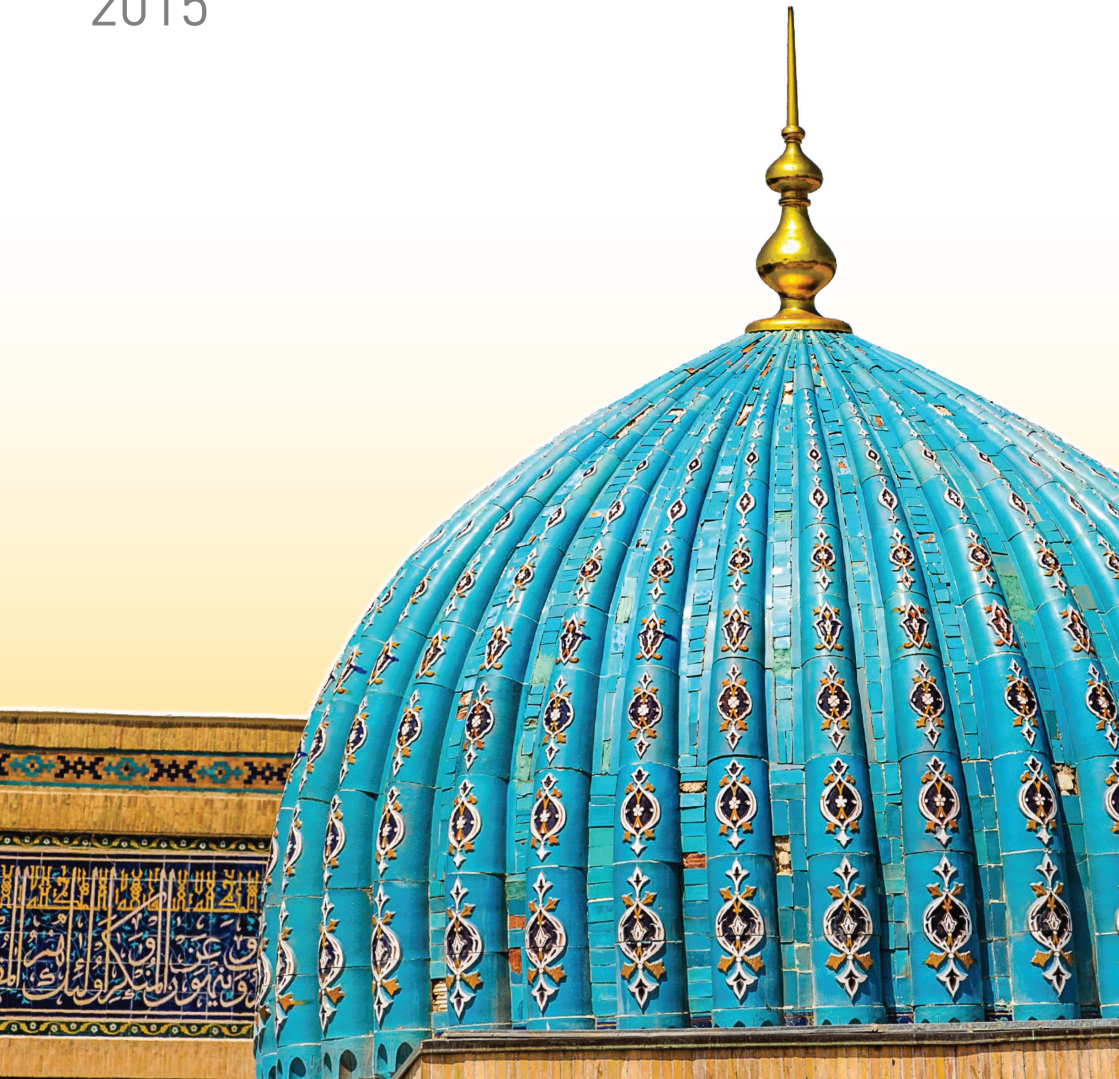


Doing Business in Uzbekistan

2015



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Preface

Baker & McKenzie provides sophisticated legal advice and services to the world's most dynamic global enterprises, and has done so for more than 50 years.

With a network of more than 4,000 locally qualified, internationally experienced lawyers in 77 offices across 47 countries, we have the knowledge and resources to deliver the broad scope of quality services required to respond effectively to both international and local needs – consistently, with confidence and with sensitivity for cultural, social and legal differences.

Active in the USSR and the Commonwealth of Independent States (CIS) for over 40 years, with offices in Almaty, Baku, Kyiv, Moscow and St. Petersburg, we now have one of the largest legal practices in the CIS, offering expertise (in close cooperation with our offices worldwide) on all aspects of investment in the region including energy and natural resources, corporate law, banking and finance, securities and capital markets, venture capital, competition law, tax and customs, real estate and construction, labor and employment, intellectual property, and dispute resolution.

The hub of our Central Asian practice, which covers Uzbekistan and the other countries of Central Asia, has been based in Almaty since 1995.

Since gaining independence in 1991, Uzbekistan has adopted new legislation at a rapid pace. It remains a country in transition and its legal system continues to develop. *Doing Business in Uzbekistan* has been prepared as a general guide for companies operating or considering investment in Uzbekistan. The guide is intended to present an overview of the key aspects of the Uzbek legal system and the regulation of business activities in this country.

The information contained in this guide is current as of 1 January 2015. We will be pleased to provide you with updates on the material contained in this guide, or to provide you with further information regarding a specific industry or area of Uzbek law in which you may have a particular interest.

Baker & McKenzie - CIS, Limited

1 January 2015

1. Uzbekistan - An Overview

1.1 Geography and History

Uzbekistan is the geographic, economic and cultural heart of Central Asia. With approximately 30 million people, Uzbekistan is by far the most populous of the five Central Asian republics of the former Soviet Union. Tashkent, Uzbekistan's capital city, has a population of more than 2.5 million. Lying on the ancient Silk Road between Europe and the Far East, the cities of Samarkand, Bukhara and Khiva have been centers of commerce and trade for centuries and have undergone revivals since the dissolution of the Soviet Union. The legendary Uzbek warrior Amir Timur (Tamerlane) conquered vast areas of Asia during the 15th century and every year hundreds of thousands of tourists visit the famous tile-clad mosques, madrassas and other monuments built during his reign.

Though not the largest Central Asian country in size, Uzbekistan is still larger than the combined area of the United Kingdom, Belgium, Denmark, Switzerland and Austria. It is the only country to border each of the other four Central Asian republics, as well as Afghanistan.

The western and central areas of Uzbekistan are extremely dry and arid. Due to years of excessive irrigation and ecological mismanagement during the Soviet era, the Aral Sea basin (shared with Kazakhstan) has shrunk and lost much of its natural wealth. The region around Tashkent and the Fergana Valley to the east enjoy relatively temperate climates and are rich centers of agriculture, supplying fruit, vegetables, dairy products and other foodstuffs throughout Central Asia and neighboring countries.

1.2 Population

The population of Uzbekistan is approximately 30 million. The most significant population centers (apart from Tashkent) are Samarkand, Namangan, Andijan and Bukhara.

1.3 Political System and International Relations

The Republic of Uzbekistan (as it is formally known) declared its independence from the Soviet Union on 31 August 1991. Accordingly, Independence Day is celebrated every year on 1 September. Uzbekistan is a presidential republic and has had a bicameral parliament since 2004. The Parliament (formally known as the Oliy Majlis) consists of the Legislative Chamber (the lower chamber) and the Senate (the upper chamber). The Head of State is the President, Islam Karimov, who was first elected in 1991 and subsequently re-elected in 2000 and 2007. Prior to independence, President Karimov was the President of the Uzbek Soviet Socialist Republic of USSR.

A party system has been in development since independence from the Soviet Union. While there are a number of political parties, groups and various movements, there appears to be no organized opposition to the President. At the present time the party that has the largest number of representatives in the Oliy Majlis (52 out of 150) is the Liberal Democratic Party of Uzbekistan. In the last election (in 2007) President Karimov was elected on behalf of the Liberal Democratic Party.

The Government (formally known as the Cabinet of Ministers) of Uzbekistan consists of the Prime Minister, deputy prime ministers, ministers and heads of various state committees, as well as the head of the Karakalpakstan government. The political party that receives the most votes during the election to the Legislative Chamber of the Oliy Majlis recommends a candidate for prime minister (currently, Shavkat Mirziyaev) to the President, who then submits this candidate to both chambers of the Oliy Majlis for approval. The Prime Minister recommends the members of the Cabinet of Ministers, who are then appointed by the President of Uzbekistan.

Uzbekistan is a member of the Commonwealth of Independent States (CIS), the United Nations, the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development, the

Organization for Security and Cooperation in Europe, the Asian Development Bank, the Organization of the Islamic Conference, and several other international organizations. Together with Russia, China, Kyrgyzstan, Tajikistan and Kazakhstan, Uzbekistan is a member of the Shanghai Cooperation Organization. Originally formed to deal with border issues, this organization now also deals with combating terrorism, drug and weapon smuggling and other issues.

1.4 Economy

While production levels have declined steadily in recent years, cotton remains one of the most important export products and is produced throughout the country. Gold is another significant export, with production mostly coming from the Muruntau gold mine in the Navoi viloyat (region). The mining industry also produces significant amounts of silver and copper. Natural gas production is increasing and has recently become one of Uzbekistan's main export commodities. Gross Domestic Product (purchasing power parity) in 2013 was approximately US\$ 112.6 billion.¹

Despite the recent world financial and economic crisis, Uzbekistan enjoyed GDP growth and has seen few effects from the global economic downturn, primarily due to the strong government involvement in banking and other strategic industries, its diversified economy and its relative isolation from global financial markets. It suffered only minor losses in its oil and gas exports during the crisis. Most of Uzbekistan banks' leverage ratios are now between 12 and 20 percent and the quality of their assets are fair. During the past eight years, the country's GDP has been annually growing by approximately 7-8 percent.

1.5 Regional Structure

Uzbekistan consists of 12 viloyats (regions), Tashkent city and the autonomous Republic of Karakalpakstan. As a result of Uzbekistan's

¹ *CIS World Factbook*.

highly centralized form of government, the constituent regions have little political power. A 'khokim' (governor) is appointed by the President for each viloyat. Karakalpakstan has its own head of Government, who is subordinate to the President of Uzbekistan.

2. Establishing A Legal Presence

2.1 Representative Offices and Branches

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 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 authorized by the parent company under a power of attorney.

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

Some foreign companies choose to register only a permanent establishment (PE) with the Uzbek tax authorities. A PE is simply a tax registration and not a legal presence. Conducting significant operations solely through a registered PE can give rise to numerous legal uncertainties in practice.

2.2 Uzbek Legal Entities

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; and
- Private enterprises and unitary (state) enterprises.

The legal entities most commonly used by foreign businesses in Uzbekistan are described below.

2.3 Joint Stock Company

2.3.1 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. The number of founders of a JSC is unrestricted. Generally, shareholders of a JSC may freely dispose of their shares without the consent of other shareholders. In a JSC with not more than 50 shareholders, the JSC’s charter may provide other shareholders and/or the JSC with a preemptive right to acquire shares sold by a shareholder at the price and on the terms offered to a third party. There is no exception for affiliates of a shareholder intending to sell shares.

A JSC may have a public subscription for shares and sell them freely, in compliance with the JSC Law.² Alternatively, a JSC may have a closed subscription for shares, except in cases where such closed subscription is limited by the company charter or by the JSC Law.

² Law *On Joint Stock Companies and Protection of Shareholders’ Rights*, dated 26 April 1996, with a new version dated 6 May 2014, as amended.

2.3.2 Charter Capital

The charter capital of a JSC comprises the nominal value of the company's shares held by the shareholders. All shares must have the same nominal value. The nominal value of preferred shares distributed may not exceed 20% of the company's charter capital. The minimum actual charter capital of a JSC may not be less than an amount equivalent to US\$ 400,000 (calculated at the official Central Bank exchange rate). A JSC's charter capital may be decreased (to the minimum statutory level) by reducing the nominal value of shares or by reducing the total number of shares placed by the JSC (through buy-out or cancellation), or increased by raising the nominal value of shares or by placing new shares. The charter of a JSC may also provide for an authorized charter capital up to the amount of which the actual charter capital amount may be increased over time. The authorized charter capital comprises the nominal value of the company's authorized shares, in addition to those shares which have already been issued and placed.

2.3.3 Shares

Shares in a JSC must be registered. They may be either preferred or common. The nominal price of a share may not be more than 5,000 Soums.

Preferred shares give their holders a priority right to receive dividends and other rights as stipulated in the JSC Law. Preferred shares cannot be converted into common shares.

Each share provides a shareholder with equal voting rights, i.e. a shareholder has voting rights proportionate to the number of shares it has (unlike a participant in an LLC who may have voting rights disproportionate to his/her participation in the charter capital of an LLC).

A shareholder must pay for its shares in full within one year after the registration of the JSC or, for further issues of shares, within the time specified by the decision on such further issuance. Payment for shares

may be made in cash or (if permitted by the foundation agreement, the decision to establish the JSC or decision for the issue of the shares) may be made in other assets which have a monetary value. However, if the nominal value of shares acquired for such assets exceeds an amount equivalent to 200 MMW, such assets must be appraised by an independent appraiser. As of 1 January 2015, the minimum monthly wage is 118,400 Soums (approximately US\$ 49 at the official exchange rate).

The company's charter or the General Meeting of Shareholders may specify the forms and terms for the distribution of shares: i.e., open (offered to an unrestricted number of persons) or closed (offered to a predetermined list of persons). Shares must be paid for based on their fair market value, other than on the founding of a JSC when shares are paid for by the founders at their nominal value. All transactions involving open distribution of shares in a JSC must be carried out through a stock exchange or through organized off-exchange trades. A JSC may issue securities which may be further converted into shares pursuant to the terms stipulated in the company charter and in subsequent resolutions of the General Meeting of Shareholders. All shareholders must be registered in the shareholders' register, which must indicate the number of shares issued, their nominal value, the category of registered securities belonging to each shareholders and contact details for the shareholder.

The Cabinet of Ministers on behalf of the state may introduce, at the time of privatization, a 'Golden Share' in a JSC which has strategic importance for the country, and in which the state has either no share or a shareholding not exceeding 25% of the charter capital. The 'Golden Share' has no monetary value, cannot be disposed of or encumbered and is not counted in the determination of the charter capital or the payment of dividends. The 'Golden Share' entitles the state to appoint one representative to the Supervisory Board of the JSC together with a right to veto certain important decisions which may be taken by the Supervisory Board or the General Meeting of Shareholders.

2.3.4 General Meeting of Shareholders

The supreme management body of the JSC is the General Meeting of Shareholders (“GMS”). The GMS must be held at least once a year. A meeting of shareholders other than the annual meeting is considered to be an extraordinary meeting. In a JSC in which all common shares belong to one shareholder, the GMS is not held and the decisions of the company are adopted in the form of the shareholder’s written resolutions. Issues of high priority connected with the company’s management, administration, business policy, corporate structure, finances, elections and other issues are within the exclusive competence of the GMS.

