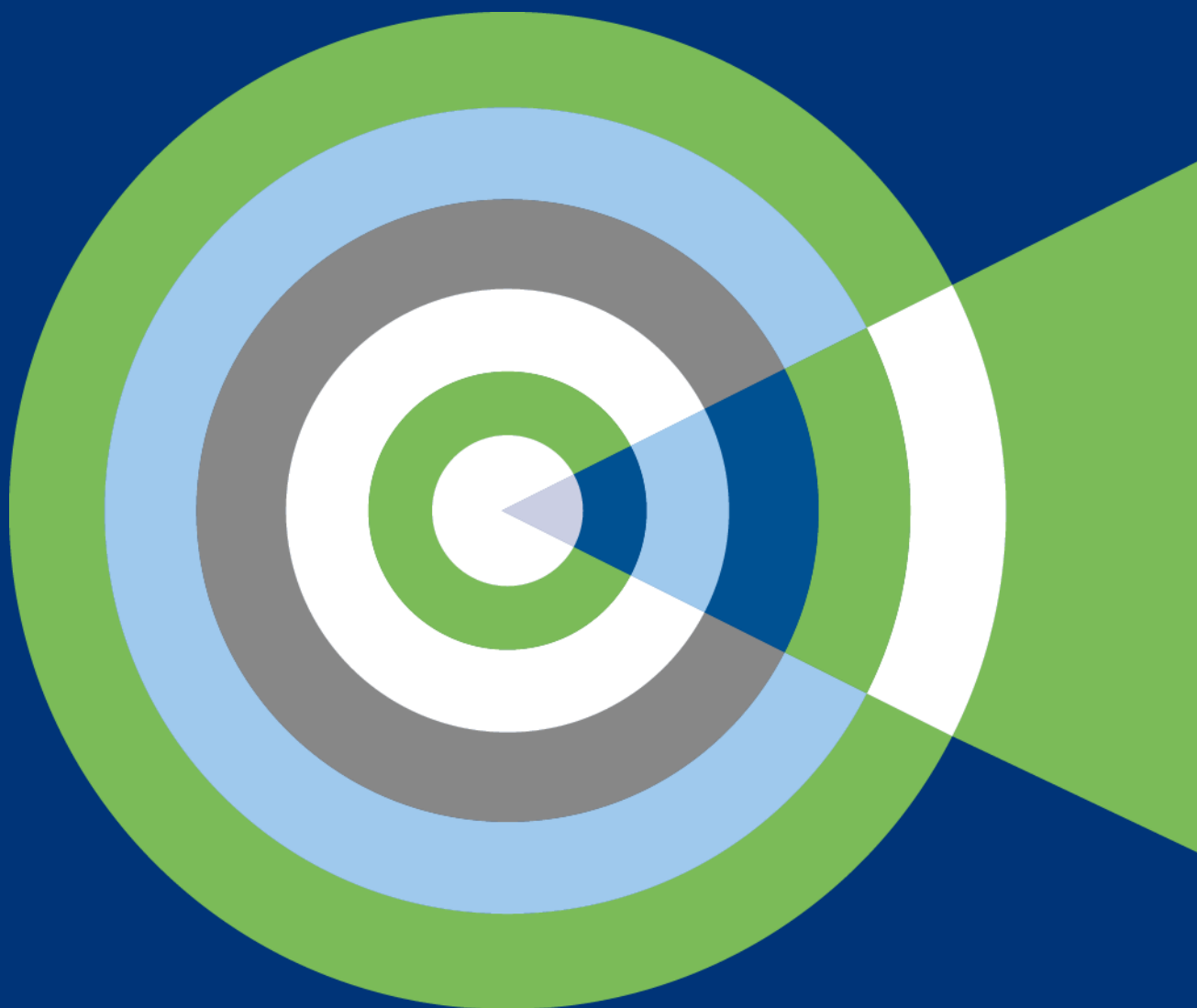


DOING BUSINESS

IN REPUBLIC OF UZBEKISTAN



The network
for doing
business

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1 – INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in around 90 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Uzbekistan has been provided by the office of UHY representatives:

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A detailed firm profile for UHY's representation in Uzbekistan can be found in section 8.

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at December 2017.

We look forward to helping you do business in Uzbekistan.

2 – BUSINESS ENVIRONMENT

BACKGROUND

COUNTRY OVERVIEW

Name	Republic of Uzbekistan
Geographic coordinates	41 N, 64 E
Area (total)	448,900 square kilometres
Land boundaries	Total 6,221km with border countries: Afghanistan 137 km, Kazakhstan 2,203 km, Kyrgyzstan 1,099 km, Tajikistan 1,161 km, Turkmenistan 1,621 km
Population	32,36 million
Density of population:	49 per km ²
Capital	Tashkent
Official Language	Uzbek; Russian, Tajik and Karakalpak widely used; English popular among younger generation
National currency	Soum (1 soum=100 tiyin); international currency code UZS
Structure	Autonomous Republic of Karakalpakistan, 12 provinces, 226 cities and districts
Religion	Islam 88%, Christianity 9%, other 3%
Time	GMT + 05:00
Electric power	220 VAC, 5A; standard two-pin plug socket (equivalent to Europe)
Domain zone	.uz
International dialling code	+998

GEOGRAPHY

The Republic of Uzbekistan is situated in the middle part of central Asia between two rivers, the Amudarya and Syrdarya. The Turan Lowland lies to the north-west and the Tien-Shan and Pamir-Alay mountain ranges are located in the south-east of the territory. The Kyzyl-Kum Desert defines the northern part of the country. The country has five states as neighbours: Afghanistan in the south, Kazakhstan in the north and north-west, Kyrgyzstan in the north-east, Turkmenistan in the south-west and Tajikistan in the south-east.

