provide for the extension of the pledge onto things and rights which the pledgor acquires in the future.

#### Article 328. Contract on Pledge

1. The contract on pledge must specify the parties, the subject of pledge and its assessment, essence, scope and period of performance of the obligation secured by the pledge. It shall also contain an indication as to which of the parties should keep the pledged property.

2. The contract on pledge must be in writing.

Mortgage contracts, as well as contracts on pledge of the movable property or rights to the property in securing obligations under a contract, which must be notarized, shall be subject to notarization.

3. A mortgage contract must be registered in the procedure established for registration of rights to the corresponding property and transactions therewith (Article 180).

4. Failure to comply with the rules set forth in points 2 and 3 of this Article shall result in invalidity of the pledge contract.

5. Unless otherwise established in a pledge contract, a pledge right shall arise in relation to the property which pledge is subject to registration from the time of registration of the contract, and in relation to other property - from the time of transfer of that property to the pledgeholder, and if the property is not subject to transfer, then from the time of entering into the pledge contract .

#### Article 329. Subsequent Pledge

1. A subsequent pledge shall be allowed, unless it is prohibited by the prior pledge contracts.

2. If the pledged property becomes a subject of another pledge to secure other claims (subsequent pledge), claims of the subsequent pledgeholder shall be satisfied from the value of the subject of the pledge after the claims of the prior pledgeholders.

3. The pledgor must inform every subsequent pledgeholder about all existing pledges of the property and shall be liable for damages caused to pledgeholders as a result of failure to meet this responsibility.

#### Article 330. Maintenance and Safeguard of Pledged Property

1. Unless otherwise established by the law or the contract, the pledgor or the pledgeholder, depending on who keeps the pledged property, must:

1) insure the pledged property at the expense of the pledgor for its full value against the risk of loss or damage, and if the full value of the property exceeds the amount of the secured claim - for an amount not less than the amount of the claim;

2) take measures necessary to safeguard the pledged property including its protection against takings and claims of third parties;

3) inform immediately the other party about the danger of loss of or damage to the pledged property.

2. The pledgeholder and the pledgor shall have the right to check by reference to documents and physical presence, the size, state and conditions of storage of the pledged property held by the other party.

3. In the event of gross violations by any party of obligations set forth in point 1 of this Article, which violations create the danger of loss of or damage to the pledged property, the other party shall have the right to demand an early termination of the pledge.

#### Article 331. Consequences of Loss of or Damage to Pledged Property

1. The pledgor shall bear the risk of accidental loss of or damage to the pledged property, unless otherwise established by the pledge contract.

2. Unless he can prove, that he may be released from the liability in accordance with Article 356 of this Code, the pledgeholder shall be held liable for complete or partial loss of or damage to the subject of the pledge which has been delivered to him.

The pledgeholder shall be liable for the loss of the subject of pledge in the amount of its real value, and in case of damage - in the amount by which its value was diminished, irrespective of the value of the same assessed at the time of its delivery to the pledgeholder.

If, as a result of the damage to the subject of pledge, the subject has changed to such an extent that it may no longer be used according to its direct purpose, the pledgor shall have the right to reject the subject and claim compensation for its loss.

The contract may provide for the pledgeholder's obligation to compensate the pledgor for other damages caused by the loss of, or damage to, the subject of pledge.

The pledgor, who is an obligor under the secured obligation, shall have the right to credit the amount of his claim to the pledgeholder for compensation of damages caused by the loss of, or damage to, the subject of the pledge, against the amount of the secured obligation.

3. Replacement of the subject of pledge shall be allowed only with the consent of the pledgeholder.

If the subject of pledge was destroyed or damaged, or the ownership right or the right of economic management to the same was terminated on grounds established by law, the pledgor shall have the right to restore or to replace the subject of pledge within a reasonable time period by any other property of equal value.

#### Article 332. Use and Disposal of Subject of Pledge

1. Unless otherwise established by a contract and arising from the essence of the pledge, the pledgor shall have the right to use the subject of pledge according to its purpose, as well as to benefit from its fruits and profit.

2. Unless otherwise established by the law or the contract and arising from the essence of the pledge, the pledgor shall have the right to alienate the subject of pledge to ownership, economic or operative management, to lease or transfer for gratuitous use to another person or to dispose of the same otherwise only with the consent of the pledgeholder.

An agreement restricting the pledgor's right to bequeath the pledged property shall be void.

3. A pledgeholder shall have the right to use the subject of pledge which has been delivered to him only as provided by the contract, while reporting to the pledgor periodically regarding its use. The contract may impose an obligation on the pledgeholder to take fruits and profits from the subject of pledge in order to recover the principle obligation, or for the pledgor's benefit.

#### Article 333. Protection of His Rights to Subject of Pledge by Pledgeholder

1. The pledgeholder, who keeps or should have kept the pledged property, shall have the right to demand the property from other person's illegal possession as well as from the pledgor himself (Article 291, 294).

2. In cases when according to the conditions of the contract the pledgeholder is granted the right to use the subject of pledge which has been transferred to him, he may demand from other persons, including the pledgor, that they eliminate any violations of his right, even if those violations are not connected with loss of possession (Article 294).

#### Article 334. Grounds for Execution Against Pledged Property

1. Execution against the pledged property with the purpose of meeting the pledgeholder's (obligee's) claims may take place, in the event the obligor fails to perform or improperly performs a secured obligation due to the circumstances for which he is answerable.

2. Execution against the pledged property may be denied if the violation of a secured obligation committed by the obligor is extremely insignificant, and the amount of the pledgeholder's claim caused by such violation is clearly disproportionate to the value of the pledged property. In case of the denial of an execution against the pledged property, the pledgor must replace the subject of pledge with another property.

#### Article 335. Procedure for Execution Against Pledged Property

1. Claims of the pledgeholder (obligor) shall be satisfied from the value of the pledged immovable property by the court decision, unless otherwise provided by law.

Unless otherwise provided by law, claims of pledgeholder may be satisfied from the pledged property, without recourse to the court, based on the notarized agreement between the pledgeholder and the pledgor, entered into after emergence of the grounds for execution against the subject of the pledge.

Such agreement may be acknowledged by the court invalid at the claim of the person whose rights are violated by such agreement.

2. Claims of the pledgeholder shall be satisfied from the value of the pledged movable property, by the court decision, unless otherwise provided by law or agreement between the pledgor and the pledgeholder. However, the subject of pledge transferred to the pledgeholder may be collected in compliance with the procedure established by the pledge agreement, unless other procedure is established by law.

3. The subject of pledge may be collected only based on the decision of the court, in the instances when:

- 1) the consent or permission from a third person or agency is required to enter into pledge agreement;
- 2) the subject of pledge is a property of significant historical, artistic or any other cultural value for the society;
- 3) the pledgor is missing and it is impossible to establish his location.

#### Article 336. Sale of Pledged Property

1. Sale of the pledged property which is executed against according to Article 335 of this Code shall be carried out through public auctions (torgi), unless otherwise established by law or the contract.

2. At the request of the pledgor, the court shall have the right to postpone a public sale for the period of up to one year in its decision on execution against the pledged property. The postponement shall not affect the rights and duties of the parties to the secured obligation and shall not exempt the obligor from compensation of the obligee's losses, which increased during the period of postponement and the amount of penalty.