With certain exceptions, the decisions which fall within the exclusive competence of the GMS may not be delegated to any other body of the JSC. In certain limited cases (such as increase in the company’s charter capital, issuance of securities which may be further converted into shares, etc.), the decisions in the competence of the GMS may be delegated to the Supervisory Board.

For most decisions, a simple majority of voting shares is sufficient (i.e., more than 50%). A super-majority vote at the GMS (i.e., at least 75%) is required for certain matters. Decisions of the GMS cannot be adopted through absentee voting.

The GMS is valid if shareholders collectively holding more than 50% of the votes register and attend either in person or by proxy. In the absence of a quorum, another GMS is held, and it is deemed quorate if shareholders representing more than 40% of all voting shares register for the meeting.

2.3.5 Supervisory Board

The Supervisory Board is responsible for the overall management of the JSC, with the exception of those issues which are within the exclusive competence of the GMS. Where there are fewer than 30 holders of voting shares, the company’s charter may stipulate that the functions of the company’s supervisory board be performed by the

GMS. Decisions of the Supervisory Board may be adopted through absentee voting, but only if they are approved unanimously by all Supervisory Board members.

The number of members of the Supervisory Board is to be set in the charter of the company. JSC Law does not set minimum number of members, with the exception of companies that have more than 500 or 1000 shareholders, for which there have to be at least 7 or 9 Supervisory Board members respectively. The Supervisory Board members are elected by shareholders through a cumulative voting.

2.3.6 Executive Body

The Executive Body manages the company's day-to-day activities through a General Director (chief executive officer) or a Directorate (collective executive body). The General Director or Directorate headed by the Chairman generally acts and carries out any and all actions in the name and on behalf of the JSC, with exception of issues within the exclusive competence of the GMS or Supervisory Board under the JSC Law or the company's charter. The General Director and members of the Directorate may incur joint and several liability for their actions.

2.3.7 Minority Shareholders' Committee

A JSC may establish a Minority Shareholders' Committee to protect the interests of its minority shareholders. Minority Shareholders' Committee members are elected by a cumulative vote at the General Meeting of Shareholders for one year, but may be re-elected for unlimited time. The number of the Minority Shareholders' Committee members is set forth in the JSC's charter.

Minority Shareholders' Committee members can be elected only by those shareholders who have not proposed their candidates to the Supervisory Board or have failed to elect their candidates to the Supervisory Board. The JSC's Director (or Board members), Supervisory Board members and Revision Commission members cannot be elected to the Minority Shareholders' Committee.

The Minority Shareholders' Committee has limited powers, which include participation in preparation of proposals involving major transactions and affiliated party transactions, reviewing minority shareholders' communications related to protection of their interests, submission of applications to a competent state authority requesting protection of minority shareholders' interests, and other issues provided for under the JSC Law or the JSC's charter.

The decisions of the Minority Shareholders' Committee are adopted by a majority vote, where each member has only one vote. The meeting of the Minority Shareholders' Committee is quorate if not less than 3/4 of its members are present at the meeting. The Minority Shareholders' Committee reports annually to the General Meeting of Shareholders on its adopted decisions.

2.3.8 Audit Commission, Internal and External Audit

As required by the JSC Law, the Audit Commission (usually referred to as the Revision Commission) monitors the financial activity of the company. The Audit Commission's competence should be specified in the charter of the JSC and in regulations approved by the GMS.

The Audit Commission may conduct an audit on its own initiative, following a decision of the GMS or the Supervisory Board or at the request of shareholder(s) holding, in aggregate, more than 5% of the voting shares.

Members of the Audit Commission cannot simultaneously be members of the Supervisory Board or hold any other positions in the management bodies of the JSC.

A JSC having a balance value of more than 100,000 times the MMW (approximately US\$ 4,900,000) must also have an Internal Audit Service. The Internal Audit Service audits and monitors the operations of the executive bodies of JSC and its branches and representative offices through review of business and financial documents. The Internal Audit Service is accountable to the Supervisory Board of the JSC and carries out its activity in accordance with the charter and

corporate regulations of the JSC together with the regulations adopted by the Cabinet of Ministers of Uzbekistan.

To audit the annual financial reports and accounts of a JSC in which the state shareholding is more than 50%, an external auditor unrelated to the company or its shareholders must be appointed from the list of auditors approved by the Committee on Privatization, De-Monopolization and Development of Competition (the “Competition Committee”) and the Ministry of Finance.

2.3.9 Corporate Consultant

A JSC’s charter may provide for a Corporate Consultant position. The Corporate Consultant, if any, reports to the Supervisory Board and oversees the JSC’s compliance with Uzbek corporate laws.

2.3.10 Constituent Documents

A JSC must have a charter, which is to be approved by the shareholders and registered with the state registration authorities. The charter should provide for the amount of the charter capital, shares in a JSC, management and other bodies of a JSC (shareholders’ meeting, supervisory board, executive bodies, minority shareholders’ committee, revision and audit bodies), etc. A JSC may also have its internal regulations (by-laws) regulating formation, rights and obligations of management and other bodies of JSC and other issues.

2.4 Limited Liability Company

2.4.1 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 size of which is determined by its foundation documents. In contrast to JSC, participatory interests in an LLC are not securities, and an LLC is prohibited from issuing securities.

The foundation documents of an LLC established by two or more participants include the foundation agreement and the charter. If an LLC is established by only one participant, its foundation document is the company charter; if subsequently there are at least two participants, they will need to enter into a foundation agreement. The charter and the foundation agreement must be registered.

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 individual 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 their contribution. The liability of the company is limited to the extent of its assets.

2.4.2 Charter Capital

The charter capital cannot be less than 40 times the MMW (approximately US\$ 1,950). Each of the participants must pay their declared charter capital contributions within one year from the day of registration.

2.4.3 Management

The supreme management body of an LLC is the General Meeting of Participants ("GMP"). Certain matters set forth in the LLC Law³, such as change of charter capital amount, amendment of foundation documents, approval of annual reports, election of other management bodies, conduction of audit, reorganization and liquidation of the LLC, are within the sole competence of the GMP. 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. Each participant has a number of votes at the

³ Law *On Limited Liability and Additional Liability Companies*, dated 6 December 2001, as amended.

GMP proportionate to his/her share in the charter capital of the LLC, unless the charter provides for disproportionate voting rights.

For most decisions, a simple majority of the participants of the LLC is sufficient. A qualified majority vote of at least two-thirds of the participants is required for issues of high priority.

An LLC is required to have a General Director (chief executive officer) or a Management Board (collective executive body) responsible for conducting the day-to-day management of the company. The General Director or the members of the Board are elected at the GMP. The General Director or the Chairman of the Management Board carries out any and all actions in the name and on behalf of an LLC with exception of issues within the competence of the higher bodies, such as the GMP. An LLC may also have a Supervisory Board to handle some of the issues generally within the non-exclusive competence of the GMP. In contrast to a JSC, the LLC Law does not provide for cumulative voting for election of the members of Supervisory Board or Management Board.

2.4.4 Audit Commission, Internal and External Audit

The Audit (or Revision) Commission or an auditor may monitor the financial activity of an LLC. The charter of an LLC may provide for an external auditor unrelated to the company or its participants to act in place of the Audit Commission. An LLC with more than 15 participants must have an Audit Commission (or an auditor). The members of the Supervisory Board (if applicable), the Director or the members of the Management Board cannot be elected as members of the Audit Commission (or as an auditor) of an LLC. The members of the commission are normally elected from among the participants of LLC. Nevertheless, a person who is not a participant of an LLC may be selected as a member of the Audit Commission or as an auditor of an LLC. The number of members of the Audit Commission should be specified in the charter. The Audit Commission normally confirms the annual report and accounts of an LLC before their approval by the GMP.

An LLC having a balance value of more than 1 billion Soums 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 reviewing 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.

Where the state has more than a 50% participation in the charter capital of an LLC, an external auditor unrelated to the company or its participants is nominated from the list of auditors approved by the Competition Committee and Ministry of Finance to audit the LLC's annual financial reports and accounts. Other LLCs may also engage an external auditor at their own initiative.

2.4.5 Constituent Documents

An LLC must have a charter, which is to be approved by the participants and registered with the state registration authorities. The charter should provide for the amount of the charter capital, shares in an LLC, rights of the participants of an LLC, management and other bodies of an LLC (participants' meeting, supervisory board, executive bodies, revision and audit bodies), etc. If an LLC has more than one participant, it shall also have a foundation agreement, which is also to be approved by the participants of LLC and registered with the state registration authorities. The foundation agreement should regulate formation of the LLC, the forms of participation of each participant in the charter capital of LLC, their rights, distribution of dividends and other issues. An LLC may also have its internal regulations (by-laws) regulating formation, rights and obligations of management and other bodies of LLC and other issues.

2.5 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, *i.e.*, the

foundation agreement and the charter (or only the charter where an ALC is established by one person).

An ALC has virtually the same organizational 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 liability 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.

2.6 Partnerships

2.6.1 General Business Partnership

A General Business Partnership ("GBP") is a partnership whose partners, in accordance with their agreement, personally engage in business activity on behalf of the partnership and are jointly and severally liable for its obligations with all their assets, and is formed under the Partnerships Law.⁴

2.6.2 Limited Business Partnership

A Limited Business Partnership ("LBP"), also formed under the Partnerships Law, is a partnership in which there are one or more limited partners (contributors) who do not personally engage in the partnership business and who bear the risk of losses associated with the partnership activity only to the extent of their contributions. Limited partners act in addition to the partners who personally engage in business on behalf of the partnership and are liable for the obligations of the partnership with all their assets.

⁴ The Law *On Commercial Partnerships*, dated 6 December 2001, as amended.

A person may be a partner in only one partnership, GBP or LBP. However, a limited partner in a LBP can be a limited partner in other LBPs.

2.6.3 Charter Capital and Foundation Documents

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

2.6.4 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.

2.7 Private Enterprise

2.7.1 General

Under the Law On Private Enterprise,⁵ 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. Additional liability attaches 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 (such as those mentioned in Section 3.2).

⁵ *Law On Private Enterprise*, dated 11 December 2003, as amended.

2.7.2 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 himself and can be formed by contributions of money, securities or any other assets which have monetary value.

3. Foreign Investment in Uzbekistan

3.1 Forms of Investment

A foreign investor is entitled to engage in investment activity in Uzbekistan by means of:

- Equity participation in companies, banks and other enterprises established together with Uzbek resident legal entities and individuals;
- Establishment of an enterprise wholly owned by a foreign investor;
- Acquisition of assets, shares and other securities;
- Investment of intellectual property rights and goodwill;
- Total or partial acquisition of tenure rights, rights to immovable property (including land use rights), and rights to use subsoil resources; and
- Other forms of investment not prohibited by Uzbek legislation.

3.2 Enterprises with Foreign Investment

The principal laws governing foreign investment in Uzbekistan are the Foreign Investment Law⁶ and the Foreign Investor Guarantees Law.⁷ It should be noted that the Foreign Investment Law requires all foreign currency expenses of enterprises with foreign investment to be paid out of their own foreign currency receipts and other permitted sources of foreign currency. While difficult to implement in practice,

⁶ Law *On Foreign Investments*, dated 30 April 1998, as amended.

⁷ Law *On Guarantees and Measures to Protect Rights of Foreign Investors*, dated 30 April 1998, as amended.

both the Foreign Investment Law and the Foreign Investor Guarantees Law state that a foreign investor shall be entitled to freely repatriate its earnings. The latter law also provides that companies with foreign participation can be afforded protection from certain adverse changes in the legislation for a period of ten years from the date of investment. However, the definition of adverse changes was qualified in August 2005 in a manner which significantly reduces the protection provided by the Foreign Investor Guarantees Law. For example, if the state introduces new increased rates of tax, excluding withholding tax, social contributions or customs duties, a foreign investor will not be protected by the provisions of the foreign investment legislation. The Government Resolution provides that changes are only deemed adverse if they:

- increase the rate of withholding tax imposed on foreign investors;
- introduce new formalities which either complicate the procedure to repatriate income out of Uzbekistan or decrease the volume of income that can be repatriated;
- introduce limitations on volumes of investments, including increasing the minimum volume of foreign investments in enterprises with foreign participation;
- introduce limitations with regard to equity participation in the charter capital of legal entities; or
- introduce new formalities to the procedure of obtaining and extending visas for foreign employees.

Uzbekistan strongly favors major foreign investments rather than investments by small and medium-sized foreign investors. In order to promote the state policy of self-sufficiency, Uzbekistan's foreign investment regime particularly favors foreign investors who produce goods in Uzbekistan which may be exported or which replace goods that would otherwise be imported.

In an effort to attract such investors, the Presidential Decree “On Additional Measures to Stimulate Foreign Investment” was enacted on 10 April 2012. It sets out the main incentives and benefits available to foreign investors and enterprises with foreign investments (“EWFI”), as well as the requirements to qualify for these incentives and benefits. To be considered an EWFI, a company must have:

- charter capital of at least US\$ 150,000;
- a foreign legal entity as one of the founders; and
- a share of foreign investment comprising not less than 30% of the charter capital.

Some of the main benefits set out by this Decree are:

- EWFI with at least US\$ 5 million of foreign monetary investment are entitled to stabilization of most taxes within 10 years from the moment of the EWFI’s registration.
- EWFI in government prioritized industries are exempt from income tax, property tax, social infrastructure development tax and mandatory payments to the Republican Road Fund
 - for 3 years if foreign direct investment is between US\$ 300,000 and US\$ 3 million;
 - for 5 years if foreign direct investment is between US\$ 3 million and US\$ 10 million;
 - for 7 years if foreign direct investment is more than US\$ 10 million.
- EWFI specialized in manufacturing consumer goods with more than 50% of foreign share in the charter capital are exempt from mandatory sale of 50% of hard currency

proceeds for a period of 5 years from the moment of registration.

- Foreign companies engaged in oil and gas exploration works, as well as their contractors and subcontractors, are exempt from all taxes, mandatory payments to state funds for the period of such works and from customs duties (excluding customs fees) for the equipment and services imported for these works.
- Joint ventures with participation of foreign investors, which had previously conducted exploration works, engaged in oil and gas production are exempt from income tax for 7 years from the moment oil and gas production commences.
- EWFI, as well as their foreign investors and employees are exempt from import customs duties in certain cases.

Additionally, a company with certain foreign investments may be granted additional tax exemptions and other benefits in accordance with a special Presidential or Cabinet resolution and conclusion of an investment agreement. Depending on factors such as the importance of the company's project to the Government and the volume and nature of the investments to be made additional benefits may include: exemption from specific taxes, customs duties, assistance with visas and work permits, etc.