The climate in the Republic of Uzbekistan is continental, with mild winters and long hot summers. The northern part of the country is temperate, but the far south falls into the sub-torrid zone, where drought, an abundance of heat and light, and a high sun during parts of the year are inherent features. The coldest month is January. The average temperature in December is -8°C in the north and 0°C in the south, though temperatures in the north can reach -25°C and lower. The hottest month is July. The average temperature in summer exceeds 35°C and on some days and temperatures may reach 45°C or higher. The most pleasant time for visiting Uzbekistan is in the spring, from March to early June, and in the autumn, from September to early November.

FOOD

Uzbek cuisine cannot be described and has to be tasted. Fruits and vegetables grown under the oriental sun are prominent. There are around 100 variants of Uzbek *plov*, the national dish. *Plov* is often made with meat, rice, onions, and carrots, though it is prepared in a different way in every region. Overall, there are over one thousand dishes in the Uzbek cuisine.

PUBLIC HOLIDAYS

- 1 January – New Year
- 8 March – Women’s day
- 21 March – Navruz
- 9 May – Memorial day
- 1 September – Independence day
- 1 October – Teacher’s day
- 8 December – Constitution day

The following religious holidays have varying dates:

Ramadan Khait

Kurban Khait

INDEPENDENCE

Uzbekistan declared its independence from the USSR on 31 August 1991 at an extraordinary session of the Supreme Council of the country. On 2 March 1992, Uzbekistan joined the United Nations Organisation as an equal member and joined the Helsinki process by signing the Final Act of the Summit for Security and Cooperation.

Today, independent Uzbekistan is also a member of leading economic and financial organisations such as the World Bank, Asian Development Bank, Islamic Development Bank, European Bank for Reconstruction and Development and a number of other prestigious international organisations. The interest shown by partners in developing relationships with Uzbekistan is explained not only by the great potential of Uzbekistan’s natural resources, but also by the effectiveness of its economic policy.

3 – FOREIGN INVESTMENT

Uzbekistan has adopted a policy of import substitution and export orientation.

A multiple exchange rate system and highly over-regulated trade regime have led to both import and export declines since 1996, although imports have declined more than exports since the government squeezed imports to maintain hard currency reserves. High tariffs and border closures imposed in the summer and autumn of 2002 led to massive decreases in imports of both consumer products and capital equipment.

Uzbekistan's traditional trade partners are the CIS states, notably Russia, Ukraine and Kazakhstan, and the other central Asian countries. Non-CIS partners have been increasing in importance in recent years, with Korea, China, Japan, Malaysia and Turkey being the most active. In 2015 and at the beginning of 2016, Uzbekistan greeted a number of high-level officials from Russia, China, United States of America, South Korea, Kazakhstan, India, Japan and other countries. During these visits the parties discussed potential cooperation and investment opportunities.

TABLE 1
Trade data, 2015 & 2016 (information from CIA)

	2015	2016	WORLD RANKING
Exports (USD)	11.5 billion	11.2 billion	83
Imports (USD)	12 billion	10.91 billion	93
Reserves of foreign exchange and gold (USD at 31 December)	15 billion	14 billion	68
Debt – external (USD , 31 December)	14.84 billion	16.76 billion	97

EXPORTS

Main commodities Energy products, cotton, gold, mineral fertilizers, ferrous and nonferrous metals, textiles, food products, machinery and automobiles

Main partners (2016) Switzerland 35.1%, China 19.7%, Russia 9.3%, Turkey 8.7%, Kazakhstan 7.2%, Bangladesh 5.4%, Afghanistan 4.9%

IMPORTS

Main commodities Machinery and equipment, foodstuffs, chemicals, ferrous and nonferrous metals

Main partners (2016) China 22.2%, Russia 18%, South Korea 10.5%, Kazakhstan 10%, Turkey 5.8%, Germany 5.2%

LEGISLATIVE ACTS ON INVESTMENTS

In accordance with a decree of the president of Uzbekistan issued 'On additional measures to stimulate foreign direct investment', newly established enterprises with foreign investment where the contribution of foreign investors is equivalent to at least USD 5 million and where a change has been made to the tax laws, have the right (within ten years from the date of the official registration) to apply those rules and regulations to pay corporate income tax, value added tax (turnover on the sale of goods, works and services), property tax, tax on the improvement and development of social infrastructure, unified social tax and single tax, as well as mandatory contributions to the republican road fund and the fund for the reconstruction, refurbishment and equipping of educational and medical institutions that were in force on the date of registration.

With investment projects worth more than USD 50 million and where the share of foreign investors is at least 50%, construction of the necessary external engineering and communication networks (i.e. outside the production site) is financed from the national budget and other domestic sources of financing.

Enterprises attracting direct private foreign investment are exempted from the payment of profit tax imposed on legal entities, property tax, tax imposed for the improvement and development of social infrastructure, the unified tax payment imposed on micro companies and small enterprises, as well as from mandatory contributions to the republic road fund if they specialise in the following industry areas:

- The production of radio electronic devices or computers' components
- Light industry
- Silk industry
- Building materials industry
- Industrial production of poultry meat and eggs
- Food, meat and milk industry
- Processing and preserving of fish and fish products
- Chemical and petrochemical industry
- Medical industry and production of medicals for veterinary use
- Production of packaging materials
- Construction of power plants based on alternative sources of energy
- Coal industry
- Production of electrical ferroalloys
- Hardware for production purposes
- Machinery and metalworking
- Machine investments in the Uzbekistan tool and instrument industry
- Glass and porcelain industry
- Microbiological industry
- Toy industry.

The aforementioned tax privileges are granted when the volume of direct foreign investment is as follows:

- From USD 300,000–3,000,000: for three years
- Over USD 3–10 million: for five years
- Over USD 10 million: for seven years.