3. The starting sale price of the pledged property at the auctions shall be determined by an agreement between the pledgor and the pledgeholder (point 2, Art 335) or by a court decision, (point 1, Art 335).

The pledged property shall be sold to the highest bidder.

4. In the event the auctions, though scheduled, are declared as not taken place, the pledgeholder shall have the right to purchase the pledged property and to credit his secured claims against the purchase price based on the agreement with the pledgor. The rules concerning a sale contract shall apply to such an agreement.

In the event a second auction is declared as not taken place, the pledgeholder shall have the right to keep the subject of pledge, with it being evaluated at an amount of not more than 10 percent below the starting sales price at the second auction.

The pledge contract shall be terminated, if the pledgeholder fails to use his right to keep the subject of pledge during one month from the date the second auction was declared as not taken place.

5. If the proceeds of the sale of the pledged property are insufficient to meet the claims of the pledgeholder, he shall have the right, unless otherwise established by law or by contract, to receive the remaining amount from other obligor's property without using the pledge preference.

6. If the proceeds of the sale of the pledged property exceed the amount of the pledgeholder's secured claim, the balance shall be paid back to the pledgor.

7. The obligor and the pledgor, who is a third party, shall have the right at any time before the actual sale of the subject of pledge, to stop execution against, and sale of, the same by performing the secured obligation, or of that part of the obligation which performance was delayed. An agreement restricting this right shall be void.

#### Article 337. Early Performance of Secured Obligation and Execution Against Pledged Property

1. The pledgeholder shall have the right to demand early performance of the secured obligation in the event:

1) the subject of pledge was taken from possession of the pledgor where it was left against the terms of the pledge contract;

2) of violation by the pledgor of the rules concerning the replacement of the pledge;

3) of loss of the subject of pledge under circumstances for which the pledgeholder is not responsible, unless the pledgor used his right;

4) other cases provided by the Law on Pledge.

2. The pledgeholder shall have the right to demand early performance of the secured obligation, and if his demand is not satisfied, to execute against the subject of pledge in the event of:

1) violation by the pledgor of the rules concerning a subsequent pledge;

2) pledgor's failure to perform his responsibility;

3) violation by the pledgor of the rules concerning disposal of the pledged property;

4) other cases provided by the Law on Pledge.

#### Article 338. Termination of Pledge

1. The pledge shall terminate:

1) as a result of termination of the secured obligation;

2) upon the demand of the pledgor where there are grounds therefor;

3) in case of loss of the pledged property or termination of the pledged right, unless the pledgor used his right;

4) in case of sale of the pledged property at public auctions, as well as where the sale of the same proved impossible.

2. An entry about the termination of a pledge must be made in the register where the pledge contract was registered.

3. Upon the termination of a pledge as a result of performance of the secured obligation, or upon the demand of the pledgor, the pledgeholder in possession of the pledged property must immediately return the same to the pledgor.

#### Article 339. Survival of Pledge

1. The pledge shall remain in force, in the event on any ground set forth in the law the property or property rights which are the subject of pledge transfer to another person.

2. The pledgor's successor shall replace the pledgor and bear all his obligations unless otherwise established by the contract between the pledgor and the pledgeholder.

#### Article 340. Pledge of Goods in Turnover

1. A pledge of goods in turnover shall be recognized as the pledge of goods in the possession of a pledgor who has the right to change the composition and natural form of the pledged property (commodity stock, raw materials, materials, semi-finished goods, finished products, etc) provided that their total value does not fall below the one specified in the pledge contract.

Reduction of the value of the pledged goods in turnover shall be allowed proportionally to the performed part of the secured obligation, unless otherwise provided by contract.

2. When alienated by the pledgor, goods in turnover shall cease being the subject of pledge from the time of their transfer to ownership, economic or operative management of a purchaser, and goods purchased by the pledgor which have been specified in the pledge contract shall become the subject of pledge from the time the pledgor acquired the right of ownership or economic management to the same.

#### Article 341. Pledge of Things in Pawnshops

1. Specialized organizations - pawnshops licensed to do so may, as a part of their business activity, receive from citizens a pledge of movable property which has been designated for personal use, in order to secure short-term loans.

2. A contract on pledge of things in a pawnshop shall be formalized by issuing a pledge ticket by the pawnshop.

3. Pledged things shall be transferred to the pawnshop.

The pawnshop must, in favor of the pledgor, insure at its own expense the pledged things for their full value to be established in accordance with prices for things of similar kind and quality, which prices are usually established in trade at the time of pledge of the same.

The pawnshop shall have no right to use and dispose of the pledged things.

4. The pawnshop shall be held liable for the loss of and damage to the pledged things, unless it proves that the loss or damage occurred as a result of insuperable force.

5. In case of the failure to return the amount of the loan secured by the things pledged in the pawnshop within an established period, the pawnshop shall have the right to sell this property according to the procedure established for sale of the pledged property based on the notarial writ of execution upon expiration of a grace one month period. After that, all of the pawnshop's claims to the obligor-pledgor shall be recovered, even if the proceeds received as a result of the sale of the property are not sufficient to satisfy the same in full.

#### Article 342. Retention

1. In the event of obligor's failure to perform his obligation on paying for the thing or on compensating the obligee for damages and losses related to this thing within the specified period, the obligee in possession of the thing subject to transfer to the obligor or to another person specified by the obligor shall have the right to retain the same until the corresponding obligation is performed.

2. The right to retain may also be effectuated to secure such demands which, although not associated with payment of the price for the thing or compensation of expenditures on the thing, arise from an obligation in which both parties participate.

3. The claims of the obligee retaining the thing shall be satisfied in the volume or procedure established for satisfaction of the secured claims.

4. The rules set forth in this Article shall apply, unless otherwise provided by contract.

### 4. SURETY (GUARANTY)

#### Article 343. Contract of Surety (Guaranty)

1. According to a contract of surety (guaranty), the surety (guarantor), jointly with the obligor, shall undertake to guarantee to the obligee of another person the performance of an obligation by that person in full or in part.

A contract of surety may also be entered into to secure a future obligation.

2. A contract of surety must be writing. Failure to comply with the written form shall result in the invalidity of a contract of surety.

#### Article 344. Liability of Surety (Guarantor)

1. In the event of the obligor's failure to perform or improper performance of the guaranteed obligation, both the surety(guarantor) and the obligor shall be held jointly and severally liable to the obligee, unless the contract of surety(guaranty) provides for the secondary liability of the surety.

2. The surety (guarantor) shall be liable to the obligee to the same extent as the obligor, including payment of interest, compensation of court expenses on debt collection, and other damages to the obligee caused by the obligor's failure to perform or improper performance of the obligation, unless otherwise established by the contract of surety.

3. Persons who gave a joint surety shall be held jointly and severally liable to the obligee, unless otherwise established by the contract of surety.

#### Article 345. Surety's Right to Object to Obligee's Claim

1. The surety shall have the right to bring an objection against the obligee's claim which could have been brought by the obligor, unless otherwise established by the contract of surety. The surety shall not forfeit the right to object, even if the obligor refused the same or admitted his debt.