3.3 Registration of Legal Entities

3.3.1 Charter Capital Requirements

Procedures for the registration (formation) of a legal entity that meet the requirements for an EWFI differ from the procedures applicable to a company with foreign participation that does not meet the requirements for an EWFI.

An EWFI must be registered with the Ministry of Justice (or its territorial departments) while a other companies must be registered with the local authorities – the local khokimiyats.

3.3.2 Registration of a Legal Entity

In order to improve the procedures for the state registration of companies in Uzbekistan (including companies with investment of foreign capital), the Cabinet of Ministers approved the Regulation on the Procedure of State Registration and Record of Business Entities and Issuance of Permits⁸ in 2003. This Regulation provides a unified checklist of registration documents irrespective of the amount of foreign capital in the company. In addition, this Regulation provides that most post-registration procedures should be carried out by the registering body simultaneously with the corporate registration of the company. In particular, the registering body completes the following associated registrations at the time of the company’s corporate registration:

- Registration with the tax and statistical agencies;
- Registration with the pension, employment, social insurance and road funds;
- Obtaining a permit from the Ministry of Internal Affairs or its divisions for the company stamp and seal; and
- Other permits as may be necessary for business operations (e.g. registration of land plot, re-registration of residential premises into office premises, etc.).

Further, in 2013 the Cabinet of Ministers of Uzbekistan introduced electronic filing of registration documents for most types of

⁸ This Regulation was approved by the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan *On Principal Improvement of the Registration System for Organization of Business Activities*, dated 20 August 2003, as amended.

companies. To use the electronic filing, the applicants must use special template foundation documents and have an electronic signature.

In order to register an EWFI with the Ministry of Justice or other companies with the local khokimiyats, the following documents must be submitted to the Ministry of Justice (or its relevant territorial departments) or to the local khokimiyat:

- An application for state registration;
- Two notarized originals of the foundation documents – either the charter or the foundation agreement, or both, depending on the corporate form of the company. Notarization of the foundation documents is required only for companies with foreign participation or shares;
- Receipt for payment of the state registration fee. EWFIs must pay an amount equal to five times the minimum monthly wage plus an amount equal to US\$ 500. This fee must be paid in the national currency at the official Central Bank exchange rate. The receipt confirming official exchange of currency must be presented to the registering body. The fee for registration of other companies is established by the local khokimiyats;
- Extract from the Trade Register of the foreign founder notarized and apostilled, unless the founder is registered in a country with which Uzbekistan has a special juridical cooperation treaty, such as Russia, Kazakhstan, etc.;
- Login and password confirming reservation of the company's name in the centralized electronic database of company names; and
- Two samples of sketches of the company's stamp and seal.

The state registration of the company (including post registration procedures) must be completed within two working days from the date of submission of the registration documents.

The registering body registers the company's foundation documents (the charter and, in some cases, also the foundation agreement). The sealed and signed Certificate of Registration and registered originals of the foundation documents are issued by the registering body and given to the company including documents confirming the post-registration procedures. In case of electronic registration, the registering body sends these documents electronically.

The company acquires the rights of a legal entity and is deemed to exist after state registration with the registering body (*i.e.*, the Ministry of Justice or its territorial departments or the local khokimiyat).

In the event of a change in the company's official address, the company must, within ten days, notify the registering body.

In the event of changes to the company's foundation documents or its reorganization, the amendments must be re-registered. In the event of amendments to the foundation documents, the company must, within seven business days, submit to the registering body an application for re-registration with all necessary documents attached. A re-registration fee in the amount of 50% of the initial registration fee must be paid. Change of an official address does not require the payment of a fee.

3.4 Annual Investment Program

Every year the Government enacts an "Investment Program" listing those projects deemed to be of most significance to the Uzbek economy. These are usually limited to multi-million dollar investment projects involving EWFIs. Contrary to the perception of many foreign investors, inclusion in the Investment Program does not automatically entitle a particular project to tax, currency conversion, or other

incentives. Rather, projects included in the Investment Program are simply eligible for incentives at the discretion of the Government.

The Government may grant the following incentives to investors participating in the Investment Program: temporary tax holidays; a more favorable tax regime; accelerated amortization of assets; customs preferences; etc. To obtain these benefits, a participant in the Investment Program is required to obtain a special Government resolution.

3.5 Free Industrial Economic and Special Industrial Zones

In order to attract foreign direct investments, the Decree of the President No. UP-4059 dated 2 December 2008 established a free industrial economic zone (“**FIEZ**”) in Navoi viloyat, Uzbekistan. This FIEZ includes an international air hub which has recently been developed in cooperation between Uzbekistan Airways and Korean Air. According to the Decree, the FIEZ shall operate for 30 years with an option to extend this period. During the term of the FIEZ, a special tax, currency and customs regime shall be applicable to entities registered within the territory of the FIEZ. These entities are exempt from land, corporate profits, property and infrastructure tax, unified tax payments (for micro firms), school tax and payments to the Road Fund:

- for 7 years where direct investments range between 3 million and 10 million Euro;
- 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 on imports provided that manufactured products are fully exported. If products manufactured in

the FIEZ are sold domestically, customs duties will be applicable at 50% on those entities' imports.

In 2012, the Angren Special Industrial Zone (“Angren SIZ”) was established by Decree of the President No. 4436 dated 13 April 2012 in the Angren district of Tashkent viloyat. The Angren SIZ was created for an initial term of 30 years and envisages special tax and customs preferences for the participants of the SIZ, i.e. the companies which establish qualifying production businesses within the Angren SIZ. These entities are exempt from corporate profits, property and infrastructure tax, unified tax payments (for micro firms), payments to the Road Fund, and customs duties for the equipment and raw materials imported into the SIZ:

- for 3 years where direct investments are between US\$ 300 thousand and 3 million;
- for 5 years where direct investments are between US\$ 3 million and 10 million; and
- for 7 years where direct investments exceed US\$ 10 million.

In 2013, the Government established another special zone in Djizakh viloyat (“Djizak SIZ”). The terms of operation in Djizak SIZ and the benefits available to investors there are essentially similar to those established for Angren SIZ.

3.6 Bilateral Investment Treaties

Uzbekistan has signed bilateral investment treaties on promotion and protection of foreign investments with 48 countries. Bilateral investment treaties signed by Uzbekistan provide for a number of guarantees to nationals of signatory countries, including the national treatment, the most-favored-nation treatment, protection against nationalization, expropriation or measures tantamount to expropriation, the right to resolve investment disputes by means of international investment arbitration.

Uzbekistan is signatory to the following bilateral investment treaties:

No.	Country	Signing Date	Effective Date
1	Austria	2 June 2000	18 August 2001
2	Azerbaijan	27 May 1996	2 November 1996
3	Bahrain	16 November 2009	---
4	Bangladesh	18 July 2000	24 January 2001
5	Belgium-Luxembourg Economic Union	17 April 1998	6 February 2001
6	Bulgaria	24 June 1998	31 March 1999
7	China	13 March 1992	14 April 1994
8	Czech Republic	15 January 1997	6 April 1998
9	Egypt	16 December 1992	8 February 1994
10	Finland	1 October 1992	22 October 1993
11	France	27 October 1993	17 June 1996
12	Georgia	4 September 1995	24 May 1999
13	Germany	28 April 1993	23 May 1998
14	Greece	1 April 1997	8 May 1998
15	Hungary	28 October 2002	3 March 2003
16	India	18 May 1999	28 July 2000
17	Indonesia	27 August 1996	27 April 1997
18	Iran	11 June 2000	11 July 2004
19	Israel	4 July 1994	18 February 1997

No.	Country	Signing Date	Effective Date
20	Italy	17 September 1997	14 October 1999
21	Japan	15 August 2008	24 September 2009
22	Kazakhstan	2 June 1997	8 September 1997
23	Kuwait	19 January 2004	6 March 2006
24	Kyrgyzstan	24 December 1996	6 February 1997
25	Latvia	23 May 1996	29 January 1997
26	Lithuania	18 February 2002	11 November 2002
27	Malaysia	6 October 1997	20 January 2000
28	Moldova	21 November 1995	17 January 1997
29	Netherlands	14 March 1996	1 July 1997
30	Oman	30 March 2009	20 August 2009
31	Pakistan	13 August 1992	15 February 2006
32	Poland	11 January 1995	29 April 1995
33	Portugal	11 September 2001	14 March 2010
34	Romania	6 June 1996	30 May 1997
35	Russian Federation	15 April 2013	14 January 2014
36	Singapore	15 July 2003	23 November 2003
37	Slovak Republic	16 May 1995	4 February 1999
38	Slovenia	7 October 2003	18 May 2004
39	South Korea	17 June 1992	20 November 1992
40	Spain	28 January 2003	3 December 2003

No.	Country	Signing Date	Effective Date
41	Sweden	29 May 2001	1 October 2001
42	Switzerland	16 April 1993	5 November 1993
43	Turkey	28 April 1992	18 May 1995
44	Turkmenistan	16 January 1996	2 August 1996
45	UAE	26 October 2007	22 April 2008
46	United Kingdom	24 November 1993	24 November 1993
47	USA	16 December 1994	---
48	Vietnam	28 March 1996	6 March 1998

4. Currency Regulations

4.1 Exchange Controls

Uzbekistan's currency, the Soum, has been nominally 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. As a result, all currency restrictions with respect to the export-import of products and services, the buying and selling of hard currency valuables (including precious metals, 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, substantial administrative difficulties in converting Soum into foreign currency for remittance abroad diminish the effect of currency liberalization in practice. As a result of this and the aftermath of the global financial and economic crisis, the conversion of Soum into foreign currency has again become a major problem in Uzbekistan over the past few years.

Uzbek legal entities may not hold bank accounts outside of Uzbekistan without obtaining permission from the Central Bank. All settlements within Uzbekistan must be made in Soum, except for payments made by non-residents 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 (interbank exchange rate) is traded through the Republican Currency Exchange. The third (the OTC exchange rate) is used by authorized banks at OTC currency exchange. The fourth (the black market rate) is illegal. The fifth (commodity exchange rate) is calculated by buying

products that can be easily sold for export for Uzbek soums at Uzbekistan commodity exchanges. From the middle of 2008, due to the lack of hard currency on the legal exchange market, many individuals have been regularly using the black market for currency exchange. The official exchange rate as of 1 January 2015 is 2,422.40424.23 Soum/US\$ 1.

Exchange booth rates are usually slightly higher than the Official and OTC rates (0.5-2%).

The black market rate is significantly higher (currently up to 20%) 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.

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.

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 the registration of companies with foreign investment or tax payments by non-residents).

4.3 Cash Settlement Restrictions

Payments 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. Over the last few years, the Government has been trying to reduce cash transactions by requiring

companies to pay salaries electronically to bank cards. However, in practice, the ability of individuals to cash their funds via bank cards is extremely limited due to the near total absence of any functioning ATMs.

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, works 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 almost all Uzbek companies (including enterprises with foreign participation).

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 the enterprise. Also, a foreign company's hard currency contribution to the charter capital of an Uzbek joint venture or subsidiary, 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.

Failure to comply with Uzbekistan's mandatory foreign currency requirements is a serious offense. Officials of a company found responsible for causing the company's non-compliance can be found administratively, or in some cases, even criminally liable.

Generally, it is recommended that the appropriate authorities be contacted in advance in order to verify the absence of a conversion requirement in a particular situation.

4.5 Converting Local Currency into Hard Currency

In order for a company to convert its local currency into hard currency, its authorized bank must, after internal approval, submit an application for currency conversion, including its expert opinion, to the Republican Currency Exchange. The application must specify the exact uses of the hard currency. An application for hard currency to be used for general unspecified purposes will not be sufficient.

The right to convert currency is granted on a case-by-case basis. The decision taken by the Currency Exchange is, in practice, 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 regardless of the merits of an application. In practice, companies engaged in importing goods experience long delays in obtaining hard currency. This problem has been aggravated in the wake of the global financial crisis and then the Russian economic turmoil in 2014, which reduced hard currency inflows to Uzbekistan.

5. Taxation

5.1 Principal Taxes

The main legislation governing taxation in Uzbekistan is the Tax Code.⁹

Uzbek taxes which are most relevant to foreign investors are provided below. The rates of most taxes are approved annually by Resolution of the President of Uzbekistan.

State Taxes:

- corporate profits (income) tax;
- individual income tax;
- value-added tax;
- customs duties;
- excise tax;
- subsoil use tax and special payments;
- water use tax;
- obligatory payments payable to Road Fund;
- obligatory payments payable to social funds; and
- obligatory payments payable to Fund for Reconstruction, Capital Repair and Fitting Educational and Medical Institutions;

⁹ Tax Code of the Republic of Uzbekistan enacted on 25 December 2007 (effective from 1 January 2008), as amended.

- unified tax payment;
- fixed tax for certain business activities;
- state duty.

Local Taxes and Collections:

- property tax;
- land tax;
- unified land tax;
- various local taxes and collections.

5.2 Corporate Profits (Income) Tax

5.2.1 Status of Taxpayers

Legal entities founded or registered in Uzbekistan are deemed to be residents of Uzbekistan for tax purposes. They are taxed on their profits gained from Uzbekistan and offshore sources.

Non-resident legal entities operating in Uzbekistan through a permanent establishment pay corporate profits tax on profits from sources in Uzbekistan associated with the permanent establishment, reduced by the amount of allowable deductions.

5.2.2 Applicable Tax Rates

The general corporate profits tax rate in 2015 is 7.5%. Banks are subject to corporate profits tax at the rate of 15%.

Certain entities receive the following preferential corporate profits tax treatment:

- 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; and
- a 5% profits tax reduction where the company renders services and accepts payments made using plastic (debit) cards.

In addition, companies which attract foreign direct investments and are engaged in the manufacture of products in certain sectors of economy are exempt from corporate profits tax and a number of other taxes (including the property tax and payments to Road Fund).

5.2.3 Taxable Base

The tax base for corporate profits tax is total revenues from sales (of products, work or services and other income), reduced by the amount of allowable deductions (such as business expenses). Certain costs can be deducted only within the limits established by law.

5.2.4 Reductions

Taxable profit for corporate profits tax purposes may be reduced, including in connection with the following:

- contributions to environmental and charitable funds, culture, health and social establishments, etc. - up to 2% of taxable profit; and
- costs allocated to the development, expansion and reconstruction of premises used for production purposes, to

modernization of production and acquisition of new technological equipment and repayment of loans taken for such purposes within five years of the date such costs are incurred - up to 30% of taxable profit.

5.2.5 Losses

Subject to certain limitations, tax losses may be carried forward for up to 5 years.