The aforementioned tax-related privileges apply where:

- The location of the enterprises in a city, town or village of the Republic of Uzbekistan, with the exception of Tashkent and the Tashkent region
- There is direct private foreign investment by foreign investors (without receiving any guarantee from the Republic of Uzbekistan)
- The share of foreign investors in the authorised capital of the enterprise is not less than 33%
- Foreign investment is made in hard currency or as up-to-date manufacturing equipment
- Reinvestment of at least 50% of proceeds generated through the tax-preferential treatment during the applicable period is made into further development of the company.

When selling state property to foreign investors to set up an enterprise with foreign investments, the right is provided to sell low liquidity assets that belong to the local government at zero redemption cost, without bidding but through direct contracts with the investor under specific investment obligations. Following a request to the appropriate ministries, departments and business associations, a right is granted to issue a 12-months' entry/multiple visas to the managers and professionals of foreign companies involved in the implementation of investment projects.

Foreign investment enterprises that specialise in the production of consumer goods, where the share of foreign capital is over 50%, are exempted from the mandatory sale of proceeds in foreign currency for five years from the date of registration. These enterprises shall be deemed to be specialised in the production of consumer goods, when the share of domestic production of these products is more than 60% of the total business activity revenues.

Foreign companies engaged in the prospecting and exploration of oil and gas, as well as foreign contractors and subcontractors recruited by them, are exempted from the payment of:

- All kinds of taxes and mandatory contributions to extra-budgetary funds for the period of the exploration works
- Customs duties (except customs clearance fees) for the import of equipment, material and technical resources and services required to carry out prospecting, exploration and other associated works.

Oil and gas production joint ventures with foreign companies that are carrying out prospecting and exploration activities for oil and gas, are exempted from income tax for the period of seven years from the beginning of the oil or gas exploration period.

The following are exempted from custom duties:

- Property imported into the Republic of Uzbekistan by foreign investors and foreign investment enterprises (with a share of foreign investments in the authorised capital of at least 33%) for their own manufacturing requirements
- Property imported for the personal needs of foreign investors and foreign nationals residing in the Republic of Uzbekistan in accordance with any labour contracts signed with foreign investors

- Goods imported by foreign legal entities which have made direct investments into the economy of the Republic of Uzbekistan totalling more than USD 50 million, provided that the imported goods are their own products
- Process equipment imported into the Republic of Uzbekistan in accordance with the legally approved list of items, as well as any spare parts, provided that their delivery is stipulated by the terms and conditions of the process equipment delivery contract.

FOREIGN DIRECT INVESTMENT

Uzbekistan is one of the largest recipients of foreign investment in Central Asia.

FDI FLOWS	2015	2016
Inward	USD 65 mln	USD 67 mln

FDI STOCKS	2015	2016
Inward	USD 8 890 mln	USD 8 957 mln

Source: UNCTAD World Investment Report, 2017.

REASONS FOR INVESTING

- **Political and economic stability.** Uzbekistan is a state where representatives of more than a hundred ethnic groups and dozens of religions live in peace and concord. Since its independence, Uzbekistan has created a broad spectrum of legal guarantees and preferences for foreign investors, developed integral system of measures on encouragement of activity of enterprises with foreign investments.
- **Favourable Investment Environment and Tax Policy.** The state guarantees and protects the rights of foreign investors who carry out investment activity within the Republic of Uzbekistan. In the last years, the Government has pursued consistent policy on significant reduction of tax burden for both legal entities and individuals.
- **One of the fastest growing economies since at least 2010.** Uzbekistan is considered one of the 10 top fastest growing economies by IMF, World Bank and other global institutions. Whereas in 2000 the share of industrial production in GDP of the country comprised totally 14.2%, in 2010 this indicator reached 24%, share of transport and communications accordingly 7.7 and 12.4%, share of services increased from 37% up to 49%, while share of agriculture decreased from 30.1% down to 17.5%.

4 – SETTING UP A BUSINESS

A foreign legal entity may establish a representative office to represent its interests in Uzbekistan.

A representative office is a subdivision of a foreign legal entity and is not entitled to conduct any business activity which would result in income being generated in Uzbekistan. A representative office acts on the basis of a 'Regulation' (similar to a charter or company by-laws) and is managed by an individual authorised by the parent company under a power of attorney.

A branch is another type of subdivision of a legal entity in a geographic area other than where the head office is located, which may fulfil all or part of the functions of its parent company, including income-generating business activity. At the present time, however, it is practically impossible to establish a branch of a foreign entity in Uzbekistan. This is mainly due to the absence of the necessary by-laws and other implementing regulations dealing with the process of registering a branch of a foreign legal entity.

The following types of commercial legal entities may be formed under Uzbek law:

- Joint stock companies
- Limited liability companies and additional liability companies
- General business partnerships and limited business partnerships
- Production cooperatives
- Private enterprises and unitary (state) enterprises.

The legal entities most commonly used by foreign businesses for entering the local market are described below.

JOINT STOCK COMPANY

GENERAL

A joint stock company (JSC) is a legal entity which provides its shareholders with limited liability to the extent of the value of their shareholding. Shareholders who have not fully paid for their shares bear joint and several liability for the JSC's obligations to the extent of the unpaid portion of the value of their shares. A JSC may be either open or closed. The minimum number of founders of an open JSC is unrestricted, while a closed JSC may be formed by no fewer than three and no more than 50 persons.

Shareholders of an open JSC may freely dispose of their shares without the consent of other shareholders. An open JSC may have a public subscription for shares and sell them freely, in compliance with the JSC Law. Alternatively, an open JSC may have a closed subscription for shares, except in cases where such a closed subscription is limited by the company charter or by the JSC Law. Shares in a closed JSC may only be issued to founders or to a predetermined group of people. The number of shareholders in a closed JSC may not exceed 50. The transfer of shares in a closed JSC is restricted and shares may not be offered to the public. Shareholders in a closed JSC must first offer any shares they wish to sell to the other shareholders or to the JSC itself, as provided for in the company charter.