2. Before the obligee's claim is satisfied, the surety must notify the obligor thereof, and if the suit is brought against the surety, he must involve the obligor in the case.

3. Unless the surety performed the obligations, specified in point 2 of this Article, the obligor shall have the right to file objections against the surety's claimover which he had against the obligee.

#### Article 346. Rights of Surety Who Performed Obligation

1. All the obligee's rights on an obligation shall transfer to the surety who has performed that obligation. The surety shall also have the right to demand that the obligor pay interest on the amount paid to the obligee, and compensate for other damages suffered due to the obligor's liability.

2. The obligee shall, upon the performance of an obligation by the surety, deliver documents to the surety certifying the claim to the obligor, and transfer the rights securing such claim.

3. The rules established by points 1 and 2 of this Article shall apply, unless otherwise established by legislation or by contract between the surety and the obligor, or arises from the relationship between the same.

#### Article 347. Surety's Notice about Performance of Obligation by Obligor

The obligor who performed an obligation secured by the surety must immediately notify the surety thereof. Otherwise the surety, who performed the obligation, shall have the right to collect from the obligee what he unjustly received, or to claimover the obligor. In the latter case, the obligor shall have the right to collect from the obligee only what he has unjustly received.

#### Article 348. Termination of Surety

1. A surety shall terminate upon termination of the guaranteed obligation, as well as in the event of its alteration leading to an increased liability, or other consequences unfavorable to the surety without the consent of the same.

2. A surety shall terminate with the assignment of the debt on the guaranteed obligation to another person, unless the surety agrees to be held answerable for the new obligor.

3. A surety shall terminate, in the event the guaranteed obligation is due, and the obligee refused to accept proper performance proposed by the obligor or the surety.

4. The surety shall terminate upon expiration of the period specified in the contract of surety. If such period has not been established, the surety shall terminate, if the obligee fails to bring a suit against the surety within one year after the date when the guaranteed obligation becomes due. When the performance period for the primary obligation is not specified and may not be established, or when it is determined by the moment of claim, the surety shall terminate, unless the obligee brings a suit against the surety within two years from the date of entering into the contract of surety.

### 5. BANK GUARANTY

#### Article 349. Concept of Bank Guaranty

1. By virtue of a bank guaranty a bank, other financial institution or insurance company shall, at the request of another person, take a written obligation to pay an amount of money, upon an obligee's written request for payment, in accordance with the conditions of the obligation undertaken by the guarantor.

2. A person to whom a bank guaranty is issued shall pay a fee to the guarantor.

3. A bank guaranty may not be recalled by the guarantor, unless otherwise provided therein.

4. The obligee's right to claim against the guarantor on the basis of a bank guaranty may not be transferred to another person, unless otherwise provided in the guaranty.

5. A bank guaranty shall become effective from the day of its issuance, unless otherwise provided in the guaranty.

#### Article 350. Independence of Bank Guaranty from Primary Obligation

The obligation of a guarantor to an obligee, as provided by a bank guaranty, shall not depend in their relationship on the primary obligation for the performance of which it has been issued, even if the guaranty includes reference to that obligation.

#### Article 351. Filing Claims Based on Bank Guaranty

1. The obligee's claim concerning the payment of a bank guaranty must be filed to the guarantor in writing attached with the documents specified in the guaranty. The obligee must indicate in his claim or the attachment thereto the essence of violation of the primary guaranteed obligation committed by the person at whose request the guaranty was issued.

2. The obligee's claim must be filed to the guarantor prior to the expiration of the effective period of the guaranty, as established in the same.

3. Upon receipt of the obligee's claim, the guarantor must immediately inform thereof the person to whom the guaranty is issued, and deliver to the same copies of the claim and all related documents.

4. The guarantor must consider the obligee's claim with the attached documents within a reasonable period of time and with the reasonable care necessary to establish that the claim and attached documents meet the conditions of the guaranty.

#### Article 352. Limits of Guarantor's Obligation on Bank Guaranty

1. The guarantor's obligation to the obligee as provided in a bank guaranty shall be limited by the amount of money for which the bank guaranty is issued.

2. Unless otherwise provided in the guaranty, the guarantor's liability to the obligee for guarantor's failure to perform, or for its improper performance of the obligation specified in the guaranty, shall not be limited by the amount for which the guaranty is issued.

3. The guarantor shall deny the obligee's claim, if such claim or the documents attached to the same do not meet the conditions of the guaranty, or have been submitted to the guarantor after expiration of the time period specified in the guaranty.

The guarantor shall immediately inform the obligee of a denial of his claim.

4. If prior to satisfaction of the obligee's claim, the guarantor becomes knowledgeable that the primary obligation guaranteed by a bank guaranty was performed in full or partially, was terminated on other grounds or became invalid, he shall immediately inform the obligee and the person at whose request the guaranty has been issued.

A second claim from the obligee received by the guarantor after such notice shall be subject to satisfaction by the guarantor.

#### Article 353. Termination of Bank Guaranty

1. The guarantor's obligation to the obligee on a guaranty shall terminate:

1) by payment to the obligee of the amount for which the guaranty is issued;

2) by expiration of the fixed period for which it was issued;

3) as a result of a waiver by the obligee of his rights to the guaranty and return of the same to the guarantor;

4) as a result of a waiver by the obligee of his rights to the guaranty by a written request to release the guarantor from his obligations.

The termination of the guarantor's obligations on grounds specified in sub-points 1, 2 and 4 of this point shall not depend on whether the guaranty has been returned to the same.

2. A guarantor who becomes knowledgeable of the termination of a guaranty shall immediately inform thereof the person at whose request the guaranty was issued.

3. The guarantor's right to claim over the person at whose request the bank guaranty has been issued for reimbursement of an amount paid to an obligee on this guaranty shall be established by an agreement between the guarantor and such person.

4. The guarantor shall not have the right to demand from the person at whose request the guaranty was issued reimbursement of the amount paid to the obligee in violation of the conditions of the guaranty, or for a violation of the guarantor's obligation to the obligee, unless otherwise provided by the agreement between the guarantor and such person.

## 6. ADVANCE

### Article 354. Concept of Advance. Form of Agreement on Advance

1. An advance shall be a sum of money paid from his payment account by one of the contracting parties to the other party as evidence of entering into the contract and of securing performance of the same.

2. An agreement about an advance irrespective of the amount of advance must be in writing.

3. In case of doubt as to whether the amount paid from the payment account of one of the parties under the contract is an advance, in particular as a result of the failure to comply with the rule established by point 2 of this Article, such amount shall be recognized as paid in advance, unless proved otherwise.

### Article 355. Consequences of Termination and Failure to Perform Obligation Guaranteed by Advance

1. An advance shall be returned, in the event of a termination of an obligation prior to its performance upon agreement between the parties, or as a result of an impossibility to perform.

2. An advance shall remain with the other party, if the party that paid the advance is responsible for the non-performance of the contract. If the party which received an advance is responsible for the non-performance of the contract, it must pay double the amount of the advance to the other party.

In addition, the party responsible for the non-performance of the contract shall compensate the other party for losses crediting the amount of the advance, unless otherwise provided by contract.