5.2.6 Depreciation

For corporate profits tax purposes, the maximum depreciation rates are as follows:

Table 1: Depreciation Rates

Group of Fixed Assets	Depreciation Norm
Vehicles, computer equipment	20%
Machinery and equipment	15%
Rail, sea, river and air transport, power and heating equipment, electric and turbine equipment, electricity transmission and communications devices, and pipelines	8%
Buildings, constructions and structures	5%
Depreciable assets not included in the above groups	15% (generally)

5.2.7 Declarations and Payments

For corporate profits tax purposes, the tax year is the calendar year. Most legal entities are required to file an annual financial statements with the tax authorities by 15 February of the following year.

5.2.8 Withholding Tax

Uzbekistan-source income not connected to the activities of a permanent establishment in Uzbekistan is subject to corporate income tax to be withheld at a source of income (i.e., withholding tax). The tax applies regardless of whether the relevant income is received within or outside Uzbekistan, and the taxable base is comprised of the aggregate income without deductions. Income which relates to activities or services performed outside of Uzbekistan is not subject to withholding taxes. The table below summarizes the rates of withholding tax.

Table 2: Withholding Tax Rates

Income Source	Withholding Tax Rate
Dividend and interest	10%
Insurance premiums paid for insurance or reinsurance of risks	10%
International telecommunication, transportation and freight services	6%
Royalties, rent, income from sale of property, services fees, and other types of taxable income	20%

Withholding tax rates may be reduced by applicable double taxation treaties (see Section 5.7 below).

5.2.9 Tax on Repatriation of Income of Permanent Establishments

In addition to profits (income) tax, a permanent establishment of a non-resident legal entity must pay a 10% tax on net profit (income). Net profit (income) is defined as profits (income) of a non-resident generated from activities in Uzbekistan through its permanent establishment, and reduced by the amount of profits (income) tax of

non-resident. This tax may be reduced by double taxation treaties to which Uzbekistan is a party (see Section 5.7 below).

5.3 Individual Taxation/Payroll Taxes

5.3.1 Status of Taxpayers

Individuals who are physically present in Uzbekistan for 183 days or more, in any period of up to 12 consecutive months are considered to be residents of Uzbekistan for tax purposes. Resident taxpayers are subject to income tax on their worldwide income.

Non-residents, however, are taxed at the source of income without any deductions on any Uzbekistan-source income.

Certain types of income are exempt from taxation. Such income includes, *inter alia*, alimony, severance pay (within the limit of 12 times the MMW, which is approximately US\$ 580), and pension income.

5.3.2 Rates

Individual income tax is payable in 2015 at the following rates (except for non-residents who are taxed on their employment-related income at the rate of 20%):

Table 3: Individual Income Rates

Taxable income (less the nontaxable minimum wage)	Tax
From one (+1 Soum) to five times the MMW (approximately US\$ 245)	8.5%
From five (+1 Soum) to ten times the MMW (approximately US\$ 490)	Tax on 5 MMW + 17% of the excess

Taxable income (less the nontaxable minimum wage)	Tax
Ten times (+1 Soum) the MMW and greater	Tax on 10 MMW + 23% of the excess

The level of taxable income changes regularly because the non-taxable MMW is frequently revised. As of 1 January 2015, the MMW is 118,400 Soums (approximately US\$ 49).

The income tax rate for female employees whose employment involves work in harsh or dangerous conditions cannot exceed 20%.

Certain types of income (e.g., dividends on shares/participation interests paid to the charter capital of the same entity that distributed the dividends) are exempt from individual income tax.

5.3.3 Obligatory Payments Payable to Social Funds

In 2015, employers are required to pay a unified social payment at a rate of 25% of the gross salaries paid to its employees, but not less than one MMW for each employee (including both local and foreign employees). This tax is distributed to the various social funds as follows:

Table 4: Unified Social Payment Distribution

Social Fund	Rate
Pension Fund	24.8% of the employee's gross salary
Employment Fund	0.1%
Trade Union Federation Council	0.1%

The unified social tax is paid by employers. In addition to the unified social tax, every employer must generally pay 1.6% of their annual turnover to the Pension Fund.

Employees must pay social insurance (pension) contributions to the Pension Fund at the rate of 6.5% 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.

5.3.4 Declaration and Payments

A resident individual in receipt of income that is not from his principal place of work (whether from sources in Uzbekistan or abroad) is required to submit a declaration of aggregate annual income to the tax agency at his place of permanent residence no later than 1 April of the year following the year in which the income was received. Individuals who, in the previous calendar year, have only received income from their employment at their principal place of work, service or study, are not required to submit declarations of the income received in that year.

A foreign individual who becomes a resident before 1 April of any year must submit a declaration of income for the previous year. Should the foreign individual terminate his or her activity and leave Uzbekistan within a calendar year, a declaration of income actually received must be submitted no later than one month before his or her departure.

In addition to the aforementioned declaration of income, an individual receiving rent payments must submit a preliminary declaration of income within 5 days following the end of the first month from the date on which such income arose.

5.4 Other Taxes

5.4.1 Value-Added Tax

Value-added tax (“VAT”) is a tax on the value added in the course of the production, sale and import of goods, work, and services. VAT is payable on turnover related to the sale, export and import of goods, work, and services. The current VAT rate is 20%.

5.4.2 Excise Tax

The types of goods subject to an excise tax and the applicable taxation rates are determined by the President.

The excise tax is generally not levied on the export of goods, work and services.

5.4.3 Subsoil Use Taxes

(a) Subsoil Use Tax

A subsoil use tax (a concept similar to royalties) is payable by subsoil users. The amount of subsoil use tax is calculated on the value of the mineral resources produced and is payable on a quarterly basis for small businesses and on a monthly basis for other types of entities. The value of the mineral resources for the purposes of the subsoil use tax is generally determined using the average weighted sales price for the reporting period. There are fixed approved percentage rates of the subsoil use tax which vary depending on the type of mineral.

(b) Signature Bonus

A signature bonus is a one-time payment to the State for the right to explore and extract minerals in accordance with a subsoil use license. The rate of the signature bonus varies depending on the type of mineral. For instance, the rate established in 2015 for gold and hydrocarbons is the amount equivalent to 10,000 times the MMW, and for uranium and for precious metals - 1,000 times the MMW.

(c) Commercial Discovery Bonus

A commercial discovery bonus is a fixed payment that is payable by subsurface users for each commercial discovery made in the licensed territory. The rate of commercial discovery bonus is determined on the basis of the value of proven extractable reserves. The value of the mineral resources is generally determined using the market price established at international exchanges. The rate of the commercial discovery bonus for 2015 is 0.1%.

(d) Excess Profits Tax

Excess profits tax is generally payable in respect of natural gas, cathodic copper, cement, polyethylene granules and certain other types of produce. The tax base for the excess profits tax is (i) the difference between the actual sale price and the amount of the threshold price established by the law, reduced by (ii) the amount of the corporate income tax attributable to the difference between the sale price and the threshold price.

The rate of this tax for 2015 is 50% of tax base.

5.4.4 Obligatory Payments Payable to Fund for Reconstruction, Capital Repair and Fitting Educational and Medical Institutions

All legal entities are required to pay a tax on their annual turnover to the Non-Budgetary Fund for Reconstruction, Capital Repair and Fitting Educational and Medical Institutions. The rate of this tax for 2015 is 0.5%.

5.4.5 Road Tax

Every legal entity in Uzbekistan must generally pay 1.4% (with certain variations for different businesses) of their annual turnover to the Road Fund. This tax is intended for the development of roads and highways in Uzbekistan.

5.4.6 Water Use Tax

The water tax applies to legal entities that use water in their activities for production and technical needs. The rates of this tax are determined by the President and range for 2015 from 2.8 to 65.5 Soum per cubic meter.

5.5 Local Taxes and Collections

Both legal entities and individuals are subject to numerous local taxes and collections including those discussed below.

5.5.1 Property Tax

A corporate property tax applies at the rate of 4% on the annual average depreciated value of:

- all fixed capital assets; and
- equipment that was not installed in due term according to design and specifications estimates.

There are a number of tax exemptions and benefits. For example, export-oriented entities enjoy the following preferential property tax treatment:

- a 50% property tax reduction where the company's exports represent 30% or more of the total sales volume of its products, work or services;
- a 30% property tax reduction where the company's exports represent 15% to 30% of the total sales volume of its products, work or services.

The rate of tax applicable to an individual's residential property ranges from 1.2% up to 1.8% of the inventory value of the property. Non-residential property of individuals is taxed at the same rate as the corporate property tax rate.

5.5.2 Land Tax

The land tax is paid at the rates established by the President and varies depending on the type of land and its location.

5.5.3 Miscellaneous Taxes

Various other local taxes, collections and fees are payable in the autonomous Republic of Karakalpakstan, the viloyats and the City of Tashkent, such as a tax on the use of gasoline, diesel and gas and fees for trading spirits and jewelry. The rates for these taxes are set by the local state bodies within the maximum limits established by the President.

5.6 Penalties

Breaches of tax legislation may result in the following penalties (among others):

- 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 times the MMW (approximately US\$ 150);
- engaging in a licensed activity without a license results in an administrative penalty imposed upon the management of a taxpayer-legal entity and a taxpayer-physical entity in the amount of up to 20 times the MMW (approximately US\$ 980); and
- a penalty of 0.033% of total taxes due is applied for each day of delay in the payment of taxes and fees.

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

5.7 Double Taxation Treaties

As of 1 January 2015, Uzbekistan became signatory to double taxation treaties with 53 countries. A foreign legal entity which is entitled to receive a full or partial tax exemption under a double taxation treaty must submit to the Uzbek tax authorities, among other things, an official legalized tax residency certificate in the country which concluded the relevant double taxation treaty with Uzbekistan. The documents may be submitted to the tax authorities either prior to the payment of tax or within a year of the payment becoming due. A foreign banking institution seeking a tax exemption under a double taxation treaty is not required to file a certificate of residency, provided that its residency can be identified through publicly available information.

Below is a table listing the countries with which Uzbekistan has entered into double taxation treaties, showing the dates of signing and entering into force, and indicating the reduced rates of income tax applicable under the treaties in relation to certain categories of income.¹⁰ In addition to providing for reduced rates, these treaties provide a complete income tax exemption in relation to many categories of income.

¹⁰ The reduction of income tax rates under most treaties is allowable only upon the satisfaction of certain conditions. For example, income tax in relation to royalties under the treaty with the Netherlands may be reduced only if the recipient is the actual owner of royalties. Therefore, the relevant treaty and circumstances at hand must be examined in each particular case in order to ascertain whether a certain category of income is subject to taxation at a reduced rate.

Table 4: Double Taxation Treaties

Country	Date of Signing	Date of Entering into Force	Dividends¹¹ (%)	Interest (%)	Royalties (%)
Austria	14/07/00	1/08/01	5 / 10 15	10	5
Armenia	28/02/98	Status is not clear	n/a*	n/a*	n/a*
Azerbaijan	27/05/96	2/11/96	10	10	10
Bahrain	05/06/09	14/10/10	8	8	8
Belarus	22/12/94	11/01/97	15	10	15
Belgium	14/11/96	8/08/99	5 / 10 15	10	5
Bulgaria	24/11/03	21/10/04	10	10	10
Canada	17/06/99	14/09/00	5 / 10 15	10	10
China	3/07/96	3/08/96	10	10	10

*¹¹ Under certain treaties, the rate of tax in relation to dividends may vary depending on the share of the charter capital (shares, interests, etc.) held by the recipient of dividends in the company paying them. For example, under the treaty with the Netherlands, the rate of income tax on dividends should be 5% of the gross amount of dividends if the beneficial owner of the dividends holds directly or indirectly at least 25% of the charter capital of the company paying the dividends; in all other cases the dividends will be taxed at the rate of 15%. Therefore, the relevant treaty and circumstances at hand must be examined in each particular case in order to determine the applicable tax rate with respect to dividends. Following a slash in the table we indicate the minimum share of the charter capital that must be owned by the recipient of dividends in order to use the reduced rate of tax indicated before the slash; after that, beneath these figures we indicate the tax rate which is applicable if the recipient owns less than the mentioned minimum share of the charter capital.

Country	Date of Signing	Date of Entering into Force	Dividends¹¹ (%)	Interest (%)	Royalties (%)
Czech Republic	2/03/00	15/01/01 ¹²	5 / 10	5	10
Egypt	21/09/99	Not in force	n/a*	n/a*	n/a*
Finland	9/04/98	7/02/99	5 / 10 15	5	5-10 (depending on the type of IP rights)
France	22/04/96	1/10/03	5 / 10 10	5	0
Georgia	28/05/96	20/10/97	5 / 25 15	10	10
Germany	7/09/99	14/12/01	5 / 25 15	5	3-5 (depending on the type of IP rights)
Greece	1/04/97	15/01/99	8	10	8
Hungary	17/04/08	29/01/09	10	10	10
India	29/07/93	25/01/94 ¹³	10	10	10
Indonesia	27/08/96	11/11/98	10	10	10
Iran	26/04/02	18/01/05	8	10	5
Israel	15/09/98	9/03/99	10	10	5-10 (depending on the type of IP rights)
Italy	21/11/00	26/05/04	10	5	5

¹² As amended by the Protocol dated 8 December 2012.

¹³ As amended by the Protocol dated 11 April 2012.

Country	Date of Signing	Date of Entering into Force	Dividends¹¹ (%)	Interest (%)	Royalties (%)
Japan	18/01/86	18/01/86	15	10	0-10 (depending on the type of IP rights)
Jordan	22/11/10	13/07/11	7 / 10	10	20
Kazakhstan	12/06/96	21/03/97	10	10	10
Korea	11/02/98	25/12/98	5 / 25 15	5	2-5 (depending on the type of IP rights)
Kuwait	19/01/04	3/05/06	5 / 25 10	8	20
Kyrgyzstan	24/12/96	17/03/00	5	5	15
Latvia	3/07/98	23/10/98	10	10	10
Lithuania	18/02/02	11/11/02	10	10	10
Luxembourg	2/07/97	1/09/00	5 / 25 15	10	5
Malaysia	6/10/97	10/08/99	10	10	10
Moldova	30/03/95	28/11/95	5 / 10 15	10	15
Mongolia	20/09/95	Status is not clear	n/a*	n/a*	n/a*
Netherlands	18/10/01	27/05/02	5 / 25 15	10	10
Oman	30/03/09	20/06/09	7	7	10
Pakistan	22/05/95	12/09/96	10	10	15

Country	Date of Signing	Date of Entering into Force	Dividends¹¹ (%)	Interest (%)	Royalties (%)
Poland	11/01/95	29/04/95	5 / 20 15	10	10
Portugal	11/01/01	20/02/03	10/30 15	10	10
Romania	6/06/96	17/10/97	10	10	10
Russia	2/03/94	27/07/95	10	10	10
Saudi Arabia	18/11/08	Status unclear	7	n/a	10
Singapore	24/07/08	12/09/08	5	5	8
Slovakia	6/03/03	20/10/03	10	10	10
Slovenia	11/02/13	Status is not clear	n/a*	n/a*	n/a*
Switzerland	3/04/02	15/08/03	5 / 20 15	5	5
Thailand	23/04/99	21/07/99	10	10 (for financial institutions)	15
Turkey	8/05/96	30/09/97	10	10	10
Turkmenistan	16/01/96	27/11/96	10	10	10
Ukraine	10/11/94	13/08/95	10	10	10
United Kingdom	15/10/93	10/06/94	5 / 10 10	5	5
United Arab Emirates	26/10/07		5, 15 (depending on the taxpayer)	3	10
Vietnam	28/03/96	16/08/96	15	10	15
* The text of the treaty has not been published yet and therefore no information as to the rates was available at the time of preparing of this brochure.					