LIMITED LIABILITY COMPANY

GENERAL

A limited liability company (LLC) is a company established by one or more individuals or legal entities with a charter capital divided into participatory interests, the FEZe of which is determined by its foundation documents. In contrast to a closed JSC, participatory interests in an LLC are not securities. The foundation documents of an LLC established by two or more participants include the foundation agreement and the company charter. If an LLC is established by only one participant, its foundation document is the company charter.

The participants in an LLC are not liable for the LLC's obligations and they only bear the risk of losses connected with the company's activities up to the limit of the value of their personal contributions. Participants in the company who have not paid up their contributions in full are jointly and severally liable for the LLC's obligations to the extent of the unpaid part of the contribution of each of the participants. The liability of the company is limited to the extent of its assets.

CAPITAL

The charter capital cannot be less than 40 minimum monthly wages (MMW), approximately USD 850. Each of the participants must pay at least 30% of their declared charter capital contributions prior to the registration of the company, with the remainder to be paid within one year.

MANAGEMENT

The supreme management body of an LLC is the general meeting of participants (GMP). The LLC Law stipulates that certain matters are within the exclusive competence of the GMP, which mainly covers business, financial, management and structural issues. The meeting is convened at least once a year. Participants jointly holding in excess of 10% of votes have the right to demand an extraordinary GMP at any time and for any reason. For most decisions, a simple majority of the participants of the LLC is sufficient. A qualified majority vote of two-thirds of the participants is required for issues of high priority such as the defining the main activities of the LLC. A unanimous vote is required for the establishment of other legal entities, branches or representative offices.

An LLC is required to have a director (chief executive officer) or a management board (collective executive body) responsible for conducting the day-to-day management of the company. The director or members of the board are elected at the GMP. The scope of the authority of the director/management board is to be specified in the foundation documents of the company. In contrast to a JSC, there is no mandatory requirement for establishing a supervisory board in an LLC. However, an LLC may have a supervisory board if this is provided for in the foundation documents. In addition, the company is prohibited from issuing securities.

AUDIT COMMISSION, INTERNAL AND EXTERNAL AUDIT

The audit (or revision) commission or an auditor has the right to monitor the financial activity of the director (or directorate) and the members of the supervisory board (if applicable) of an LLC. The charter of an LLC may provide for an external auditor not connected with the company or with its shareholders to act in place of the audit commission. An LLC with more than 15 participants must have the audit commission (or an auditor). The members of the supervisory board (if applicable), the director or the directorate cannot be selected as members of the audit commission (or as an auditor) of an LLC.

The members of the commission are normally selected from the participants of the GMP. Nevertheless, a person not connected with the company or with the participants of an LLC may also be selected as a member of the audit commission or as an auditor of an LLC. The number of members of the audit commission ought to be specified in the company charter.

The audit commission normally confirms the annual report and accounts of an LLC before their approval by the GMP. In addition, an LLC having a balance value of more than UZS 1 billion must have an internal audit service. An internal audit service audits and monitors the operations of the executive bodies of the LLC and its branches and representative offices by checking business and financial documents. The internal audit service is accountable to the supervisory board of the LLC and carries out its activity in accordance with the charter and corporate regulations of the LLC, together with government regulations.

Where the state has more than a 50% shareholding in an LLC, an external auditor not connected with the company or with its participants and nominated by The State Committee of the Republic of Uzbekistan for privatization, de-monopolization and development of competition, must be appointed for the purposes of the audits of the annual financial reports and accounts. Other LLCs may also engage the services of an external auditor at their own initiative.

ADDITIONAL LIABILITY COMPANY

An additional liability company (ALC) is a company established by one or more individuals or legal entities with a charter capital divided into participatory interests which are not securities. The foundation documents of an ALC are the same as for an LLC ie a foundation agreement and charter (or only the charter where an ALC is established by one person).

An ALC has virtually the same organisational structure as an LLC. The main difference relates to the liability of the participants. Participants in an ALC have broader liabilities in comparison to an LLC, where liability is limited to the value of the participants' contributions. In contrast to an LLC, the foundation documents of an ALC may provide for the joint and several liabilities of its participants to be a multiple of their capital contributions. The multiple must be the same for all participants. If one of the participants becomes insolvent (bankrupt), liability for the company's obligations is shared among the other participants in proportion to their contributions unless the company's foundation documents provide otherwise.

PARTNERSHIPS

GENERAL BUSINESS PARTNERSHIP

A general business partnership (GBP) is a partnership whose partners, in accordance with their agreement, engage in business activity on behalf of the partnership and are jointly and severally liable for its obligations to the extent of the partnership assets.

LIMITED BUSINESS PARTNERSHIP

A limited business partnership (LBP) is a partnership in which there are one or more limited partners (contributors) who do not participate in the partnership business and who bear the risk of losses connected with the partnership activities only to the extent of their contributions. In addition, an LBP may have partners who are engaged in the business on behalf of the partnership and are liable for the obligations of the partnership to the extent of its assets. A person may only be a partner in one partnership, GBP or LBP. However, a limited partner in a LBP can be a limited partner in other LBPs.

CHARTER CAPITAL AND FOUNDATION DOCUMENTS

The foundation document for both forms of partnership is a foundation agreement. In both cases, the charter capital of a GBP or an LBP may not be less than MMW 50.

PARTNERS' RIGHTS

A partner may leave either a GBP or an LBP established for a fixed term only on reasonable grounds (as defined in the foundation agreement) and may leave a partnership established for a non-fixed term only with three months advance notice.