## CHAPTER 20 LIABILITY FOR BREACH OF OBLIGATIONS

### Article 356. Grounds for Liability for Breach of Obligation

1. A person who fails to perform an obligation or performs it improperly shall be liable on the grounds of fault (intent or negligence), except for cases when other grounds for liability are provided by law or by contract.

A person shall be found not liable, if he took all necessary measures for proper performance of the obligation with the degree of care and prudence required by the nature of the obligation and by the conditions of the transaction.

2. The absence of liability shall be proved by the person who breached the obligation.

3. Unless otherwise provided by law or by contract, the person who fails to perform or improperly performs an obligation while engaged in business activity shall be liable, if he fails to prove that proper performance was impossible due to insuperable force, i.e. extraordinary and inevitable circumstances under the given conditions. Such circumstances shall not include, in particular, violation of obligations on the part of the obligor's contra-agents, unavailability at the market of goods which were necessary for performance, unavailability to the obligor of the necessary funds.

The contract or legislation may provide for other conditions of excuse from liability of business activity participants.

4. A prior agreement concerning the excuse from, or limitation of, liability for intentional violation of obligations shall be void.

### Article 357. Consequences of Breach of Obligation at Fault of Both Parties

1. If the non-performance or improper performance occurred at the fault of both parties, the court shall reduce the amount of the obligor's liability accordingly. The court shall also have the right to reduce the amount of the obligor's liability, if the obligee intentionally or by negligence contributed to an increase in the amount of losses caused by the non-performance or improper performance, or did not take reasonable measures to reduce the same.

2. The rules of point 1 of this Article shall correspondingly apply in cases where by operation of law or contract the obligor is held liable for the failure to perform or for improper performance of the obligation irrespective of his fault.

#### Article 358. Obligor's Responsibility to Compensate for Loss

1. The obligor must compensate the obligee for losses (Art 14) caused by the non-performance or improper performance of an obligation.

2. Unless otherwise provided by law or by contract, in order to determine the losses, the prices existing at the place where the obligation was to take place shall be accounted as of the date of voluntary satisfaction of the obligee's obligation by the obligor, or as of the date of bringing a suit, if the claim was not satisfied voluntarily. Based on circumstances, the court may satisfy the claim for compensation of losses taking into account the prices as of the date when the decision was made.

3. All measures and preparations made by the obligee, in order to receive profit shall be taken into account in determining lost benefit.

#### Article 359. Losses and Penalty

1. If a penalty is established for non-performance or improper performance of an obligation, losses shall be paid for that part which has not been covered by penalty.

Legislation or contract may provide for such cases as: when only penalty, rather than losses, is collected; when losses may be collected in a full amount above the penalty; when at the obligee's choice either a penalty or losses may be collected.

2. In cases when limited liability is established for non-performance or improper performance of an obligation (Article 365), losses subject to compensation only in that part which has not been covered by the penalty, or losses above the penalty, or losses instead of the penalty, may be collected up to the limits established by such restriction.

#### Article 360. Liability for Failure to Perform Monetary Obligation

1. In the event of delay in payment of used other person's money, illegal withholding of the same, evasion from returning the same, or illegal receiving or saving money at the expense of another person, interest shall be paid on such amount of money.

The amount of interest shall be determined on the basis of an appropriate banking interest rate existing at the place of residence of the obligee, or if the obligee is a legal entity, at its location, on the date of performance of the monetary obligation or its relevant part. Where the debt is collected through court, the court may satisfy the obligee's claim based on the banking interest rate as of the date a suit is filed or as of the date a decision is made. Such rules shall apply, unless other interest amount is established by law or by contract.

2. If losses caused to the obligee through illegal use of his money exceed the amount of interest due to him on the basis of point 1 of this Article, he shall have the right to demand from the obligor compensation for losses in the part exceeding such amount.

3. In the event of illegal use of other person's money under a monetary obligation related to the business activity, a fine above the amounts specified in points 1 and 2 of this Article shall be collected in the amount of five per cent annual rate upon an overdue amount, unless a contract establishes a higher amount of fine.

4. Unless the law or contract establishes a shorter period for charging interest, interest for the use of other person's money shall be collected up to the day of payment of such money to the obligee.

#### Article 361. Liability and Performance of Obligation in Kind

1. Payment of penalty and compensation for losses in case of improper performance of an obligation shall not excuse the obligor from the performance of the obligation, unless otherwise provided by law or by contract.

2. Compensation for losses in case of the failure to perform an obligation, and payment of penalty for non-performance of the same, shall excuse the obligor from performance of the obligation in kind, unless otherwise provided by law or contract.

3. A refusal of the obligee to accept performance which has lost its value due to delay, in combination with payment of penalty established as compensation for release from obligation, shall excuse the obligor from performance of the obligation in kind.

#### Article 362. Performance of Obligation at the Expense of Obligor

In the event the obligor fails to perform an obligation to produce and transfer a thing to ownership, economic or operative management, or to transfer a thing to the obligee's use, or to perform a certain work for the same or render

services, the obligee shall have the right to entrust a third party to perform the obligation for a reasonable price within a reasonable time period, or to perform the obligation himself, unless otherwise provided by legislation, contract or the essence of the obligation, and to demand compensation from the obligor for out-of-pocket expenses suffered and for other losses.

#### Article 363. Consequences for Failure to Perform Obligation on Delivering Individually Identified Thing

In the event of failure to perform an obligation to transfer an individually identified thing to the ownership, economic or operative management or gratuitous use of the obligee, the obligee shall have the right to demand seizure of such thing from the obligor and transfer of the same to the obligee under the conditions provided by the obligation. This right shall be invalid, if the thing has already been transferred to a third party having the right of ownership, economic or operative management. If the thing has not been transferred yet, the priority shall be with the obligee to whose benefit the obligation has arisen first, and if that is impossible to establish, the one who was the first to file a claim.

Instead of a claim to receive transfer of the thing which is the subject-matter of an obligation, the obligee shall have the right to demand compensation for losses.

#### Article 364. Secondary Liability

1. Prior to filing a claim against a person who, in accordance with the legislation or conditions of the obligation, is liable in addition to the person who is the principal obligor (secondary liability), the obligee must file the claim against the principal obligor.

If the principal obligor refuses to satisfy or evades the satisfaction of the obligee's claim, the claim may be brought against a person who bears the secondary liability.

2. The obligee has no right to demand the satisfaction of his claim filed against the principal obligor from a person who bears secondary liability, if such claim may be satisfied by setting off the counter-claim against the principal obligor, or by the clear withdrawal of funds from the principal obligor's account.

3. A person who bears secondary liability shall have the right of claimover against the principal obligor, unless otherwise established by law or by contract.

4. The person who bears secondary liability must notify the principal obligor before satisfying the obligee's claim, and if the suit is brought against the same, he must involve the principal obligor in the case.

Otherwise, the principal obligor shall have the right to raise the same objections against a claimover of the person bearing secondary liability, as he may have had against the obligee.

#### Article 365. Limitation of Liability on Obligation

1. The law may restrict the right to full compensation for losses (limited liability) on certain types of obligations and on obligations related to certain types of activity.