5.8 Export and Import Taxes

5.8.1 Export Duties

Customs duties were abolished with respect to the export of all kinds of goods, work and services from 1 November 1997.

The Tax Code provides that VAT is imposed on goods exported from Uzbekistan at a rate of 0% (except for precious metals).

An excise tax is not imposed on excisable goods exported by manufacturers.

5.8.2 Import Customs Duties

Import customs duties are only applicable to those goods specified by the President. Customs duties are paid in Soums before or during the customs clearance of the goods. The amount of duty to be paid is generally calculated on the basis of the contract price and depends on the customs code of the relevant product.

Property brought into Uzbekistan by an EWFI for its own needs is exempt from customs duties for two years after its state registration, provided that the share of foreign investment in the EWFI comprises not less than 33% of its charter capital.

5.8.3 VAT on Imports

A 20% VAT applies to most goods and materials imported into Uzbekistan.

The VAT is paid in Soums before or during the customs clearance of the goods. Generally, the taxable base is the customs value of the imported products plus customs duties and excise tax (where applicable).

There are a number of exemptions from VAT on import. For example, products imported within the framework of an investment agreement entered into with the relevant state agency in Uzbekistan are exempt

from VAT on import. Another example, imported technological equipment included on a specified list is also exempt from VAT. (However, should exempted equipment be sold or transferred free of charge within three years from the date of import, VAT on import would apply retroactively.)

5.8.4 Excise Tax on Imports

An excise tax is imposed on certain types of imported goods. The rate of this tax varies depending on the types of imported goods.

5.9 Tax Concessions

Tax concessions are generally provided in the Tax Code. However, the President of Uzbekistan is also given the power to issue tax concessions, and he has exercised this power in relation to specific projects. In addition, although the Tax Code technically does not provide for this, in practice, the Cabinet of Ministers also issues resolutions granting tax concessions.

5.10 Transfer Pricing

The Tax Code provides some general transfer pricing rules. In particular, transactions (in relation to both products and works/services) between related parties should be on market terms; otherwise, the tax authorities may adjust the tax liabilities accordingly.

There is no clear methodology of determining the market price in the tax law. In practice, the tax authorities would often look at valuation reports prepared by local appraisal firms.

6. Employment

6.1 Introduction

The employment of nationals and foreign citizens in Uzbekistan is regulated by the Labor Code.¹⁴ Labor relations are regulated by individual employment contracts and often also by collective agreements, which are entered into between labor unions in the interests of workers and employers. Employment contracts must meet the standards prescribed by Uzbek law. Companies may hire employees directly, without using employment or recruitment agencies.

6.2 Workbooks

Uzbek nationals must provide an employer with a workbook containing their personal details and a record of their work history, including current employment details. The workbook is issued for the purpose of determining the amount to be paid from the State 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 workbook, the employer is obliged to supply a new one within five days of commencing employment.

6.3 Probationary Period

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

6.4 Minimum Wage

Wages may not be lower than the minimum monthly wage. As of 1 January 2015, the MMW was 118,400 Soums (approximately US\$ 49 at the official exchange rate). The Government usually increases the MMW several times per year.

¹⁴ Labor Code of the Republic of Uzbekistan dated 21 December 1995, as amended.

6.5 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 at a rate of at least 200% of the employee's regular wage.

6.6 Holidays and Vacations

Uzbekistan has 9 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.

6.7 Sick Leave

Employees are required to submit a medical certificate for any absence only 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 when an employee is caring for a sick family member, as well as in some other instances. In cases of a labor-related injury or occupational disease or 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 such employees' average earnings depending on the grounds for the sick leave and employment seniority.

6.8 Maternity Leave

Maternity leave must be given no less than 70 days prior to birth and 56 days following birth (up to 70 days in certain cases). Maternity

leave is paid for by the employer at the employee's normal salary level, but is also excluded from the employer's taxable income.

6.9 Cost of Employment

The mandatory Social Fund contributions for employees and employers are dealt with in Section 5.3.3 above.

6.10 Foreign Workers in Uzbekistan

Companies with foreign employees in Uzbekistan must obtain a foreign work permit from the Agency on Foreign Labor Migration Issues (the "Agency"). The permit authorizes the company to engage a foreign work force. 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, and within 15 days for employment of foreign workers with high qualifications or unique experience in operation activities. The procedure for issuing work confirmations 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 MMW (approximately US\$ 490).

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 for Foreign Economic Relations, Investments and Trade. In practice, it is difficult to accredit more than three persons as foreign employees of a representative office.

7. Property Rights

7.1 General Provisions

The fundamental laws governing matters relating to real property and real property rights are the Constitution,¹⁵ the Property Law,¹⁶ the Civil Code, the Land Code,¹⁷ the Urban-Planning Code¹⁸ and the Housing Code.¹⁹

An owner of real property may (at his own discretion) possess, use and dispose of that property, as well as the rights to the objects of ownership possession. Such objects of ownership in Uzbekistan include: land, subsoil, movable and immovable property, intellectual property rights, money and securities. In this connection, it should be noted that the State is the sole owner of land, subsoil and certain other kinds of property in Uzbekistan.

On 24 September 2012, the new Law “On Protection of Private Property and Guarantees of the Rights of Proprietors” was adopted. The new law mostly reiterates and guarantees the previously existing rights of private proprietors, especially in cases of nationalization, attachment or other types of private property termination.

7.2 Limitations on Ownership of Land

The ability to own land (*i.e.*, to have the right to possess, use, and dispose of land) is, in practice, very limited in Uzbekistan.

Legal entities and individuals (including foreigners) may own the land plots beneath small trading and service facilities (*e.g.*, small shops).

¹⁵ Constitution of the Republic of Uzbekistan, dated 8 December 1992, as amended.

¹⁶ Law *On Property in the Republic of Uzbekistan*, dated 31 October 1990, as amended.

¹⁷ Land Code of the Republic of Uzbekistan, dated 30 April 1998, as amended.

¹⁸ Urban-Planning Code of the Republic of Uzbekistan, dated 4 April 2002, as amended.

¹⁹ Housing Code of the Republic of Uzbekistan, dated 1 April 1999, as amended.

Individuals and legal entities (both Uzbek, and in certain cases, foreign) also may own apartments and houses, including the underlying land plot. Uzbek and, in certain cases, foreign citizens, may own small land plots for personal farming, gardening and leisure.

Although the Land Code provides for the possibility for legal entities (including foreign legal entities) to own land, in practice, ownership of a land plot beneath a medium-sized or large enterprise is not permitted without the authority of a Cabinet of Ministers Resolution or a Presidential Decree. At the time of publication, the only exception to this is with regard to diplomatic representations. Under the Decree On Additional Measures for the Improvement of Activity Conditions of Diplomatic Representations and International Organizations in the Republic of Uzbekistan,²⁰ diplomatic representations may own land in Uzbekistan; however, they may do so only for the construction of diplomatic representation buildings and the construction of residences for the heads of diplomatic representations.

Rather than full ownership of land, the enterprise or individual owner (Uzbek or foreign) of an enterprise is typically granted permanent or temporary land use or lease rights. A permanent or temporary land use or lease right includes the right to possess and use the land, but not the right to dispose of it. The state is the ultimate owner of the land subject to permanent use rights. The land use rights of the seller of a structure are transferred, along with any transfer of ownership of the structure.

However, in 2006, the President adopted a Decree “*On Privatization of Land Plots Occupied by Citizens’ and Legal Entities’ Buildings and Structures*”, purporting to permit the privatization of land plots underneath buildings and other structures owned by resident individuals and legal entities. The scope of such privatization does not

²⁰ Decree of the President of the Republic of Uzbekistan *On Additional Measures for the Improvement of Activity Conditions of Diplomatic Representations and International Organizations in the Republic of Uzbekistan*, dated 14 November 1995.

cover vacant land plots or the land plot separately from the overlying building and structures, which cannot be privatized. According to the Decree, all permanent and temporary land use rights shall be either privatized into ownership or converted into long-term leases. The Decree is very general and further legislation is to be adopted to clarify those issues. To date, no such implementing legislation has been adopted and therefore the prospects of land privatization are unclear.

The Foreign Investments Law states that foreign investors are entitled to acquire ownership rights to facilities in the commercial and service sectors, residential premises, together with the land plots on which they are situated, to lease and use the land and rights to natural resources. Land may be leased to foreign investors on the basis of an agreement, for a period of not less than 30 years and not more than 50 years.

7.3 Securing Obligations

While the legal right to mortgage (pledge) real property rights as security for a mortgagors' obligations exists in Uzbekistan, the relevant legislation is limited and inconsistent and the practice of doing so is rather contradictory.

The Civil Code permits a mortgagor to mortgage a building or construction only with the simultaneous mortgage of the underlying land plot.

It should be noted that the provisions of the Land Code conflict with the foregoing rights to mortgage land, stating that a mortgage of land by the possessors and users of land is invalid, although it specifically permits the mortgage of a right to a land plot lease. The Land Code does not prohibit the mortgage of land by the owner, but, as noted above, in practice one's ability to own land in Uzbekistan is very limited.

The Civil Code also permits an entire enterprise or other property complex (including both movable and immovable property) to be mortgaged as a whole. However, legislation on the registration of mortgages of enterprises as a whole has not been adopted and, in practice, the assets of an enterprise can be registered only separately rather than as a whole.

8. Specific Industries

8.1 Natural Resources

8.1.1 General

Uzbekistan possesses substantial and diverse mineral resources. Correspondingly, the mining and metals industries play an important role in the country's economy and national plans for development. In addition to being one of the world's largest gold producers, Uzbekistan is a substantial producer of uranium. Uzbekistan also produces, among others, copper, silver, coal, lead, zinc, phosphate, molybdenum, potassium and tungsten.

Under the Constitution, subsoil, minerals and land are the exclusive property of the State. The mining and oil and gas industries of Uzbekistan are regulated by national laws and regulations. The Subsoil Law²¹, Regulation "On Procedure and Conditions for Granting the Right to Use Subsoil Plots" (Annex to the Resolution of the President No. IIII-649 dated 6 July 2007, and the PSA Law²² regulate legal issues pertaining to the use, possession and disposal of subsoil resources in Uzbekistan. In particular, the Subsoil Law and Regulation "On Procedure and Conditions for Granting the Right to Use Subsoil Plots" define types of subsoil licenses, establish the procedure for obtaining subsoil licenses, outline the relevant regulatory authorities and the scope of regulatory authorities' and subsoil users' rights, and contain provisions regulating subsoil ownership and use. Subsoil use rights related to hydrocarbons and ore and non-ore minerals are granted by the Cabinet of Ministers of Uzbekistan, represented by the State Committee of the Republic of Uzbekistan on Geology and Mineral Resources (the "Geology Committee").

Rights are issued on the basis of subsoil use licenses awarded by the Geology Committee as a result of tenders or direct negotiations with

²¹ Law *On Subsoil*, dated 23 September 1994, as amended.

²² Law *On Production Sharing Agreements*, dated 7 December 2001, as amended.

legal entities and individuals. The Geology Committee, being the principal regulatory body, establishes the terms of and conducts tenders for the grant of subsoil use rights and represents the State in the negotiation, implementation and termination of subsoil use licenses. A subsoil user must sign a Licensing Agreement with the Geology Committee which defines the terms and conditions of subsoil use. The Subsoil Law empowers the Geology Committee to change the terms of a mining license in the event that the subsoil user discovers other types of minerals or associated mineral components or a new quality of minerals (i.e. if something valuable unknown at the time of granting the license is discovered at a later stage) not listed in the license. In addition, legislation provides that the mining license terms can also be changed in the event of amendments to legislation pertinent to standards and rules on the safety of works, protection of the subsoil, the environment and the health of the population.

It is also worth noting that, despite assurances provided in the Subsoil Law with regard to the exclusive right to progress from exploration to mining activities, there is in fact no guarantee of continuity of such right since a subsoil user must obtain a separate mining license.

A fundamental problem with the regulatory framework in Uzbekistan is the absence of a clear separation between mining and petroleum law. A consequence is that mining companies find themselves subject to various policies, procedures and requirements which are common in the international oil and gas industry but uncommon in the international mining industry.

Uzbekistan's mineral resource/reserve reporting system is notably different, both in principle and in detail, from generally recognized international systems, such as Australia's JORC Code and Canada's CIM standards. Uzbekistan, along with other CIS countries, still uses the former Soviet system for classification of mineral resources and reserves. This categorizes mineral concentrations: (a) according to the extent to which they have been explored and substantiated, specifically: categories A, B, C1 and C2 and three categories of potential resources P1, P2, P3; and (b) on an economic-value basis,

with two categories: balance reserves (commercial reserves) and off balance reserves (reserves lacking commercial potential).

8.1.2 Concession Activity

Pursuant to the Concessions Law,²³ a concession is a permit issued on behalf of the state to a foreign investor, allowing the latter to engage in a specific type of business activity relating to property, land and subsoil on the basis of a concession agreement.

Despite the fact that the land and subsoil of Uzbekistan are the exclusive property of the state, in cases of strategic necessity, importance and economic expedience for the country, the state may assign the rights to possess and use such property to a concessionaire, at the same time reserving the exclusive right to dispose of the concession property. The State has a pre-emptive right to purchase relevant products from the concessionaire.

Under Uzbek law, the supreme state agency authorized to act as party to concession-related relations is the Cabinet of Ministers of Uzbekistan, which may authorize state entities to act on behalf of the Government on concession-related issues. However, the Concessions Law has, rarely, if ever been used.

8.1.3 Production Sharing

The PSA Law governs relations arising from the execution, enforcement and termination of a production sharing agreement (“PSA”) between the Government and an investor with respect to the search, exploration and exploitation of oil, gas and other mineral resources in Uzbekistan.

Under a PSA, the Government grants, in exchange for consideration and for a definite term, the exclusive rights to search, explore and exploit mineral resources on a specific subsoil area.

²³ *Law On Concessions*, dated 30 August 1995, as amended.

Under the PSA Law, in exchange for relief from certain taxes, the investor agrees to give the state a share of the resources that it produces. The investor may pay the state in products or in the form of proceeds from actual sales. The state's share of these resources consists of a royalty (based on a percentage of gross production) and a portion of "profit production." Profit production is defined as the production in excess of the compensation amounts of extracted resources given to the state, as well as subsoil use fees (i.e., royalties and bonuses).