PRIVATE ENTERPRISE

GENERAL

A new organisational structure for conducting business, known as a private enterprise, was first introduced in 2003 under the Law On Private Enterprise. A private enterprise is a commercial entity which is founded and managed by an individual. The foundation document is a charter approved by the owner.

Current legislation provides for additional liability to attach to an owner of a private enterprise with respect to the obligations of the private enterprise in circumstances where it does not have sufficient assets to meet its debts. There is no prohibition on a foreigner establishing this type of entity. However, a private enterprise founded by a foreign individual would not qualify for the privileges granted to other enterprises with foreign investments

CHARTER CAPITAL AND MANAGEMENT OF PRIVATE ENTERPRISES

There is no legislative minimum charter capital amount for private enterprises. The charter capital is determined by the owner him/herself and can be formed by contributions of money, securities or any other assets which have monetary value.

NAVOI FREE ECONOMIC ZONE (FEZ)

On 2 December 2008, in accordance with a decree of the president of the Republic of Uzbekistan, the Navoi free economic zone (Navoi FEZ) was established in the Navoi region, one of the most developed industrial centres of Uzbekistan.

Offering foreign investors, a wide range of opportunities for doing business and endowing them with important competitive advantages initially, the Navoi FEZ provides all the necessary conditions for the establishment of industrial complexes with full production cycles from raw materials to the manufacturing of finished goods.

TYPES OF ACTIVITIES

Priority is given to the establishment of a wide range of facilities for manufacturing of high-tech and globally competitive products using the introduction of modern high-performance equipment and machinery, manufacturing lines and modules, as well as innovative technologies in the following industries and sectors:

- Production of electrical goods and telecommunication equipment
- Production of machinery and instrument-making products and component parts for cars
- Production of pharmaceutical products and medical equipment
- Foodstuff processing and packaging
- Production of plastic and polymeric goods.

The area of the Navoi FEZ is 564,000 hectares. The operation period of the Navoi FEZ is 30 years, but this term can be extended in the future. During the operation period of the FEZ, a wide range of benefits and preferences are provided.

ANGREN FREE ECONOMIC ZONE

On 13 December 2012, in accordance with a decree of the president of the Republic of Uzbekistan the Angren free economic zone (FEZ) was established in the Tashkent region.

Offering foreign and local investors favourable conditions and a wide range of opportunities for doing business, the Angren FEZ provides all the necessary conditions for the establishment of modern high-tech and competitive production facilities.

The proximity of the Angren FEZ to Tashkent, the capital of Uzbekistan, makes the location attractive for investors. The body which coordinates and regulates the activity of the Angren FEZ is the administrative board. Operational management of the Angren FEZ is carried out by the directorate, incorporated as the State Unitary enterprise.

The area of the Angren FEZ is 187.5 hectares. Its period of operation is 30 years, but this term can be extended in the future. During the FEZ operation period, a wide range of benefits and preferences are provided.

DJIZAK FREE ECONOMIC ZONE

On 18 March 2013, in accordance with a decree of the president of the Republic of Uzbekistan the Djizak free economic zone (FEZ) was established in the Djizak region.

Djizak FEZ created in order to establish an enabling environment, for attracting foreign and domestic investments for the creation of modern high-tech industrial productions ensuring the production of competitive products with high added value, the integrated and effective use of the production and resource potential of the Djizak and Sirdarya regions, the creation of new jobs and higher incomes on this basis population, and also in accordance with the Memorandum of Understanding on the implementation of the project to create the Uzbek-Chinese industrial park in Uzbekistan.

SPECIAL TAX REGIME FOR FREE ECONOMIC ZONES

Enterprises in the FEZ are exempted:

- Land tax, income tax, property tax for legal entities and unified tax for small businesses, as well as compulsory contributions to the republican road fund
- Customs payments (except customs clearance duties) for equipment, components and materials that are not produced in the country, imported into the FEZ for the implementation of projects in line with the list approved by the Cabinet of Ministers.

These tax preferences are available from 3 to 10 years depending on the volume of foreign direct investments:

- From USD 300,000–3,000,000: for three years
- From USD 3–5 million: for five years
- From USD 5–10 million: for seven years
- More than USD 10 million: for ten years

Special customs regime for enterprises registered in the Angren or Djizak FEZ are exempted from customs payments for imported equipment, as well as for raw materials, materials and component parts for the production of exportable goods for the entire period of operation of the free economic zone.

SPECIAL CURRENCY REGIME

Business entities registered in the FEZ are permitted to exercise payments in foreign currencies within the FEZ in accordance with the agreements and contracts concluded between them, as well as to pay in hard currency for the supply of goods, works and services performed by other business entities which are residents of the Republic of Uzbekistan.

The main criteria for the selection of business entities allowed residence status within the Angren FEZ include the following:

- For the creation of modern manufacturing facilities or the carrying out of an extensive modernisation of existing facilities, equipping them with high-tech equipment and technologies
- Where there is compliance of a company's profile with the main objectives of the Angren FEZ, excluding enterprises engaged in mining and primary processing of natural raw materials
- Where there has been an investment of stakeholders' own funds and loans taken out by them without receiving a government guarantee from the Republic of Uzbekistan
- For the phased establishment of manufacturing facilities with a full production cycle to produce import-substituting and export-oriented competitive products of high demand in the market

- Where reinvestment into the company is made of at least 50% of the proceeds generated from the tax preferential treatment during its effective term.

In 2017 Uzbekistan created 4 more free economic zones as URGUT, GIJDUVAN, KOKAND and XAZARASP according to President decree № 4931 from 12.01.2017.

It should be noted that the total volume of benefits for customs payments to business entities in 2015 for FEZ Angren UZS 116.3 billion, Djizak UZS 45.2 billion and Navoi UZS 26.8 billion.