2. An agreement concerning restriction of the obligor's liability under a contract of accession or any other contract to which the obligee is a citizen in the capacity of a consumer, shall be void, in the event the amount of liability for such type of an obligation or for such violation is established by law, or if such agreement has been entered into prior to circumstances leading to liability for failure to perform or for improper performance of an obligation.

#### Article 366. Obligor's Liability for His Employees

Actions of the obligor's employees undertaken for the performance of his obligations shall be recognized as actions of the obligor. The obligor shall be held liable for those actions, if they result in the failure to perform or improper performance of an obligation.

#### Article 367. Obligor's Liability for Actions of Third Parties

The obligor shall be held liable for the failure to perform or improper performance of an obligation by third parties, which are entrusted with performance, unless the law envisages liability of a third party who is the actual performer.

#### Article 368. Obligor's Delay

1. The obligor who delayed performance, shall be liable to the obligee for losses caused by the delay as well as for the incidental impossibility of performance occurred during the delay.

2. If the performance has lost its value to the obligee due to the obligor's delay, the obligee may refuse to accept performance and demand compensation for losses.

3. The obligor shall not be deemed as having delayed his obligation during the time that the obligation may not be performed owing to the obligee's delay.

#### Article 369. Obligees Delay

1. The obligee shall be deemed as having delayed, if he refuses to accept the proper performance offered by the obligor or if he fails to perform actions provided by law or contract, or arising from business customs or from the essence of the obligation prior to which performance the obligor could not perform his obligation.

The obligee shall also be deemed as having delayed, in cases set forth in point 2, Article 371 of this Code.

2. The delay of the obligee shall give the obligor the right to seek compensation for losses caused by delay, unless the obligee proves that the delay occurred under circumstances for which neither the obligee himself nor the persons who were to accept the performance by virtue of the law or by the commission of the obligee are responsible.

3. Under the monetary obligation, the obligor shall not pay interest for the period of the obligee's delay.

### CHAPTER 21 TERMINATION OF OBLIGATIONS

#### Article 370. Grounds for Termination of Obligations

1. An obligation shall terminate fully or in part on grounds provided by this Code, by other legislation or by contract.

2. Termination of an obligation upon the demand of any party shall be allowed only in cases provided by legislation or by contract.

#### Article 371. Termination of Obligation by Performance

1. An obligation shall be terminated by proper performance.

2. The obligee accepting the performance shall issue at the obligor's request an acknowledgment that he has received performance in full or in part.

If the obligor issues a debt document certifying an obligation to the obligee, the obligee accepting the performance must return such document, or refer to it in his acknowledgment, in the event it is impossible to return the debt document. The acknowledgment may be substituted for by a notation on the debt document which is being returned. The possession of such document by the obligor shall certify termination of an obligation, unless proved otherwise.

If the obligee refuses to issue an acknowledgment, to return the debt document, or to make a notation in the acknowledgment concerning impossibility to return the debt document, the obligor shall have the right to delay the performance. In such cases the obligee shall be recognized as having delayed.

#### Article 372. Compensation for Release from Obligation

Upon the agreement of the parties an obligation may be terminated by an offer of compensation in exchange for performance (payment of money, transfer of property, etc.). The amount, time period and procedure for offering compensation for the release from an obligation shall be established by the parties.

#### Article 373. Termination of Obligation by Set-Off

An obligation shall be terminated completely or in part by set-off of a similar counter-claim which becomes due, or which duration is not specified, or is established by the time of demand. An application of any party shall be sufficient for the set-off.

A set-off of claims shall not be allowed in the following cases:

1) if upon the application of the other party, the statute of limitations is applicable on the claim, and such statute of limitation has expired;

2) if the claim pertains to compensation for damages caused to life and health;

3) if the claim pertains to recovery of alimony;

4) if the claim pertains to life maintenance;

5) and in other cases provided by law or by contract.

In the event of assignment of the claim (Article 316), the obligor shall have the right to set off his counter claim to the original obligee against the claim of a new obligee.

A set-off shall be carried out, if the claim arose on grounds existing at the time the obligor received notice about the assignment of the claim, and the time period of the claim commenced prior to such notice, or such time period was not specified or was not established by the time of demand.

Article 374. Termination of Obligation by Coincidence of the  
Obligor and Obligee in One Person

An obligation shall terminate by coincidence of the obligor and the obligee in one person.

Article 375. Termination of Obligation by Novation

1. An obligation shall terminate upon the agreement of the parties to replace the original obligation between them by another obligation between the same persons, envisaging a different subject-matter or a different way of performance (novation).

2. Novation shall not be allowed concerning obligations on compensation for damages caused to life and health, or for alimony obligations.

3. A novation shall terminate additional obligations related to the original obligation, unless otherwise provided by an agreement between the parties.

Article 376. Forgiveness of Debt

An obligation shall be terminated by the release of the obligor by the obligee from his obligations, unless such release violates the rights of other persons having interests in the obligee's property.

Article 377. Termination of Obligation by Impossibility of  
Performance

1. An obligation shall terminate in the event of an impossibility to perform, if such impossibility is caused by a circumstance for which none of the parties is responsible.

2. In the event it is impossible for the obligor to perform an obligation, due to a circumstance for which none of the parties is responsibility (point 1 of this Article), the obligee has no right to demand the performance of the obligation from the obligor. The party that has performed the obligation shall have the right to demand the return of the performed.

3. In the event it is impossible for the obligor to perform an obligation as a result of faulty actions of the obligee, the latter shall have no right to demand the return of what he has performed on the obligation.

Article 378. Termination of Obligation Based on Act of Government  
Agency

1. If performance becomes impossible completely or partially as a result of issuance of an act by a government agency or an agency of local self-government (public act) , the obligation shall terminate completely or partially in relevant part. The party which suffers losses as a result of termination of the obligation, shall have the right to demand compensation in cases and in the procedure established by this Code.

2. In case a public act which caused termination of the obligation is found invalid according to the established procedure, the obligation shall be renewed, unless otherwise provided by the agreement between the parties, or unless otherwise arising from the essence of the obligation, provided that the obligee is still interested in the performance.

Article 379. Termination of Obligation Due to Citizen's Death

1. An obligation shall terminate due to the obligor's death, unless the performance can be carried out without the obligor's personal participation, or if the obligation is in any other way connected with the obligor's personality.

2. An obligation shall terminate due to the obligee's death, if the performance is intended for the obligee personally, or if the obligation is in any other way inseparable from the obligee's personality.

Article 380. Termination of Obligation by Liquidation of Legal  
Entity

An obligation shall terminate upon the liquidation of a legal entity (the obligor or the obligee), except in cases where performance of the obligation of the liquidated legal entity is transferred by legislation to another legal entity (according to the obligations resulting from damages caused to life, health, etc.).

## CHAPTER 22 GENERAL PROVISIONS ABOUT CONTRACT

### Article 381. Concept of Contract

1. A contract shall be an agreement between two persons or more concerning the establishment, alteration, or termination of civil rights and responsibilities.

2. General provisions on obligations shall apply to obligations arising from a contract, unless otherwise provided by the rules of this Chapter and the rules concerning certain types of contracts set forth in this Code.

3. General provisions on the contract shall apply to contracts entered into by more than two parties (multilateral contracts), unless this contradicts the multilateral nature of such contracts.