The PSA Law provides the following major guarantees to an investor:

- The ownership right to its share of profit production and the right to export such share freely, without quotas;
- A special legislative "stabilization" clause, providing that should the commercial terms of the PSA become less favorable as a result of subsequent Uzbek legislation, the terms of the PSA will apply. However, this provision does not apply to changes in law relating to safety standards for equipment and work, protection of the subsurface and environmental or health safety measures; and
- The right to refer disputes to international arbitration as agreed under the PSA.

The PSA Law exempts an investor (and its contractors and subcontractors) from all the taxes during the search and exploration activities under the PSA. At other stages of geological works, the PSA Law subjects an investor to taxes in the general procedure established under the law.

8.2 Telecommunications

8.2.1 Licenses

The main statutory acts governing telecommunications activities are the Telecommunications Law,²⁴ the Informatization Law²⁵ and the Radio Frequencies Law.²⁶ The State Committee on Communications, Informatization, and Telecommunication Technologies (the “Communications Committee”) is the authorized state body for administering and regulating telecommunication activities and is authorized to license all telecommunication activities.

As provided in Section 9, below the following major types of telecommunication activities require obtaining licenses issued by the Communications Committee. These activities are:

- Design of telecommunications networks
- Construction of telecommunications networks
- Operation of telecommunications networks
- Rendering services of telecommunication networks

Telecommunication networks are generally divided as follows:

- international telecommunications networks;
- local telecommunications networks;
- intercity telephone communication networks;
- television and radio distribution networks;

²⁴ Law *On Telecommunications*, dated 20 August 1999, as amended.

²⁵ Law *On Informatization*, dated 11 December 2003.

²⁶ Law *On Radio Frequencies’ Spectrum*, dated 25 December 1998, as amended.

- data communication networks; and
- mobile radio communication networks.

There is no restriction for all types of licenses being issued to a single licensee. However, an individual (customary) international telecommunications license may be issued to only one licensee at a time. At the present time, JSC Uztelecom is an exclusive licensee and has the exclusive rights to the transmission of all telecommunication signals to international telecommunication networks in the Republic of Uzbekistan.

The licenses are issued for a period ranging from 5 to 15 years. In order to apply for a license one has to pay a nominal state fee for the processing of the license application. There is also a state fee for issuing and extending a license. Only Uzbek legal entities may obtain licenses and engage in telecommunication activities. An entity, which is issued a license, is also required to sign a license agreement that provides for detailed terms of licensed activities, including compliance with the applicable legislation of Uzbekistan.

8.2.2 Radio Frequencies and Telecommunication Devices

The State Commission for Radio Frequencies (the “**SCRF**”) allocates particular radio frequencies prior to the issuance of an appropriate license and issues a permit to use such radio frequencies after the license has been granted by the Communications Committee. The SCRF is a sub-division of the Communication Committee.

As a general rule, a permit for the use of certain radio frequencies issued by the SCRF should correspond to the valid period of the license. The SCRF itself usually approves resolutions the allocation of radio frequencies based on the applications of recipients.

The use of radio frequencies, which are a limited resource, is carried out on a paid basis.

Notably, pursuant to Article 13 of the Law On Telecommunications, in the event of a violation of the terms of use of the radio frequencies, the licensee's permit to use the radio frequencies may be suspended by the SCRF. If the licensee fails to remedy the violations within the term set by the competent state authority, the permit will be terminated. Violation of these terms may also lead to suspension or even termination of the relevant telecommunications license.

Most types of the telecommunication equipment are subject to mandatory certification. It is not allowed in Uzbekistan to import and use goods that are subject to mandatory certification without the receipt of such certificates.

8.3 Pharmaceuticals

8.3.1 General

The main law regulating the pharmaceuticals industry is the Law on Medicines and Pharmaceutical Activity, dated 25 April 1997, as amended (the "Law on Medicines").

The regulatory body governing the healthcare system and pharmaceutical market is the Ministry of Healthcare (the "MOH"). The responsibilities of the MOH include developing state policy and regulation in the sphere of healthcare, granting licenses for pharmaceutical activities, medical activities, exercising state control over healthcare including the circulation and registration of medicines and medical products, etc.

The Government of Uzbekistan widely supports and encourages the manufacturing of medicines and medical products in Uzbekistan. Among other preferences provided by the State, the Tax Code provides exemptions from VAT for the import of medicines, crude medical agents and products of medical purpose used for the manufacturing for medicines and products of medical (and veterinary) purposes in Uzbekistan.

8.3.2 Registration of Medicines and Medical Products

The following must be registered by the MOH to be manufactured, sold or used in Uzbekistan:

- Therapeutic, prophylactic, diagnostic agents, clinical nutrition and para-pharmacy products;
- Medicinal agents (substances) and biologically active ancillary agents used in the preparation of medicines;
- New combinations of registered medicinal agents;
- Medicinal agents in new dosages or medicinal forms or compositions prepared using a new technology;
- Generic medicinal agents; and
- Products of medical purpose.

Medicines prepared in pharmacies in accordance with established receipts and formulas are exempt from registration.

The registration of any new medicine must be preceded by clinical trials of the medicine in Uzbekistan. Certain medicines may be registered without clinical trials (on the basis of document review and sample analysis results).

8.3.3 Licensing

As mentioned in Section 9 below, pharmaceutical activity is a licensable activity. According to the Regulation On Order of Licensing of Pharmaceutical Activity, dated 31 October 2003, as amended, the following are considered to be pharmaceutical activities:

- Manufacturing of medicines and products of medical purpose;
- Preparation of medicines and products of medical purpose;

- Scientific research and development of new medicines and products of medical purpose;
- Quality control of medicines and products of medical purpose;
- Retail sale of medicines and products of medical purpose;
- Wholesale of medicines;
- Wholesale of products for medical purposes; and
- Growing, harvesting, collecting, storing, packaging and wholesale of phytogenous, animal and mineral crude medicines.

8.3.4 Sale

In order to import, manufacture or sell (retail and wholesale) medicines, in addition to their registration, as described in Section 8.3.2 and licensing requirements described in Section 8.3.3, the medicines must also be duly certified.

Retail sale of medicines and products of medical purpose may be carried out only through pharmacies.

The state regulates the maximum premium that wholesalers or retailers may add to the price of medicines.

The MOH establishes a list of over-the-counter medicines. All other medicines are considered as prescription medicines.

Pharmacy institutions need also to comply with a requirement of minimum assortment of products included on the List of Basic Medicines and Products of Medical Purpose, which is compiled by the MOH.

Production, sale and import of counterfeit and defective medicines is specifically prohibited and prosecuted in Uzbekistan.

8.3.5 Promotion

Uzbek law specifically regulates only “advertising” as a type of promotional activity in the pharmaceuticals market. The legislation of Uzbekistan contains few provisions that specifically regulate practices (other than simple advertising) aimed at the promotion or marketing of medicines.

Advertising is defined in article 4 of the Law on Advertising as “special information disseminated in accordance with legislation in any form and by any means about an individual or legal entity, products, including trademark, service mark and technology, with the purpose of gaining direct or indirect profit (income).”

The Law on Advertising contains general restrictions on advertising that are as applicable to medicines and medical products as they are to any other product. The general requirements for advertising are legality, accuracy, truthfulness, use of forms and means, not causing any damages or moral damages to the consumer from such advertising. Only non-prescription medicines may be advertised to the general public.

A permit from the MOH is required to advertise medicines that may primarily or partially be used by minors.

Prescription medicines may be advertised only to healthcare and pharmaceutical professionals in specialized media and at specialized events. Advertising of prescription medicines by placement of advertisements in doctors’ consulting rooms, on items that are publicly accessible (such as, for example, clocks, calendars, umbrellas, lighters, key chains, stationery, ash trays, dishes, souvenirs, etc.) is banned.

In addition, any advertising of medicines aimed at medical professionals and institutions must list scientific data on such medicines, refer to the international non-patented name of the medicine, state that such advertising is designated for medical and pharmaceutical professionals only, and other requisite information.

8.4 Banking

8.4.1 Legal Framework

The banking industry in Uzbekistan is regulated by the Banking Law,²⁷ the Central Bank Law²⁸ and various regulations issued by the Central Bank of Uzbekistan. Uzbekistan has a two-tier banking system, with the Central Bank of Uzbekistan (the “CBU”) comprising the first tier and the remaining banks comprising the second. The CBU is empowered to develop and conduct credit and monetary policy, organize the functioning of payment systems, conduct currency regulation and currency control and ensure the stability of the financial system.

8.4.2 Regulatory Bodies

The primary regulatory body governing the banking sector of the Republic of Uzbekistan is the CBU. The CBU is one of the few institutions under the control of the Uzbekistan legislative (rather than executive) branch. The CBU is accountable to the Senate of the Oliy Majlis (the upper chamber). The Chairman of the CBU is nominated and dismissed by the Senate following the recommendation of the President of the Republic of Uzbekistan.

As a regulating and supervising body of the banking industry, the CBU monitors banks’ compliance with capital adequacy requirements, liquidity ratios, maximum credit exposures to single borrowers and related parties, maximum investments in fixed and other non-financial assets and limits on contingent obligations and foreign exchange positions. As part of its general oversight role, the CBU establishes state registration and licensing rules and reviews the activities of banks and other financial institutions. The CBU maintains regional offices throughout the Republic of Uzbekistan.

²⁷Law *On Banks and Banking Activities*, dated 25 April 1996, as amended.

²⁸Law *On the Central Bank of the Republic of Uzbekistan*, dated 21 December 1995, as amended.

The Association of Uzbekistan Banks is also an important standard-setting body.

8.4.3 Credit Organizations in the Uzbekistan Market

At the moment there are two main groups of credit organizations: banks and non-banking credit organizations. A bank is a credit organization which has the right to carry out such banking operations as opening and maintaining the bank accounts of legal entities and individuals and placement of those funds in its own name at its own cost and expense. As opposed to the bank, a non-banking credit organization is an entity which is allowed to perform a limited number of specified banking operations. Both banking and non-banking credit organizations are entitled to carry out respective credit operations from the moment of receipt of a license issued by the CBU.

Currently, foreign banks may not establish branch offices in the Republic of Uzbekistan but may set up representative offices and Uzbekistan banking subsidiaries. An acquisition of more than 5% of bank's shares by a person or a group of affiliated persons requires that the CBU is notified. An acquisition of more than 20% of shares by a person or a group of affiliated persons can only be carried out upon the prior permission of the CBU. The participation of foreign banks in the Uzbekistan market is subject to certain requirements. A foreign bank wishing to establish a banking subsidiary or participate in the charter capital of an Uzbekistan bank must have its own charter capital of no less than 500 million Euro.

8.4.4 Banking Activities

According to the Banking Law, the list of banking operations includes the following:

- attraction of monetary funds for on-call and term deposits and placements of such funds in the name and at the cost and expense of the relevant credit organizations;

- opening and maintaining bank accounts for individuals and legal entities;
- collecting money, promissory notes and bills of exchange, payment and settlement documents, cash servicing of individuals and legal entities;
- exchanging foreign currency;
- issuing bank guarantees.

Banks are also entitled to perform certain non-banking operations, including: renting out safe deposit boxes, participating in financial leasing operations and providing consultancy and other informational services. Credit organizations are prohibited from engaging in any industrial, trade or insurance activities.

8.4.5 Licensing

A credit organization, such as a bank, must be licensed by the CBU in order to conduct its activities. Before receiving a banking license, the founders of a bank must obtain a preliminary permission of the CBU to establish a bank which enables the founders to proceed further with the bank's registration. The founder shall obtain a banking license within 6 months after the preliminary permission is issued. Newly established banks may obtain a license specifying the types of banking activities which can be carried out by a particular bank. The CBU may refuse to issue the banking license in the event of the following: non-compliance of the foundation documents with legal requirements; the unsatisfactory financial standing of the founders of the bank; the failure of the nominee chief executive officer and chief accountant of the bank to meet the qualification requirements; the failure to satisfy payment of the minimum banking charter capital prior to the registration of a bank; the failure to declare the source of funds of the founders (excluding individuals who are the founders of private banks); unsatisfactory protection of banking facilities or the failure to equip such facilities with necessary engineering installations.

In addition to the bank license, banks must also obtain a license to carry out exchange operations (the “exchange license”). Banks can receive the following exchange licenses:

- A general license to carry out exchange operations within and outside Uzbekistan; and
- A domestic license to carry out all or limited exchange operations within Uzbekistan.

9. Licenses

Many activities are subject to licensing in Uzbekistan. The Licensing Law,²⁹ Resolution of the Oliy Majlis On the List of Types of Activities Subject to Licensing³⁰ and the Resolution of the Cabinet of Ministers On Measures for the Implementation of Law of the Republic of Uzbekistan on Licensing of Certain Types of Activities³¹ constitute the principal legislation in this field. During the past years, the Government has been making efforts to decrease the number of activities subject to licensing and to simplify the licensing procedure.

It should be noted that a number of other types of activities are also subject to various approval or registration requirements in accordance with legislation specifically regulating those activities such as banking, import/export activities and certain construction activities.

Table 6 below summarizes the various activities requiring a license and the relevant Licensing Authority.

Table 6: Licensing Authorities

Activities Subject to Licensing
State Licensing Authority: Cabinet of Ministers
Development, production, repair and sale of arms and ammunition, protective devices, military equipment and components and instruments (unless used for other purposes), as well as special materials and equipment for their manufacture

²⁹ Law *On Licensing of Certain Types of Activities*, dated 25 May 2000, as amended.

³⁰ Resolution of the Oliy Majlis *On the List of Types of Activities Subject to Licensing*, No. 222-11 dated 12 May 2001, as amended.

³¹ Resolution of the Cabinet of Ministers *On Measures for the Implementation of Law of the Republic of Uzbekistan "On Licensing of Certain Types of Activities,"* No. 236 dated 28 June 2002, as amended.