5 – LABOUR

The employment of both nationals and foreign citizens in Uzbekistan is regulated by the Labour Code.

Labour relations are regulated by individual employment contracts and often also by collective agreements. Employment contracts must meet the standards prescribed by Uzbek law. Companies may hire employees directly, without using employment or recruitment agencies.

EMPLOYMENT

JOB REGISTRATION BOOKS

Uzbek nationals must provide an employer with a job registration book containing their personal details and a record of their working history, including current employment details. The job registration book is issued for the purpose of determining the amount to be paid from the state's Social Insurance Fund for an employee's temporary illness or disability and for determining an employee's rights to a state pension. Where an employee does not have a job registration book, the employer is obliged to supply a new one within five days of the person commencing employment.

PERIOD OF PROBATION

An employment contract may include a period of probation which cannot exceed three months.

MINIMUM WAGE

As of 1 January 2017, the minimum monthly wage was UZS 149 775 and as of 1 January 2018 minimum wage become UZS 172 240. The government usually increases the minimum wage several times per year.

WORKING WEEK

The regular working week is 40 hours. Overtime work may be allowed only with the employee's consent. There are certain categories of work where overtime work is not permissible. Overtime work may not exceed four hours within two days or exceed 120 hours within one year. Overtime work must be compensated for at a rate of at least 200% of the employee's regular wage.

HOLIDAYS AND VACATIONS

Uzbekistan has nine official public holidays. The minimum paid annual leave is 15 working days, at least 12 days of which must be used by the employee at one single time.

SICK LEAVE

Employees are required to submit a medical certificate for any absence after their recovery and return to work. Generally, employees cannot be terminated by their employer while absent on sick leave and are entitled to receive sick leave compensation. Sick leave compensation is paid by the employer, but is excluded from the employer's taxable income. Sick leave compensation must be paid to an employee in the event of his/her illness, injury and in cases where an employee is caring for a sick family member, as well as in some other instances. In cases of a labour-related injury or occupational disease or other special qualification of the employee, the amount of sick leave compensation is 100% of the employee's average earnings. In other cases, sick leave compensation ranges between 60% and 80% of an employee's average earnings, depending on the grounds for the sick leave and employment seniority.

MATERNITY LEAVE

Maternity leave is paid for a period of no less than 70 days prior to the birth and 56 days following the birth (up to 70 days in certain cases). Maternity leave is paid for by the employer at the employee's normal salary level.

COST OF EMPLOYMENT

Under the mandatory Social Fund contributions, employees and employers are required to pay a unified social tax at a rate of 25% and 15% for small entities.

FOREIGN WORKERS IN UZBEKISTAN

Companies with foreign employees in Uzbekistan must obtain a foreign work permit from the Agency on Foreign Labour Migration Issues (the 'Agency').

The foreign work permit authorises a company to engage a foreign workforce. A company holding a permit must also obtain a work permit confirmation from the Agency for each foreign employee. The confirmation allows a specific foreign employee to work in Uzbekistan.

The Agency is obliged to issue a foreign work permit within 30 days from the date of submission of all necessary documents. The procedure for issuing a work confirmation for foreign employees is similar to the procedure for obtaining foreign work permits. A foreign work permit and/or employee's work permit confirmation are valid for no more than one year.

The fees for a foreign work permit and for an employee's work permit confirmation are both ten times the minimum monthly wage. Foreigners working in representative offices are excluded from the foreign work permit and work permit confirmation requirements. However, each foreigner working in a representative office is required to obtain an individual accreditation card from the Ministry of Foreign Economic Relations, Investments and Trade. In practice, it is difficult to accredit more than three persons as foreign employees of a representative office.

6 – TAXATION

CORPORATE TAXATION

RESIDENCE

An entity is a resident of Uzbekistan if it has completed the state registration procedures.

TAX BASIS

Resident companies are subject to profit tax on their worldwide trading profits and other income, such as interest, royalties and rental income. Profit tax is also levied on the Uzbek-sourced income of non-residents operating through a permanent establishment (PE). Non-commercial organisations are generally exempt from profit tax, except on profits derived from entrepreneurial activities.

Micro-firms and small entities are eligible for simplified (unified) taxation on gross revenue, which replaces profit tax, VAT, property tax, land tax and the contribution to the republican road fund, school development fund and pension fund.

Mining operations and related processing companies are subject to a mining tax and an excess profits tax (for specified items) and special fees (a 'subscription bonus', a one-time fixed payment for exploration and extraction rights and a 'commercial exploration bonus', payable for each commercial exploration of a location).

TAXABLE INCOME

Taxable income comprises business and investment income and is calculated as the difference between aggregate income and deductible expenses. Expenses and deductions that are wholly and exclusively incurred for the purpose of a business are generally allowable. For other income sources, expenses may be deducted provided they are incurred wholly and exclusively in the production of the income.

TAXATION OF DIVIDENDS

Dividends paid out of profits that have been subject to Uzbekistan tax are exempt from profit tax (by way of a deduction from taxable income) in the hands of residents and non-residents with a PE in Uzbekistan. Profit tax is not imposed on income derived from state securities.

CAPITAL GAINS

Capital gains are treated as ordinary income and subject to the standard rate of profit tax. However, a tax liability on capital gains arises when the gain is recorded on the books with regard to the sale of shares for a higher price.

LOSSES

Losses (which must be based on financial year results) may be carried forward for five years (except for losses incurred while the taxpayer was exempt from profit tax). However, the aggregate amount of losses carried forward in each subsequent year cannot exceed 50% of taxable income of the current tax period. The carry back of losses is not permitted.

RATE

The general corporate income tax rate in 2017 was 7.5%, in 2018 - 14%. The reason is that from 2018 social infrastructure development tax was cancelled and added to corporate income tax.