### Article 382. Freedom of Contract

1. Citizens and legal entities are free to enter into a contract.

Compulsion to enter into a contract shall be prohibited, except in cases where the obligation to enter into a contract is provided by this Code, by other law or by a voluntary obligation.

2. Parties may enter into a contract both provided and not provided by legislation.

3. Parties may enter into a contract which includes elements of different contracts provided by legislation (a mixed contract). Legislation on contracts which elements are contained in a mixed contract shall apply to relationships between parties to a mixed contract in its relevant part, unless otherwise provided by the agreement between the parties, or unless otherwise arising from the essence of the mixed contract.

4. Conditions of a contract shall be established at the discretion of the parties, except in cases when the content of a corresponding condition is prescribed by legislation (Article 383).

In cases when a condition in a contract is provided by a norm, which, according to the legislation has force, unless otherwise provided by the agreement between the parties, (dispositive norm), the parties may by their agreement exclude it from application or establish a condition different from the one provided by it. In the absence of such an agreement, the condition of a contract shall be determined by a dispositive norm.

5. If a condition in a contract is not established by the parties or by a dispositive norm, the corresponding condition shall be determined by business customs applicable to the relationship between the parties.

### Article 383. Contract and Law

1. A contract must comply with rules obligatory for the parties and established by legislation (imperative norms) existing at the time the contract was entered into.

2. Relations between the parties to a contract, entered into before effectuation of the law, shall be regulated in accordance with Article 3 of this Code.

### Article 384. Compensable and Gratuitous Contracts

1. A contract according to which one party must receive payment or any other compensation for performance of its obligations is a compensable contract.

2. A gratuitous contract is a contract according to which one party undertakes to present something to another party without receiving payment or any other compensation.

3. A contract shall be assumed a compensable contract, unless otherwise arising from the legislation, from the content or the essence of the contract.

### Article 385. Effective Period of Contract

1. A contract shall become effective and become binding for the parties from the time it is entered into (Article 394).

2. The parties shall have the right to establish that the conditions of the contract which they have entered into shall apply to the relationship between them which have arisen prior to the time the contract was entered into.

3. If the duration of the contract is set forth by law or by contract, termination of this period shall result in termination of the contracting parties' obligations.

A contract which does not specify its effective period, shall be deemed in effect until the time of completion of performance of parties' obligations specified therein.

4. Expiration of the effective period of the contract shall not excuse the parties from any liability for its violation which has occurred prior to expiration of this period.

#### Article 386. Public Contract

1. A public contract is a contract entered into by a commercial organization, and indicating the obligations of such commercial organization concerning the sale of goods, or the performance of work or rendering services, which such organization must carry out by the nature of its activity to anyone who responds ( retail sale, transportation by public vehicles, communication services, supply of energy, medical, hotel, banking services, etc.).

A commercial organization shall have no right to prefer one person to others with respect to entering into a public contract, except as provided by legislation.

2. The price of goods, works and services as well as other terms of a public contract shall be established as equal for all customers except in cases, where legislation permits incentives for certain categories of consumers.

3. The refusal of a commercial organization to enter into a public contract, where the corresponding goods (works, services) are available to the customer, shall be prohibited.

Where the commercial organization unjustly evades entering into a public contract, the provisions set forth in point 4 of Article 406 of this Code, shall apply.

4. In cases provided by law, the Government of the Kyrgyz Republic may issue rules binding upon the parties, when entering into and performing public contracts (model contracts, regulations, etc.).

5. Conditions of a public contract, which do not meet the requirements set forth in points 2 and 4 of this Article shall be void.

#### Article 387. Contract of Joinder

1. A contract of joinder shall be a contract, which conditions are specified by one of the parties in models or other standard forms, and which may be accepted by another party by agreeing to the proposed contract on the whole.

2. The party which agreed to the contract shall have the right to demand rescission or alteration of the contract, if the contract of joinder, though consistent with the legislation, deprives the party of rights usually provided by such type of contract, excludes or restricts liability of the proposing party for breach of obligations, or contains other conditions clearly burdensome for the joining party, which such party would not have reasonably accepted had it had the opportunity of participating in drafting the conditions of the contract.

3. Under the circumstances provided in point 2 of this Article, a claim on rescission of the contract filed by the party, which has joined the contract in connection with its business activity, shall not be satisfied, if the joining party knew or should have known on what conditions the contract is entered into.

#### Article 388. Preliminary Contract

1. Under a preliminary contract, the parties undertake to enter into a contract in the future with respect to the transfer of property, performance of work or rendering services (principal contract) based on the conditions set forth in a preliminary contract.

2. A preliminary contract shall be entered into in the form of a principal contract established by legislation, or in the written form, if the form of the principal contract is not established. Failure to comply with the rules about the form of a preliminary contract shall result in the voidness of the same.

3. A preliminary contract must contain conditions which establish the subject matter and other essential conditions of a principal contract.

4. A preliminary contract must specify the time period during which the parties undertake to enter into a principal contract.

If such time period is not specified in the preliminary contract, the contract, which is provided therein shall be entered into within a year from the date the preliminary contract is entered into.

5. In the event the party, which has entered into a preliminary contract evades entering into the principal contract, provisions set forth in point 4 of Article 406 of this Code shall apply.

6. Obligations set forth in the preliminary contract shall terminate, if a principal contract is not entered into before the expiration of the time period established for the parties to enter into the same, or if neither of the parties sends a proposal to the other party concerning entering into this contract.

7. An agreement of intentions (statement of intentions etc.), which fails to express a direct will of the parties to provide it with the force of a preliminary contract, shall not produce any legal-civil consequences.

#### Article 389. Third Party Beneficiary Contract

1. A contract for the benefit of a third party shall be a contract according to which the parties agree that the obligor will perform to the benefit of a third party rather than to the benefit of the obligee; such third party may or not be specified in the contract, and such third party shall have the right to demand from the obligor the performance of obligations for its benefit.

2. Unless otherwise provided by legislation or by contract, the parties may not rescind or change the contract without the consent of the third party from the time the third party expressed to the obligor its intention to use its right on the contract.

3. The obligor in a third party beneficiary contract shall have the right to assert objections to the claim of the third party, which he could have asserted against the obligee.

4. In the event the third party waives its rights granted to the same in the contract, the obligee may use these rights, unless it contradicts the legislation or the contract.

#### Article 390. Price

1. Settlements between parties in performance of the contract shall be carried out at the price established by the agreement of the parties.

In cases provided by law, prices (tariffs, valuations, rates) established or regulated by the authorized government agencies, shall apply.

2. Alteration of a price after the contract has been entered into shall be allowed in cases and under the conditions provided by the contract, by law or according to the procedure established by law.

3. In the event the price is not specified in a compensable contract and may not be determined on the basis of the contract conditions, settlements between the parties shall be carried out according to the price usually charged under comparable conditions for similar goods, works and services.

#### Article 391. Model Conditions of Contract

1. A contract may envisage that its individual conditions are determined by model conditions developed for corresponding types of contracts and published in the press.

2. In the event the contract fails to refer to model conditions, such model conditions shall apply to the relationship between the parties as business customs, if they comply with the requirements established by Article 4, and point 5 of Article 382 of this Code.