Development, production, transport and sale of explosives and toxic substances or articles using the above
Activities relating to circulation of ionizing radiation sources
Design, construction, operation and repair of gas main pipelines, oil and oil products' pipelines
Design, construction, operation and repair of bridges and tunnels
Design, construction, operation and repair of defense objects
Transportation of passengers and cargo by railway transport of local and international lines
Service of aircrafts in airports engaged in rendering air services
Liquidation (destruction, recycling, discharge) and processing of surplus military equipment
Production, refining and sale of oil, gas and gas condensate
Production of precious and rare metals and stones
Design, construction and operation of high-risk and potentially dangerous projects
Production, dubbing and display of audiovisual works
Copying, sale and lease of audiovisual works, phonograms and computer programs
Phonogram production
Geoseismic and cartographic activity
Activities of non-State educational institutions
Activities of religious educational institutions
Tourism
Publishing

Tobacco sweating and production of goods with tobacco
Sale of oil products (gasoline, aircraft gasoline, extra gasoline, diesel, aircraft kerosene, black oil, heating oil, oil bitumen, including technical oil and lubricants), excluding pre-packed in factory packs (except sale of oil products through gas and oil change stations)
Development, manufacturing, transportation, storage, sale, use, destruction and utilization of pyrotechnic products
State Licensing Authority: Ministry of Internal Affairs
Production, repair and sale of hunting and sporting firearms and blank arms (excluding national knives)
Design, repair, erection, adjustment and servicing of fire control automation means; guard and fire control alarm systems
State Licensing Authority: Ministry of Public Health
Medical activity
Import (export), storage, sale, distribution, transportation, development, production and destruction of drugs, psychotropic substances and precursors; use of drugs, psychotropic substances and precursors in scientific and education purposes, for production needs, for medical and veterinary purposes, as well as cultivation of crops containing drugs
Pharmaceutical activity
State Licensing Authority: Ministry of Finance
Activity of insurers and insurance brokers
Auditing activity
Organization of lotteries
State Licensing Authority: Committee on Privatization, De-Monopolization and Development of Competition
Evaluation activity
Exchange (stock) activity

Realtor activity
State Licensing Authority: State Customs Committee
Establishment of customs warehouses
Establishment of duty free shops
Establishment of warehouses under customs regimes (“free warehouses”)
State Licensing Authority: Central Bank
Banking activity
Foreign currency operations of banks
Production of securities blanks
Activity of pawnshops
Activity of micro-credit organizations
State Licensing Authority: National Security Service
Production, repair, sale and operation of encryption equipment
State Licensing Authority: State Committee for Communication, Informatization and Telecommunication Technologies
Design of telecommunications networks
Construction of telecommunications networks
Operation of telecommunications networks
Rendering services of telecommunication networks
State Licensing Authority: Center for Coordination and Control over Functioning of Securities Market
Professional activity on the securities market
State Licensing Authority: Chief State Department of Veterinary
Veterinary activity

State Licensing Authority: Ministry of Justice of the Republic of Karakalpakstan, regional and Tashkent city Justice Departments
Advocacy (lawyer) services
Wholesale distribution of consumer goods, carried out by local specialized wholesale stock establishments, which are members of the Association of Wholesalers
State Licensing Authority: Entertainment Association “Uzbeknavo”
Concert and entertainment activities
State Licensing Authority: State Committee for Architecture and Construction
Development of architecture-construction documentation
Expert examination of construction projects
Repair work at high altitude using industrial alpinism
State Licensing Authority: Uzbek Agency for Automobile and River Transport
City, commuter, intercity and international transportation of passengers and cargo by automobile transport
State Licensing Authority: Department for Licensing and Coordination of all types of Passenger Transport of the Tashkent City Khokimiyat
City transportation of passengers by automobile transport within Tashkent city
State Licensing Authority: Department for Licensing and Coordination of all types of Passenger Transport of the Tashkent viloyat Khokimiyat
City and commuter transportation of passengers by automobile transport within the Tashkent viloyat (region)

State Licensing Authority: Council of Ministers of the Republic of Karakalpakstan, Viloyats and Tashkent city Khokimiyats

Sale of oil products through gas stations and oil change stations

State Licensing Authority: District (city) Khokimiyats

Wholesale distribution, except that carried out by local specialized wholesale stock establishments, which are members of the Association of Wholesalers

10. Export and Import Regime

10.1 General

Uzbekistan implements a strict import regulation regime. This is due to the Government's strong local production and export policy, as well as its stringent currency controls.

Registration of contracts with the Ministry for Foreign Economic Relations, Investments and Trade (the "MFERIT") are required for the import and export of certain economically essential items such as precious metals (and goods made from precious metals), as well as for the import and export of potentially harmful and dangerous goods and products, including military weapons and uranium. Also, export contracts concluded on the basis of government acts also need to be registered with the MFERIT.

Certain import contracts must also be evaluated by the MFERIT. However, only entities which finance their import from state budget sources are required to have their contracts evaluated by the MFERIT. Thus, the two major types of import contracts subject to registration requirements are those which are financed:

- From the state budget; and/or
- With credits under a guarantee from the Uzbek Government.

In addition, import contracts of Uzbek entities which are more than 50% owned by the state, and which do not finance their import from their own sources, are subject to registration with the MFERIT.

Separately, any import and export contracts, irrespective of whether they are subject to registration or evaluation with the MFERIT, must be recorded by authorized banks.

11. Privatization

11.1 General Provisions

The primary law governing matters related to privatization of state property in Uzbekistan is the Privatization Law.³² The Privatization Law defines the legal concept of privatization in Uzbekistan, which consists of citizens' and private legal entities' acquisition of state-owned facilities or shares in state-owned JSCs. Privatization in Uzbekistan has lagged behind that of a number of other CIS countries. In the first few years following independence, only apartments and very small businesses (*e.g.*, shops) were privatized, while nearly all industrial enterprises and other medium and large enterprises were kept firmly under state control. However, in late 1998 the Government began to actively promote the privatization of major enterprises in a number of key sectors of the economy. Government Resolutions passed in 2005, 2006 and 2007 envisaged an ambitious privatization program for the forthcoming years. As of January 2015, few of the major enterprise privatizations envisaged by this resolution have been completed, although many others have been offered for privatization and are waiting for worthy bids. In most cases, only 49% of shares in the charter capital of large and important enterprises are offered for privatization.

11.2 Facilities Subject to Privatization

The Government of Uzbekistan determines the facilities subject to privatization under a program of privatization of state-owned facilities during the current and forthcoming years.

The Competition Committee is the key agency involved in the process of privatizing state property. Decisions issued by the Competition Committee are binding upon ministries, departments, associations,

³² *Law On Denationalization and Privatization*, dated 19 November 1991, as amended.

organizations (conglomerations), institutions, and local government authorities.

11.3 Forms and Conditions of Privatization

Privatization in Uzbekistan is usually carried out through: (i) transformation of a state enterprise into a joint stock company or other business company and sale of shares in such company; or (ii) the sale of state assets into private property.

State property is usually sold to individuals and legal entities on a competitive basis, under auctions and tenders, and in other ways, such as direct negotiations, permitted by the laws of Uzbekistan.

11.4 Limitations on Facilities Subject to Privatization

The Government of Uzbekistan has specified a list of enterprises and items of state property which, are and are not, subject to very limited denationalization, privatization, or purchase. This list primarily includes strategic state-owned facilities that affect national interests. The Government has also specified a list of facilities that may be privatized or denationalized only at the discretion of the Government.

Further, the “golden share” mechanism provides the Government with veto power for certain of the most important decisions to be taken by any strategic JSC. The “golden share” does not have any value or percentage in the charter capital of the JSC. Such “golden shares” have been introduced only to certain strategic companies to enable their privatization without risking national interests.

Pursuant to the *Privatization Law*, the following objects are not subject to denationalization and privatization: land (with certain exceptions, as provided in Section 7), subsoil and other natural resources and objects of cultural and historical value, etc.

11.5 Opportunities Available to Foreign Investors

The Privatization Law expressly states that citizens and private legal entities, foreign citizens and legal entities, as well as stateless persons residing outside of Uzbekistan have the right to acquire privatized state-owned facilities.

Foreign investors may participate in the privatization process through the acquisition of:

- Shares in the course of competitive or investment tenders, auctions at stock exchanges, and direct negotiations;
- All or part of an enterprise's shares, enabling them to establish joint ventures or enterprises based entirely on foreign capital;
- Assets of liquidated (bankrupt) enterprises in open competitive bidding, with requirements announced in advance of the auction;
- Real estate at auctions and via direct sale by tender; and
- Competitive sale of state-owned facilities based on investment agreements.

Foreign investors may also participate in the privatization process by means of:

- Investment in state enterprises, by increasing the charter capital and transforming the state enterprise into a state/joint stock form of ownership and selling part of the shares equivalent to the increased charter capital to a foreign investor;
- Concession agreements;

- Allocation and exchange of shares in privatized state enterprises in investment funds, securities companies, and investment banks established with the participation of foreign capital; and
- “Turn-key” construction by a foreign investor of a new enterprise where the state holds title to land, or completion of construction of an unfinished structure where the state holds title to part of the structure.

12. The Judicial System and Dispute Resolution

12.1 Upper Level of Courts

The upper level of the Uzbek judicial system consists of: the Constitutional Court, which renders decisions on the constitutionality of acts of the legislative and executive branches of Government; the Supreme Court, which acts as both a court of first instance and an appellate court for civil and criminal cases and which analyzes court practice and oversees the work of the lower level courts; and the Supreme Economic Court, which has the same functions as the Supreme Court, but deals exclusively with commercial cases involving legal entities (foreign and local) and individual entrepreneurs. Judges of the Constitutional Court, the Supreme Court and the Supreme Economic Court are nominated by the President and approved by a majority vote of the Senate of the Oliy Majlis.

12.2 Lower Level of Courts

The lower levels of the Uzbek judicial system include: regional, city and district courts for civil cases; regional, city and district courts for administrative and criminal cases; regional economic courts; and military courts.

12.3 Judges

Judges of the regional, city, and district courts are nominated by the High Qualification Committee under the President, and are appointed by the President. Judges of the Supreme and Supreme Economic courts are nominated by the President and approved by the Senate of the Oliy Majlis. Judges of the economic courts are nominated by the Chairman of the Supreme Economic Court and approved by the President.

12.4 Settlement of Economic Disputes

With regard to disputes arising in connection with foreign investments or related activities, the disputing parties are privy to the following

dispute resolution mechanisms: negotiations, dispute resolution by an Uzbek economic court, Uzbek arbitration courts or international arbitration in accordance with the rules of international agreements to which Uzbekistan is a party. It is noteworthy that Uzbek arbitration courts may apply only Uzbek law when adjudicating disputes. Where a contract between two legal entities (local and/or foreign) is governed by Uzbek law and does not specify the jurisdiction for dispute resolution, the regional economic court will hear the dispute upon the petition of one of the parties.

The Economic Procedure Code³³ provides that foreign parties shall have the same procedural rights and duties as Uzbek parties in matters before an Uzbek court. Foreign investors typically insist on a contract clause specifying that binding arbitration will be the exclusive means of resolving disputes. Without such clause, it is very hard to have the dispute adjudicated by an international arbitration.

Uzbekistan is a party to several investment and juridical cooperation treaties with foreign countries containing dispute resolution clauses, as well as to several CIS treaties. Uzbekistan has signed and ratified the ICSID Treaty.³⁴ Thus, certain disputes against the Republic of Uzbekistan may be eligible for arbitration under the auspices of ICSID. Uzbekistan also has signed and ratified the New York Convention on Recognition and Enforcement of Foreign Arbitral Awards.³⁵ However, in practice, due to the absence of any special rules regulating international arbitration proceedings and enforcement of international arbitral awards, enforcement of a foreign arbitral decision against an Uzbek party, as well as enforcement of interim measures, may be problematic in practice.

³³ Commercial Procedure Code of the Republic of Uzbekistan, dated 30 August 1997, as amended.

³⁴ Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the ICSID Treaty) of 1965.

³⁵ New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958.

13. Intellectual Property

13.1 General Provisions

Legislation on intellectual property includes the Copyright Law,³⁶ the Trademark Law,³⁷ the Patent Law,³⁸ the Law on the Selection Achievements,³⁹ and the Law on Computer Programs and Databases.⁴⁰ Intellectual property rights in Uzbekistan include: (i) all rights to industrial property (including inventions, industrial designs, utility models, company names, trademarks, service marks, appellations of origin of goods, etc.); and (ii) copyright and related rights.

Uzbekistan is a party to a number of international treaties including:

- the Convention Establishing the World Intellectual Property Organization;
- the Paris Convention for the Protection of Industrial Property;
- the Patent Cooperation Treaty;
- the Madrid Agreement Concerning the International Registration of Trade Marks;
- the Trademark Law Treaty;
- the Eurasian Patent Convention;

³⁶ *Law On Copyrights and Related Rights*, dated 20 July 2006, as amended.

³⁷ *Law On Trademarks, Service Marks and Appellations of Origin of Goods*, dated 30 August 2001, as amended.

³⁸ *Law On Inventions, Industrial Designs and Utility Models*, dated 6 May 1994, as amended.

³⁹ *Law On the Protection of Selection Achievements*, dated 30 August 1996, as amended.

⁴⁰ *Law On Computer Programs and Databases*, dated 6 May 1994, as amended.

- the Nice Agreement concerning the International Classification of Goods and Services for the Purposes of Registration of Marks;
- the Strasbourg Agreement concerning the International Patent Classification;
- the Berne Convention for the Protection of Literary and Artistic Works;
- the Rome Convention for the Protection of Performers, Phonogram Producers and Broadcasting Organizations;
- the Brussels Convention Relating to the Distribution of Programme-Carrying Signals Transmitted by Satellite; and
- the WIPO Performances and Phonograms Treaty (WPPT).

Uzbekistan is a “first to file” and not a “first to use” jurisdiction, meaning it is important to register as soon as possible to protect industrial property rights (such as trademarks, inventions, utility models and designs) in Uzbekistan.

13.2 The IP Agency

The principal government agency involved in registration matters pertaining to inventions, utility models, industrial designs, selection achievements, trademarks, service marks, appellations of origin, works of science, literature and art (copyright and related rights), and computer programs in the Republic of Uzbekistan is the State Intellectual Property Agency of Uzbekistan (the “IP Agency”).

13.3 Inventions, Utility Models, Industrial Designs and Selection Achievements

Patent protection is given to an invention if it is novel, involves an inventive step and is industrially applicable. A patent for an invention

is granted for 20 years. In certain cases, patents can be extended for a term not exceeding five years.

A utility model is granted patent protection if it is novel and industrially applicable. The term is five years, which may be extended for three years.

Patent protection is granted to an industrial design if it is novel, original (creative) and industrially applicable. The term of patent for an industrial design is ten years and may be extended for a further five years. A selection achievement is granted patent protection if it is novel, distinct, uniform and stable.

Patents may be assigned and/or licensed by their owner(s) to natural persons or legal entities. However, an assignment or license agreement must be registered with the IP Agency to be valid. Infringements of patents entail civil, administrative and criminal liability.

13.4 Trademarks, Service Marks and Appellations of Origin of Goods

Under the Trademark Law, a trademark or service mark is a sign or designation which has been registered according to the Law or which has become a generally known mark in Uzbekistan or which is protected without registration under international agreements to which Uzbekistan is a party. The intent of trademark protection is distinguishing the goods (services) of one legal entity or natural person from the goods (services) of the same type of other legal entities or natural persons. A “collective” trademark is a trademark of an association or other group which is used to designate a particular product or service which has a common feature or quality. An “appellation of origin of goods” is a geographical name which is used to identify a product as having specific characteristics which are associated with a place of manufacture. Legal protection is given to appellations of origin of goods based on registration with the IP Agency.