Banks are subject to corporate income tax at the rate of 22%.

Certain entities receive the following preferential corporate income tax treatment till 01.04.2018:

a 50% profits tax reduction where the company exports 30% or more of the total sales volume of its products, work or services;

a 30% profits tax reduction where the company exports between 15% and 30% of the total sales volume of its products, work or services.

ALTERNATIVE MINIMUM TAX

An alternative minimum tax is mainly applied to private entrepreneurs at tax rates determined in the range of one to ten times the monthly minimum wage per month, depending on the type of activity and location.

FOREIGN TAX CREDIT

Foreign profit tax paid by an Uzbek resident company may be credited against Uzbek profit tax in accordance with an applicable tax treaty. A payment notification, a certificate from the foreign tax authorities or other document confirming payment of the foreign profit tax is acceptable proof to obtain the credit.

PARTICIPATION EXEMPTION

There is no participation exemption – although please note the information in the section on ‘Taxation of dividends’ (on page 19).

HOLDING COMPANY REGIME

There is no holding company regime.

INCENTIVES

Legal entities engaged in specific activities may be granted a temporary exemption from profit tax, property tax, certain social infrastructure taxes, the unified tax payment and obligatory payments to the road fund. Additionally, companies that expand general production capacity, reconstruct industrial structures or modernise production facilities and equipment etc., may be eligible to reduce their taxable base by deducting expenses incurred for a five-year period.

WITHHOLDING TAX**DIVIDENDS**

Dividends paid to a resident or non-resident are subject to a 10% withholding tax. The rate may be reduced under a tax treaty.

INTEREST

Interest paid to a resident or non-resident is subject to a 10% withholding tax, unless the rate is reduced under a tax treaty.

ROYALTIES

Royalties and similar payments (e.g. lease payments) made to a non-resident are taxed at a rate of 20% unless these are reduced under a tax treaty.

TECHNICAL SERVICE FEES

There are no technical service fees.

BRANCH REMITTANCE TAX

A branch and its head office are treated as independent entities, so any remittance from a branch to the head office is subject to a 10% withholding tax.

OTHER TAXES ON CORPORATIONS**PAYROLL TAX**

A company must make a unified social contribution (for purposes of pension, employment and professional trade union funds) calculated on the salary of the employee at a rate

1. Micro and small enterprises, as well as farm business	15%
2. Other payers, except paragraph 1	25%

REAL PROPERTY TAX

A 5% property tax is for real estate of a legal entity.

Till 01.04.2018 - 50% property tax reduction where the company exports 30% or more of the total sales volume of its products, work or services; A 30% property tax reduction where the company exports between 15% and 30% of the total sales volume of its products, work or services;

The taxable base of legal entities is being reduced for the annual average residual value of machinery and equipment which life is not exceeding 10 years.

STATE TRUST FUNDS

In 2017 companies (except small entities, payers of single tax and single Land tax):

- contributed 1.6% of gross revenue to the pension fund (in addition to the unified social contribution).
- The road fund receives obligatory deductions (estimated monthly at 1.4% of gross revenue) and payments (e.g. on the import of vehicles or the use of foreign-registered vehicles).
- A levy applied to the education and medical infrastructure development fund is estimated monthly at a rate of 0.5 % of gross revenue.

From 2018 companies (except small entities, payers of single tax and single Land tax) pay only mandatory contributions to the State Trust Funds at 3.2% of gross revenue.

STAMP DUTY

Stamp duty is levied on claims submitted to courts, notaries actions, state registration of legal entities and various licences.

OTHER TAXES

Non-residents are subject to withholding tax as follows:

- 10% for insurance premiums under insurance, co-insurance and reinsurance contracts
- 6% on payments for telecommunications services for international communications and income from transportation and shipping services.

PERSONAL TAXATION

TAX BASIS

Resident individuals are taxable on their worldwide income; non-residents are taxed only on income received in Uzbekistan.

RESIDENCE

An individual is resident if he/she is domiciled in Uzbekistan on a permanent basis or physically present in Uzbekistan for at least 183 days in any consecutive 12-month period.

FILING STATUS

Joint filing is not permitted; spouses are taxed on a separate basis.

TAXABLE INCOME

Taxable income includes wages and salaries (including work awards, one-time bonuses, additional annual payments for holidays etc.), benefits such as training, certain childcare services, catering and travel tickets, and other income (awards, prizes etc.).

The following income is non-taxable:

- Healthcare benefits
- Income from the sale of innovation patents
- Inheritances
- Insurance premiums and repayments
- Monthly compensation for a housing allowance.

CAPITAL GAINS

Income derived by an individual from the sale of private property is exempt, unless the income is derived in the course of a commercial activity.

RATES

Progressive tax rates for 2018

One minimal monthly wage (MMW = 172 240 UZS) – 0%

From One (+1 UZS) to five times the minimum monthly wage – 7.5%

From five (+1 UZS) to ten times the MMW – Tax on 5 MMW + 16.5% of the excess

Ten times (+1 UZS) the MMW and greater – Tax on 10 MMW + 22.5% of the excess

OTHER TAXES ON INDIVIDUALS

STAMP DUTY

Stamp duty is levied on claims submitted to courts, notarial actions, state registration of legal entities and various licences.

CAPITAL ACQUISITIONS TAX

There is no capital acquisitions tax.

REAL PROPERTY TAX

Land and property taxes may be levied on individuals that own, possess, rent or otherwise use land.

The taxable base is the area of the land, with the tax rate determined according to regional quotations.

Property tax on individuals reduced to 0.35% against 2.9% in 2017. But taxable base was changed from 01.01.2018, the value of taxable property will be calculated basis on cadastral value of property. The cadastral value cannot be less than UZS 42 million. Due to the cadastral value (2018) is higher than the inventorial value (2017), the amount of property tax cannot be more than 20% of the 2017' tax amount.