3. Model conditions may be written in the form of a model contract or other document containing those conditions.

#### Article 392. Interpretation of Contract

On interpreting the conditions of a contract, the court shall take into account the literal meaning of words and phrases contained in the contract. The literal meaning of a contractual condition, when unclear, shall be established by comparing the same with other conditions, and by the meaning of the contract on the whole.

If the rules contained in point 1 of this Article do not allow to determine the content of the contract, the common will of the parties with the account of the purposes of the contract must be identified. In this case all accompanying circumstances must be taken into account, including negotiations and correspondence prior to the contract, practice developed during the relationships between the parties, business customs, and subsequent conduct of the parties.

#### Article 393. Basic Provisions Concerning Entering Into Contract

1. A contract shall be considered entered into, if the parties agree to all significant conditions of the contract in the form required in specific cases.

Significant conditions of the contract shall include conditions about the subject matter of the contract, conditions which are established as significant by legislation or conditions necessary for such type of contracts, and all conditions on which an agreement must be reached as declared by one of the parties.

2. A contract shall be entered into, when an offer (a proposal to enter into a contract) is sent by one of the parties, and is accepted (acceptance of a proposal) by the other party.

#### Article 394. Moment of Entering Into Contract

1. A contract shall be deemed entered into at the time the person sending an offer receives an acceptance.
2. If, in accordance with the law, the transfer of property is also required in order to enter into a contract, the contract shall be deemed entered into at the time of transfer of the corresponding property (Article 256).
3. A contract, which is subject to notarization, or to government registration, shall be deemed entered into at the time of notarization or registration, and, when both notarization and registration are required, at the time of registration of the contract.

#### Article 395. Form of Contract

1. A contract may be entered into in any form provided for making transactions, unless the law establishes a specific form for such type of a contract.  
If the parties agree to enter into a contract in a certain form, it shall be deemed as entered into from the time it was structured in such form, even though such form is not required by law for such type of a contract.
2. A contract in a written form may be entered into by drawing a single document signed by the parties, and by exchanging letters, telegrams, teletypes, telephoned telegrams, through fax or electronic or other communication or by other means which allow to establish authentically that the document derives from the contracting parties.
3. A written form of a contract shall be deemed observed, if a written proposal to enter into a contract was accepted in the procedure set forth in Article 402 of this Code.

#### Article 396. Offer

1. An offer shall be a proposal addressed to one specific person or more which is sufficiently definite and expresses the intention of the offeror to be deemed a person who would enter into a contract with the offeree.  
An offer shall contain essential conditions of a contract.
2. An offer shall bind the offeror from the time the offer is received by the addressee.  
If a notice about the revocation of the offer is received prior to, or at the same time as the offer itself, the offer shall be deemed as not having been received.

#### Article 397. Irrevocability of Offer

An offer received by the addressee may not be retracted within the period established for its acceptance, unless otherwise provided in the offer itself, or unless otherwise arising from the essence of the offer or the circumstances under which it is made

#### Article 398. Invitation to Make Offer. Public Offer

1. Unless otherwise directly provided in the proposal, advertisements and other proposals addressed to an indefinite group of persons shall be considered as proposals to make offers.
2. A proposal which includes all significant terms of a contract, and which outlines the will of the offeror to enter into a contract with anyone who responds on conditions set forth in the proposal shall be recognized as an offer (a public offer).

#### Article 399. Acceptance

1. Acceptance shall be an affirmative response received from a person to whom an offer is addressed.  
Acceptance must be complete and unconditional.
2. Unless otherwise provided by law, or arising from business customs, or from previous business relationships between the parties, silence shall not be an acceptance.
3. Unless otherwise provided by legislation, or specified in the offer, actions committed by the offeree during the period set forth for acceptance of the offer, with the view of performing the indicated conditions of a contract (shipment of goods, rendering services, performance of works, payment of a corresponding sum of money, etc.) shall be deemed an acceptance.

#### Article 400. Revocation of Acceptance

If a notice about the revocation of the acceptance is received by the offeror prior to, or at the same time as the acceptance itself, the acceptance shall be deemed as not having been received.

Article 401. Entering into Contract Based on Offer With Time  
Period Specified for Acceptance

When an offer contains a time period for an acceptance, the contract shall be deemed entered into when the acceptance is received by the offeror within the specified time period.

Article 402. Entering into Contract Based on Offer Without Time  
Period Specified for Acceptance

1. When a written offer does not contain a time period for its acceptance, a contract shall be deemed entered into, if the acceptance is received by the offeror before the expiration of the time period established by legislation, and if such time period is not established within a normal course of necessary time.

2. When an offer is made orally without the time period specified for its acceptance, the contract shall be deemed entered into, if another party immediately declares the acceptance of the offer.

Article 403. Acceptance Received with Delay

1. In cases when an acceptance notice sent in due course is received with delay, acceptance shall not be deemed delayed, unless the offeror immediately informs the other party about receipt of the acceptance with delay.

2. If the offeror immediately informs the offeree that it is honoring the offeree's delayed acceptance, a contract shall be deemed entered into.

Article 404. Acceptance on Other Conditions

A response expressing agreement to enter into a contract on terms other than those proposed in the offer shall not be deemed an acceptance.

Such response shall be recognized as a denial of the original offer and at the same time as a new offer.

Article 405. Venue for Entering into a Contract

If the contract does not specify a venue for entering into the same, the contract shall be deemed entered into at the place of residence of the citizen, or location of the legal entity, who has sent the offer.

Article 406. Entering into an Obligatory Contract

1. In the event when, in accordance with this Code or any other laws, it is obligatory for one of the parties to enter into a contract, the party must send a notice of acceptance or of the acceptance withdrawal, or of acceptance of the offer (draft of the contract) on other terms (the protocol of disagreement about the contract draft) to the other party within thirty days of receipt of the offer, unless other period is specified by the legislation or agreed upon by the parties.

2. The offeror that received the notice of acceptance of the offer on other terms (the protocol of disagreement about the contract draft) from the party obligated to enter into a contract, shall have the right to bring the matter of disagreement into court within thirty days after such a notice is received or after expiration of the period for acceptance, unless other period is established by the legislation for specific types of contracts.

3. If the party obligated to enter into a contract sends a draft of the contract to the other party and within thirty days receives a protocol of disagreement about the contract draft, such party shall notify the other party about its acceptance of the contract so edited or about its refusal of the protocol of disagreement.

If the protocol of disagreement was declined or a party has not received any notice concerning its protocol within the required period of time, such party has the right to bring the matter of disagreement into court, provided that there is no other statutory requirement for such special kind of contract.

4. If the party obligated to enter into a contract in accordance with this Code or any other statutes attempts to avoid its obligation, the other party may appeal to court with a demand to compel that party to enter into the contract.

A party that has no grounds to refuse to enter a contract shall compensate for damages caused by withdrawal of acceptance.

Article 407. Pre-contract Disputes

In cases set forth in points 2 and 3 of Article 406 of this Code, and in the event the disagreement, which has arisen while entering into the contract, was brought into court by the agreement of the parties, the conditions of the contract, which caused disagreement of the parties shall be determined in accordance with the court decision.