The registered owner may not grant licenses for the use of the appellation of origin of goods. Trademark/service mark registration is granted for a term of ten years, renewable every ten years. Registration of trademarks/service marks can be cancelled on the basis of an application of an interested party if the mark has not been used for a period of five years, and in certain other cases.

Assignments or licenses for trademarks and service marks must be registered with the IP Agency to be valid. In order to register the respective agreements, these must meet certain legislative criteria.

13.5 Copyrights and Related Rights

The Copyright Law protects works of science, literature and art (copyrights), as well as performances, phonograms, and TV and radio broadcasting or cablecast organizations. Copyright protection is granted to an author without any registration or formal requirements. Rights to use a copyrighted work may be assigned. The copyright is protected for the lifetime of the author plus 50 years. Infringement of one's copyright may give rise to civil, administrative and criminal liability. Copyright royalties, with respect to most works in Uzbekistan, are collected by collective rights management societies.

13.6 Computer Programs and Databases

Computer programs and databases are protected under the Law on Computer Programs and Databases and the Copyright Law. The production and distribution of infringing copies of computer programs, unlawful alteration of existing programs and their distribution and unlawful access to legally protected computer information may give rise to civil, administrative and criminal liability.

14. Anti-Monopoly Regulation

14.1 General

The state body responsible for the supervision and control of competition matters in Uzbekistan is the Competition Committee. Competition matters in Uzbekistan are regulated by the Competition Law, the Natural Monopolies Law⁴¹ and various regulations adopted by the Competition Committee. A new version of the Competition Law⁴² replaced the previous version of the Competition Law in 2012.

As per the Natural Monopolies Law, there are entities operating within certain industries, which are referred to as “natural monopolies”. The Competition Committee maintains a register of natural monopolies and heavily regulates such industries and companies. Among other things, at the suggestion of the Ministry of Finance the Competition Committee approves the tariffs and prices established by the natural monopolies. Any acquisition or disposal of 10 or more percent of assets of such natural monopolies, reorganization and liquidations of natural monopolies and agreements relating to pricing and volumes require the prior written approval of the Antimonopoly Committee. The companies in the following industries are considered to be natural monopolies:

- transportation of oil, oil derivative and gas via trunk pipelines;
- generation and transportation of electricity and heat energy;
- provision of electricity dispatch services;
- railway transportation using railway infrastructure;
- publicly available postal services;

⁴¹Law *On Natural Monopolies*, dated 24 April 1997, as amended.

⁴²Law *On Competition*, dated 6 January 2012.

- providing services of water and sewage systems;
- air navigation, airport and harbor services.

In addition to the above, the Competition Committee also maintains the register of entities having a dominant position in the market. Under the Competition Law, a legal entity is deemed to occupy a dominant position if its market share equals or exceeds 50% of the relevant market in Uzbekistan. In certain cases, however, companies whose market share is between 35% and 65% of the market can also be officially declared by the Competition Committee as having a dominant position. The list of dominant companies is privately maintained by the Competition Committee.

14.2 Control over Economic Concentrations

The Competition Committee is responsible for enforcing merger control regulations, and the following economic concentrations (transactions) may be carried out only after obtaining the written approval from the Competition Committee:

- (i) reorganization of a company by means of a merger or amalgamation;
- (ii) creation of an association/union of the companies;
- (iii) acquisition by a person or a company (or by a group) of 35% and more of the shares in a joint stock company, if before acquisition the purchaser did not have any shares in the company or had less than 35% of the shares;
- (iv) acquisition by a person or a company (or by a group) of participatory interests in a limited liability or additional liability company, if before acquisition the purchaser did not have any participatory interests or had 50% or less of the participatory interests, and as a result of the acquisition the purchaser will have more than 50% of the participatory interests in such company;

- (v) acquisition by a person or a company (or by a group) of shares in a joint stock company resulting in the purchaser having more than 50% of the shares in the company, if before acquisition the purchaser controlled not less than 35% and not more than 50% of the shares in such company;
- (vi) acquisition by a person or a company (or by a group) of participatory interests in a limited liability or additional company resulting in the purchaser having more than two thirds (2/3) of the participatory interests in the company, if before acquisition the purchaser controlled not less than 50% and not more than two thirds (2/3) of the participatory interests in such company;
- (vii) acquisition by a person or a company (or by a group) of shares in a joint stock company resulting in the purchaser having more than 75% of the shares in the company, if before acquisition the purchaser controlled not less than 50% and not more than 75% of the shares in such company;
- (viii) acquisition by an individual of shares (participatory interests) in a company, if at the moment of application such individual has 35% or more of the shares (participatory interests) in any company.

Transactions listed (i) to (viii) above require prior approval of the Competition Committee if:

- a. the total value of the worldwide assets or the annual turnover of the purchaser and the target for the preceding year is above 100,000 times the MMW (approximately US\$ 4.88 million);
or
- b. one of the parties is entered in the Uzbekistan register of companies as having a dominant position.

14.3 Protection from Unfair Competition

The Competition Law restricts unfair competition, including the following activities:

- inappropriate comparison, as a result of which other business may suffer damages or damage to its business reputation;
- sale of goods (and services) with unauthorized use of one's intellectual property or other means of individualization;
- misrepresentation regarding mode, method and place of production, consumer properties, price, quality of goods, manufacturer's/provider's guaranties, imitation of goods manufactured by other companies, by way of reproducing external appearance of the goods, their name, labeling, trademark or other means of individualization of other legal entity, copying advertising materials, branded packaging and form of the goods;
- obtaining, using, disclosing science-technical, manufacturing and commercial information, including trade secrets, without authorization of its owner;
- blocking access to the market by new commercial entity; and
- acquiring exclusive rights to third party intellectual property or other means of product or company individualization.

Entities with a dominant market position are also subject to number of other restrictions related to the abuse of their dominant position, such as:

- decreasing the volume of traded goods with the purpose of creating or supporting a deficit of goods or services, leading to overpricing;

- establishing monopolistic high prices or monopolistic low prices;
- imposing terms, not related to the subject of the contract, including unreasonable requirement of transfer of money, other assets, proprietary rights, as well as requirements to carry out other actions that may lead to the limitation of competition;
- including adding discriminatory terms to contracts, restricting or limiting other commercial entities ability to acquire or sell goods manufactured by other commercial entities (competitors);
- agreeing to conclude a contract only subject to the purchase or sale by the counterparty of other goods, or subject to abstention of the counterparty from purchase of goods from other entities or sale of goods to other commercial entities;
- unfounded rejection to conclude a contract provided capability to manufacture or sell the goods;
- creating obstacles for market entry by other commercial entities (competitors).

14.4 Liability for Violation of Anti-Monopoly Legislation

Violations of the anti-monopoly legislation (such as acts of unfair competition, failure to obtain approval of a merger when such approval is required, failure to obey the orders of the competition authorities or monopolistic activity) may entail civil, administrative, and criminal liability. In case of an unauthorized acquisition, the Competition Committee has a right to seek in court a reversal of the transaction and recovery of damages.

15. Product Liability

15.1 Product Liability

The Civil Code and the Consumer Protection Law⁴³ govern product liability. Under the Civil Code and Consumer Protection Law, a consumer has rights to: freely enter into agreements to purchase goods and to use work and services; to goods (work, services); to full and reliable information on goods (work, services) up to certain quality and safety standards; to join public associations of consumers; and to reimbursement for damages caused by any defects.

Sellers and manufacturers may not, directly or indirectly, restrict any consumer protection rights guaranteed by law. Sellers and manufacturers are obliged to ensure that goods are of the required quality, and have a duty to inform the consumer of any possible defects. If a defect exists, a consumer may demand one of the following: proportionate reduction of the purchase price; elimination of defects in the goods free of charge within a reasonable period; reimbursement of his own expenses for the elimination of the goods' defects; replacement of the improper quality goods for the goods conforming to the contract; refusal to execute the contract and refund of the price paid for the goods. A consumer may terminate the agreement and claim reimbursement of damages if he/she has received unreliable or incomplete information concerning the product. The harm caused to life, health or property of the citizen as a result of any defects in the goods must be compensated in full.

15.2 Certification

Certain types of goods and equipment which are produced in or imported into Uzbekistan must comply with local standards of quality and safety (in certain cases, also sanitary and hygiene standards) and must have a certificate of conformity to such standards. In addition to that, most consumer products to be imported and sold in Uzbekistan

⁴³ The Law *On the Protection of Consumer Rights*, dated 26 April 1996, as amended.

must bear labels and information on the product and manufacturer in Uzbek language. Testing and issuance of certificates of conformity are performed in Uzbekistan, except where Uzbekistan recognizes certificates of conformity issued abroad.

16. Climate Change

16.1 Introduction

Uzbekistan ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the “**Kyoto Protocol**”) by Resolution of the Oliy Majlis dated 20 August 1999.⁴⁴ Uzbekistan not being a country included in Annex I to the Kyoto Protocol is allowed to implement projects under the Clean Development Mechanism (the “**CDM**”) in accordance with Article 12 of the Kyoto Protocol. Uzbekistan has enacted a number of CDM-related regulations. Of particular relevance are:

- President Resolution No. PP-525 “On Measures to Implement Investment Projects within the Framework of the CDM of the Kyoto Protocol” dated 6 December 2006 (the “Resolution No. PP-525”); and
- Resolution of the Cabinet of Ministers No. 9 dated 10 January 2007 approving “Regulation on the Procedure for Preparing and Implementing Investment Projects within the Framework of the CDM of the Kyoto Protocol” (the “CDM Rules”).

Pursuant to Resolution No. PP-525, foreign parties directly investing in CDM projects in Uzbekistan are exempt from withholding tax on profit.

16.2 Structure of State Bodies in the CDM

The Interagency Council on the CDM (the “Interagency Council”) was established under the Cabinet of Ministers and is responsible for:

- defining priority directions of implementation of the CDM;

⁴⁴ Resolution of the Oliy Majlis No.834-I *On Ratification of the Kyoto Protocol of UN Framework Convention on Climate Change*, dated 20 August 1999.

- approving rules and procedures for the selection and approval of CDM projects;
- approving CDM projects; and
- approving emission reduction purchase agreements (the “ERPA”) between the parties involved in the CDM project.

The Ministry of Economics is designated as the National Authority (the “DNA”) responsible for:

- selection and preparation of CDM projects;
- coordination of the activities of various ministries and government agencies related to expert examination of CDM projects to be implemented;
- submission of CDM projects to the Interagency Council for approval;
- submission of approved CDM projects to the Executive Board of the CDM for registration;
- monitoring implementation of CDM projects.

The Secretariat of the Interagency Council performs the day-to-day activities of the Interagency Council.

16.3 Implementation of the CDM

According to the CDM Rules, the implementation of a CDM project consists of the following stages:

1. Submission of the Project Idea Note (the “PIN”) to the DNA. The PIN must be approved by the State Environmental Protection Committee;

2. Review of the PIN by the DNA for compliance with the National Criteria for sustainable development;
3. Following review of the PIN by the DNA, submission of the PIN to the Interagency Council for pre-approval;
4. Preparation of project design documentation (the “PDD”) including obtaining a positive expert opinion from the State Environmental Protection Committee and the Center of Hydro meteorological service;
5. Submission of the PDD to the DNA;

Upon approval of the PDD by the DNA, submission of the PDD to the Interagency Council for approval; and

Submission of the Letter of Approval to the Executive Board.

The CDM project initiator is obliged to provide the DNA with quarterly reports on the CDM project implementation.

17. Language Policy

The state language in Uzbekistan is Uzbek.

All state agencies must maintain documentation in the Uzbek language. However, in many instances the state agencies issue or translate documents into other languages (mostly Russian).

The records and data of all organizations and associations should be in the Uzbek language. In practice, such documentation is frequently kept in both Uzbek and Russian.

The general practice in Uzbekistan is that contracts with foreign parties are executed in two languages: Russian/Uzbek and any other language acceptable to both parties. Both versions will have equal force, unless otherwise specified. Failure to have a contract executed in Uzbek and/or Russian will not invalidate the contract.

Any contract which requires registration or filing with a state agency must be accompanied by a certified translation in Russian or Uzbek. However, in certain cases only documents in the Uzbek language are accepted. For example, certain registration documents for the formation of an Uzbek legal entity must be in Uzbek, documents in Russian alone are not acceptable. This reflects what appears to be strong Government support for the use of the Uzbek language for official documentation, which is slowly leading to a wider use of the Uzbek language.

18. Compliance With Anti-Corruption Regulations

Uzbekistan's anti-corruption legislation consists of the Criminal Code⁴⁵ and Resolution of the Supreme Court of the Republic of Uzbekistan "On Court Practice Relating to Bribery"⁴⁶.

However, in Uzbekistan only individuals, and not legal entities, can be subject to a criminal liability.

The Criminal Code penalizes several crimes of corruption, namely: the receipt of a bribe, directly or through an intermediary, by an officer⁴⁷; provision of a bribe, directly or through an intermediary, to an officer⁴⁸; serving as an intermediary in receipt or provision of a bribe⁴⁹; provision of a bribe to an employee who is not an officer⁵⁰; and extortion of a bribe by an employee who is not an officer⁵¹.

The Criminal Code's definition of an "officer" is rather vague. Section VIII of the Criminal Code defines an officer as an individual vested with executive management and/or business management authorities. Currently, the Criminal Code does not provide for a list of the positions that would qualify as an "officer" for anti-corruption legislation. Further, the Criminal Code does not make a distinction between state officials or employees and officials and employees of private companies and non-governmental organizations. However in practice corruption cases rarely initiated against officials and/or employees of private companies.

⁴⁵ The Criminal Code of the Republic of Uzbekistan dated 22 September 1994.

⁴⁶ The Resolution of the Supreme Court of the Republic of Uzbekistan "On Court Practice Relating to Bribery" No. 19 dated 24.09.1999.

⁴⁷ Article 210 of the Criminal Code.

⁴⁸ Article 211 of the Criminal Code.

⁴⁹ Article 212 of the Criminal Code.

⁵⁰ Article 213 of the Criminal Code.

⁵¹ Article 214 of the Criminal Code.

Under the Criminal Code, the bribery of an officer is punishable by a fine or imprisonment for up to fifteen years, while the receipt of a bribe is punishable by a fine or imprisonment for up to ten years. However, an individual charged with provision of a bribe may be relieved from a criminal liability if the crime was committed due to an extortion of bribe or if an individual charged with provision of a bribe pleaded guilty and cooperated with investigation authorities.

Although the Criminal Code provides for its extraterritorial application, in Uzbekistan, as a general rule, anti-corruption legislation applies only in cases when the crimes were committed on its territory. Prosecution for corruption crimes is limited in Uzbekistan. In most cases, prosecution does not cover high-level officials, which reveals existing problems relating to enforcement of anti-corruption legislation.

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