SOCIAL SECURITY

Employees must pay social insurance (pension) contributions to the Pension Fund at the rate of 8% of salaries (the employer is required to withhold such social insurance contributions from the employee's salary). This requirement applies to Uzbek citizens and foreign nationals permanently residing in Uzbekistan. Other foreigners are exempt from those contributions.

ADMINISTRATION AND COMPLIANCE

FILING AND PAYMENT

Employment income and passive income are taxed by withholding at source. For other types of income, an individual must submit an income declaration, with income assessed on the basis of the declaration. Filing and payment for such 'declared income' is due by 1 April of the year following the calendar year.

PENALTIES

Violation of tax legislation may result in the following:

- In the event of the concealment of income (profit), a fine of 20% of the amount of income (profit) concealed will be imposed on the taxpayer;
- For failure to file (or for untimely or incomplete filing of) tax returns, the management of a taxpayer-legal entity and a taxpayer-physical entity incur an administrative penalty in the amount of up to 3 MMW;
- engaging in a licensed activity without a license results in an administrative penalty imposed upon the management of a taxpayer-legal entity from 10 to 20 MMW and a taxpayer-physical entity in the amount of 5 to 10 MMW;
- Penalty of 0.033% of total taxes due is applied for each day of delay in the payment of taxes and fees.

In addition, the management of the taxpayer entity may be subject to criminal liability in certain aggravated cases.

VALUE ADDED TAX (VAT)

TAXABLE TRANSACTIONS

VAT is levied on the supply of goods and services and the import of goods.

RATES

The standard rate of VAT is 20%.

Services or items which are not subject to VAT include:

- Transport for passengers (except for taxis)
- Medical, education, tourist and excursion services
- Financial and insurance services.
- Certain technological equipment and imported property under individual agreements with the government.

Supplies that are zero-rated include:

- Goods exported for hard currency
- Services for processing certain goods bound for export
- International transportation.

7 – ACCOUNTING & REPORTING

The accounting law is applied to all organisations located in the territory of the Republic of Uzbekistan, as well as to branches and representative offices of foreign companies unless otherwise provided for by international treaties concluded with the Republic of Uzbekistan.

Accounting legislation consists of the Law on Accounting and National Accounting Standards. The standards were developed following the influence of the International Financial Reporting Standards (IFRS) and in many ways repeat their provisions.

In Uzbekistan, annual financial statements approved by law consist of the following documents:

- Balance sheet
- Profit and loss account
- Other additional information, such as a cash flow statement and statement of changes in equity
- Explanatory notes to financial statements
- Audit report.

Quarterly financial statements shall include a balance sheet, profit and loss account.

From 1st January 2018:

- Business entities have 103 statistic reports against 116 in 01.01.2017;

For all companies, a reporting year begins on 1 January and ends on the 31 December. Quarterly reports shall be submitted within 25 days after the relevant quarter ends.

8 – UHY REPRESENTATION IN UZBEKISTAN

CONTACT DETAILS

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SOCIAL MEDIA CONNECTIONS

- Facebook: <https://www.facebook.com/UHYTashkent>
- LinkedIn: UHY Tashkent LLC
- Twitter: https://twitter.com/UHY_Tashkent

Year established: 2004

Number of partners: 7

Total staff: 44

ABOUT US

Your reliable, quality business partner in Uzbekistan.

OTHER IN-COUNTRY OFFICE LOCATIONS AND CONTACTS

Mirobod, Tashkent region, Khorezm and Navoi. Please contact Sarvarkhon Karimov at (mobile) +998 91 162 01 02 for all matters.

BRIEF DESCRIPTION OF FIRM

At present, our firm is among the top 10 leading firms in Uzbekistan providing auditing and professional accounting services.

We are in the business of helping clients and working with them over the long term to facilitate their growth and prosperity. Our services go beyond the basics by providing useful business information and consultation to help our clients reach their financial goals.

SERVICE AREAS

Audit & Assurance
 Tax consultancy
 VAT
 Business services
 Due diligence
 Mergers & Acquisitions

PRINCIPAL OPERATING SECTORS

Accounting
 Agriculture
 Construction

Distributors
Energy: Services, extraction
Financial Services
Hotels
Insurance
Telecommunication Services
Trading Companies

LANGUAGES

English, Uzbek, Russian and French.

CURRENT PRINCIPAL CLIENTS

Confidentiality precludes disclosure in this document.

OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST

Our firm's recent admittance to UHY membership has not yet provided an opportunity for international work.

BRIEF HISTORY OF FIRM

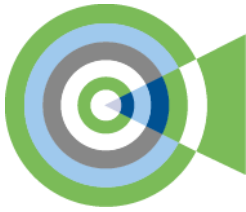
Founded in 2004, Audit Global Ma'lumot (AGM) is an audit and assurance firm registered under the legislation of the Republic of Uzbekistan. The company has a re-registered license from the Ministry of Finance of the Republic of Uzbekistan Series AF № 00596 dated 20 February 2008 on the implementation of audit activities.

Availability of highly qualified specialists in various fields of management (economics, finance, law), as well as extensive practical experience, enables AGM to qualitatively and effectively meet the challenges posed by the client: from providing one-time legal, accounting, or valuation services to integrated solutions for business restructuring, capacity holding structures, etc.

From 2004 to the present, AGM consultants have completed more than 700 successful projects, gained significant experience working with domestic and foreign enterprises, and organisations, authorities and management of various regions.

Clients of AGM represents the following sectors of the Uzbek economy and government bodies: light and heavy industry, oil and gas industry, credit-financial institutions, construction, transportation, telecommunications, agriculture, trade, supply chain, logistics, customs and tax authorities of Uzbekistan.

AGM joined UHY in 2012.



LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

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