#### Article 408. Entering into Contract at Sales (Torgi)

1. A contract may be entered into by conducting sales, unless otherwise arising from its essence. The contract shall be entered into with the winner of the sales.

2. Either a specialized entity or the owner of a thing, or the holder of the property right may be an organizer of the sales. A specialized entity shall act based on the contract entered into with the owner of a thing or the holder of the property right, and shall act on their behalf or on its own behalf.

3. As provided in this Code or any other law, contracts on the sale of a thing or a property right may be entered into only by conducting sales.

4. Sales may take the form of an auction or of a competition.

The winner of the sales by auction shall be deemed a person who proposes the highest price, and the winner by competition shall be a person who proposes the best conditions as decided by the Competition Committee established by the organizer.

The form of sales shall be determined by the owner of a thing being sold or the holder of the property right being sold, unless otherwise established by the law.

5. An auction or a competition attended by one bidder only shall be deemed invalid.

6. The rules set forth in Articles 408-410 of this Code shall apply to public sales conducted in the procedure of enforcement of the court decisions, unless otherwise provided in the civil procedural legislation.

7. Peculiarities of contracting, arrangement and conduct of sales carried on in the process of bankruptcy shall be established by bankruptcy legislation.

#### Article 409. Organization and Procedure for Conducting Sales

1. Auctions and competitions may be both closed and open.

Any person may participate in an open auction or an open competition. Only specially invited persons may participate in a closed auction or a closed competition.

2. Unless otherwise provided by law, the organizer shall give a thirty-day notice on conducting the sales. The notice must contain, at a minimum, the information about the time, place and the form of sales, their subject matter and the procedure for conducting the same, including information about registration for the sales, identification of the winner, and the information about the starting price.

In the event the right to enter into a contract is the subject matter of the sales, the notice on the forthcoming sales must indicate the time period established for that purpose.

3. Unless otherwise provided by law or by the notice on the sales, the organizer of the open sales who has already given the notice on the sales, shall have the right to cancel the auction at any time, but not later than three days before the date of conducting the auction, and to cancel a competition not later than thirty days before the date of conducting the competition.

In the event the organizer cancels the open sales in violation of the said time periods, he shall compensate the participants for real damages.

The organizer of a closed competition or a closed auction shall compensate the invited participants for the real damages no matter when after the delivery of the notice he has canceled the sales.

4. The participants in sales shall make a deposit in the amount, within the time period and in the procedure indicated in the notice on the sales. If the sales fail to take place, the deposit shall be returned. The deposit shall also be returned to the persons who took part in the sales but failed to win.

When entering into a contract with the winner of the sales, the amount of his deposit shall be credited against the performance of the obligations under the entered contract.

5. The winner of the sales and the organizer of the same (point 2 of Article 334) shall sign on the say of the auction or the competition a protocol of the results of the sales, which has the force of a contract. If the winner evades entering into the contract, he shall lose his deposit. If the organizer of the sales evades signing the protocol, he shall return double the amount of the deposit, and also compensate the winner for losses, caused by taking part in the sales, in the event this amount exceeds the deposit.

If the sales concern only the right to enter into a contract, such a contract must be signed by the parties after the sales are finished, and the protocol is formalized, but not later than twenty days or within some other time period indicated in the notice. In the event any party evades entering into a contract, the other party shall have the right to appeal to court with a demand to compel that party to enter into the contract, and compensate for caused damages.

#### Article 410. Consequences for Violation of Rules on Conducting Sales

1. Sales conducted in violation of the rules established by the legislation may be invalidated by court based on the claim filed by the interested person.
2. Invalidation of the sales shall result in invalidity of the contract entered into with the winner of the sales.

#### Article 411. Grounds for Amendment or Annulment of Contract

1. A contract may be amended and annulled by the agreement of the parties, unless otherwise provided by this Code, by other laws or by the contract.

2. The court may amend or annul the contract at the demand of any party only:

- 1) in the event of material violation of the contract by the other party;
- 2) in other cases provided by this Code, by other legislation or by the contract.

A violation shall be deemed material, when the breach of the contract by any party results in such damages for the other party, that it considerably loses what it anticipated to get when entering into the contract.

3. In the event of a unilateral refusal to honor the contract completely or partially, when such refusal is allowed by the legislation or by the agreement of the parties, the contract shall accordingly be deemed annulled or amended.

#### Article 412. Amendment and Annulment of Contract in Connection with Material Change in Circumstances

1. Material change in circumstances, upon which the parties relied in entering a contract, shall be the grounds for amendment or annulment of the contract, unless otherwise provided by the contract or arising from the essence of the same.

Change in circumstances shall be deemed material, where the circumstances change so greatly that the parties would not have entered into the contract, or have entered into the same on considerably different conditions, had they reasonably foreseen such circumstances.

2. If the parties fail to reach an agreement to make the contract consistent with the materially changed circumstances or to annul the same, the contract may be annulled, and on the grounds provided in point 4 of this Article it may be amended at the demand of the interested party where all of the following conditions are present:

- 1) change in circumstances resulted from reasons which the interested party could not overcome with the good faith and prudence required by the nature of the contract and the conditions of activity;
- 2) performance of the contract, without amending its conditions, would violate the existing balance of property interests of the parties and would result in such damages for the interested party, that it would considerably lose what it anticipated to get when entering into the contract;
- 3) business customs or the essence of the contract does not indicate that the interested party shall bear the risk of the change in circumstances.

3. When a contract is annulled as a result of materially changed circumstances, at the request of any party the court shall define the consequences of annulling the contract, with consideration given to the necessity of fair allocation of expenses between the parties, which expenses were suffered in connection with performance of the contract.

4. Amendment of a contract in connection with materially changed circumstances shall be allowed by court decision in exceptional cases when annulment of a contract contradicts public interests, or would cause damages to the parties which greatly exceed the expenses necessary to perform the contract under the conditions amended by court.

#### Article 413. Procedure for Amendment and Annulment of Contract

1. An agreement regarding amendment or annulment of the contract shall be made in the same form as the contract itself, unless otherwise provided by legislation, by contract or by business customs.

2. A party may file a claim to court concerning amendment or annulment of a contract only after the other party has rejected the proposal on amendment or annulment of the contract, or has failed to respond within the period indicated in the proposal or established by law or by the contract, and where there is no contract - within thirty-day period.

#### Article 414. Consequences of Amendments and Annulment of Contract

1. When annulment of a contract occurs, the obligations of the parties shall terminate.
2. When a contract is amended, the obligations of the parties shall remain effective in the amended form.

3. In the event of amendment or annulment of a contract, the obligations shall be deemed annulled or amended from the time the parties reach an agreement on amendment or annulment, unless otherwise arising from the agreement of the parties or from the nature of amendment of the contract, and if the contract is amended or annulled by a court decision, - from the time the court decision on annulment or amendment of the contract becomes effective.

4. The parties shall have no right to demand the return of what they have performed under the obligation prior to amendment or annulment of the contract, unless otherwise provided by law or by agreement of the parties.

5. If the reason for annulment or amendment of a contract is breach of the contract by any party, the other party shall have the right to demand compensation for damages caused by the annulment or amendment of the contract.

President of the Kyrgyz Republic A.Akaev