

- for 10 years where direct investments are between 10 million and 30 million Euro; and
- for 15 years where direct investments exceed 30 million Euro.

The entities are exempt from customs duties provided that manufactured products are fully exported. If products manufactured in the FIEZ are sold on the internal Uzbek market, customs duties will be applicable at 50% on those entities' imports.

4. CURRENCY REGULATIONS

4.1 Exchange Controls

The Soum has been fully convertible for current international transactions since the end of 2003. Specifically, the Cabinet of Ministers of Uzbekistan notified the International Monetary Fund ("IMF") that it accepted the obligations of Article VIII, Sections 2(a), 3 and 4, of the IMF *Articles of Agreement*, with effect from 15 October 2003. According to the IMF, Uzbekistan is the 157th of the IMF's 184 members to have accepted those obligations. As a result, all currency restrictions with respect to the export-import of products and services, the buying and selling of hard currency valuables (precious metals, jewelry checks, etc.), interest transfers, dividend payments from investments abroad, dividends and revenue payments abroad for investments in Uzbekistan, as well as certain other currency conversion restrictions, have been abolished. However, certain administrative difficulties in converting Soum to foreign currency for remittance abroad diminish the effect of currency liberalization in practice.

Uzbek legal entities may not hold bank accounts outside Uzbekistan without permission from the Central Bank. All settlements within Uzbekistan must be made in Soum, except for payments made by nonresidents for certain services in hard currency and some other limited instances established by the Cabinet of Ministers and Uzbek currency law.

4.2 Multiple Exchange Rates

There are multiple exchange rates for the Soum. The first (the official rate) is fixed by the Central Bank of Uzbekistan. The second (exchange rate) is traded through

the Republican Currency Exchange. The third (the OTC exchange rate) is used by authorized banks at the OTC currency exchange. The fourth (the black market rate) is illegal. Although the volume of currency exchanged on the black market has decreased significantly following the unification of exchange rates and permission of free exchange at exchange booths at the end of 2003, individuals regularly use the black market for currency exchange. The rates of exchange as of 1 January 2009 are:

Official rate: 1,394.90 Soum/US\$ 1;
(Republican Currency Exchange Rate)

OTC rate: 1,402.00 Soum/US\$ 1.

Exchange booths' rates are usually slightly (1-5%) higher than the Official and OTC rates and on 1 January 2009 constituted 1,402.00-1,405.00 Soum/US\$ 1.

Black market rate is significantly higher (10-50%) than the Official, OTC and exchange booth rates. It varies significantly over the regions and may significantly fluctuate over a period of 1-2 days.

In practice, the Republican Currency Exchange and authorized banks are the only legal sellers of foreign currency. The official rate is fixed once a week by the Central Bank of Uzbekistan and this rate is used for tax, customs, and other official purposes (such as registration of companies with foreign investment or tax payments by nonresidents).

The OTC exchange rate was introduced on 1 July 2000. It is the rate used for the mandatory sale of 50% hard currency receipts, for servicing hard currency credits, and for current international transactions.

4.3 Cash Settlement Restrictions

Settlements between businesses may be performed only through bank transfers, regardless of the type of business. The right of companies to retain petty cash is severely limited. Cash may be withdrawn from bank accounts only for specified purposes, including the payment of wages or benefits, and allowances for business trips.

The disbursement of cash by authorized banks for salary and wage payments is strictly regulated.

4.4 Mandatory Conversion of Hard Currency

Most enterprises are obliged to convert 50% of their gross foreign currency income arising from commercial activities related to the export of goods, work or services into Soum at the OTC exchange rate within five days of receipt.

The income to be converted may be reduced by specific foreign currency expenses including transportation, insurance, customs duties, commissions, interest on bank loans, and goods and services related to the production of exports. An exemption is also provided for reinvested revenues resulting from an increase in export or the export of scientific and technological equipment.

The mandatory conversion requirement is applicable to all Uzbek companies (including joint ventures), as well as wholly owned subsidiaries of foreign companies excluding small enterprises exporting own made goods and services which are exempt from mandatory conversion of hard currency receipts. For the purpose of mandatory currency conversion, all monies entering an entity's bank account from export operations are deemed receipts subject to this conversion requirement.

Enterprises with a 50% or more foreign investment share in their charter capital and producing consumer goods are exempt from mandatory conversion of their hard currency receipts for a period of five years from the moment of corporate registration, provided that the share of proceeds from consumer goods is more than 60% of the total revenue of an enterprise. Also, a foreign company's hard currency contribution to the charter capital of an Uzbek joint venture or a foreign company's transfer to the account of its Uzbek representative office to pay for expenses will not be subject to mandatory conversion. Legislation does not mandate conversion of hard currency local earnings (non-export) in those exceptional circumstances in which payment for goods or services provided in Uzbekistan can be made in hard currency. There are special requirements on mandatory conversion of hard currency for cotton export-related activities. But it is recommended that the appropriate authorities be contacted in order to verify the absence of such a conversion requirement in a particular situation.

4.5 Converting Local Currency into Hard Currency

As permitted under Section 3 of Article VI of the *IMF Articles of Agreement*, the Government has not extended free convertibility to capital account transactions.

Such transactions (sometimes called operations with capital movement) include investment payments (including long and short-term credits), loans, and the purchase /sale of real estate and securities. Such transactions have to be registered with the Central Bank of Uzbekistan prior to being carried out.

In order to obtain hard currency, a company's authorized bank must, after internal approval of the application, submit an application for currency conversion to the Currency Exchange. The application must specify the exact uses of the hard currency; it cannot be an application for hard currency to be used for general unspecified purposes. A right to convert currency is granted on a case-by-case basis. However, before submitting the application, the company's bank must submit its expert opinion on the application to the Republican Currency Exchange for review. The decision taken by the Currency Exchange is based upon the amount of the country's hard currency reserves, the country's anticipated needs for those reserves, and the merits of the particular application. There is no assurance that the decision will be favorable, no matter how strong the merits. Moreover, in practice, companies engaged in importing consumer goods have been experiencing long delays in obtaining hard currency. This problem has been aggravated in the wake of the global financial crisis which has caused a lack of hard currency inflow to Uzbekistan currency reserves.

5. TAXATION

5.1 Principal Taxes

The main legislation governing taxation in Uzbekistan is the Tax Code, which entered into force on 1 January 2008. Current Uzbek taxes of most interest to foreign investors include the following:

State Taxes:

- Corporate profits (income) tax;
- Individual income tax;
- Value-added tax;
- Excise tax;