AVESTA INVESTMENT GROUP

February 2024

RSE «Toshkent»

Supervisory Board

Supervisory Board Report

The lack of quality corporate governance in Uzbek companies is a significant risk for investors, as companies sometimes ignore the business logic and interests of shareholders to achieve certain political or social targets. This issue is especially relevant for SOEs. We believe that a market-oriented and responsible work process of the Supervisory Board members should be the best and most important protection for shareholders at this level.

To understand who makes decisions in a Supervisory Board and how they do so, we conducted brief research on the current composition of the boards and the structure of the appointed individuals. We reviewed a total of 65 companies, with 28 of them (43.1%) being banks. Banks are at the edge of the transition process, cooperating with global financial institutions, and regularly attracting funding, so their understanding and experience in improving corporate governance is more developed than that of the average private or state-owned company. The data was collected over a period of three years, from 2020 to 2022.

The total revenue of all the firms in 2022 was 123.2trln UZS (with seven companies not disclosing their financial results), reporting a 13% decline compared to 2021. The equity for the same period amounted to 130.8trln UZS, reflecting a 17% growth. Based on these figures, we can consider these companies as a significant and representative part of the economy.

On the other hand, we know that a number of private companies have introduced proper board structures to improve corporate governance voluntarily, without any legal requirements. They have done so because of business growth or their initiatives to attract external funding from foreign institutions. Good examples include Korzinka Retail, Asklepiy Pharma, Orient Group, and many others. However, we did not include these companies in the overview due to an incomplete set of information available in the public domain.

The minimum number of board members in 2022 was 4, compared to 5 in 2021, while the maximum was 11, and the average level remained at 7.3-7.4 members.

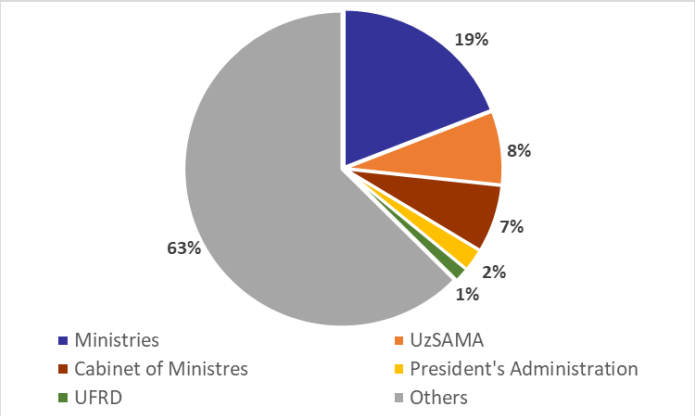
In 2022, there were 476 board positions analyzed. Out of these positions, 51 (10.5% of the total number of board members) were independent board members, 48 (10.1%) were females, and 77 (16.2%) were foreigners. In comparison, in 2021, there were a total of 478 board members, with 45 (9.4%) being independent, 38 (7.9%) being females, and 85 (17.8%) being foreigners.

Unfortunately, we were unable to collect and analyze data on the average age of board members or the overall term of their work in the companies. Additionally, we do not have information about the Board committees and the positions of the board members within them.

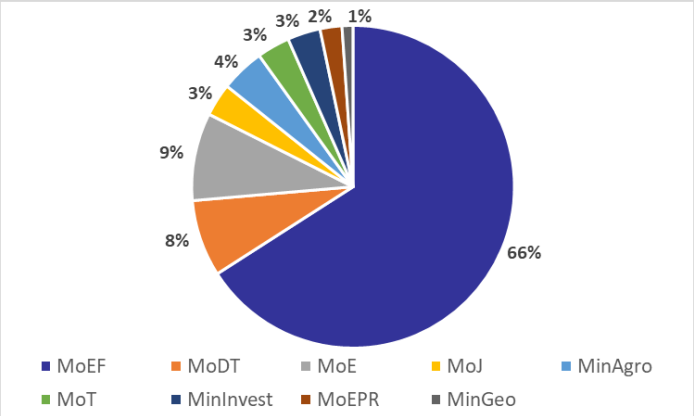
Among the analyzed Supervisory members in 2022, at least 178 members (37.4%) were affiliated with government offices or state organizations such as UzSAMA, Uzbekistan Fund for Reconstruction and Development (UFRD), Cabinet of Ministers, President's Administration, and Ministries. Similarly, in 2021, out of 478 board members, at least 181 members (37.9%) were associated with the government. The significant presence of representatives from UzSAMA and the Ministry of Economy and Finance is linked to their ownership roles in SOEs, including the strategic ones.

A significant part of other representatives provided from sectoral state-owned holding companies, such as UzDonMahsulot, UzAutoSanoat, and others.

Composition of Supervisory Boards



Ministries' Composition in Supervisory Board



Source: openinfo.uz, Calculations: Avesta Investment Group

Remuneration is one of the most interesting and important aspects of attracting professional board members. Although information on remuneration is often poorly disclosed, usually provided as an overall payment to the Board and management or as a percentage of profit, we managed to collect some scattered figures, as shown in the table below.

Average annual remuneration data for 2021-2022FY

Company	2021	% from NI	2022	% from NI
Alskom JSC	10,500,000	2.6%	15,555,556	12.9%
Bektemir-Spirt Eksperimental Zavodi JSC	55,162,557	2.3%	87,687,697	3.6%
Biokimyo JSC	35,458,612	1.5%	42,334,657	1.5%
Davr-Bank JSC	-	-	7,039,331	0.0%
Ipoteka-Bank JSC	-	-	72,922,603	0.1%
Kafolat Insurance JSC	50,973,845	10.9%	37,226,322	5.0%
Kapitalbank JSC	-	-	1,272,550,000	0.5%
Navoiyazot JSC	21,372,000	0.0%	24,082,258	0.0%
Octobank JSC	276,463,670	22.0%	327,182,000	-
Orient Finance Bank JSC	36,600,000	0.1%	56,060,000	0.1%
Qoqon Biokimyo JSC	32,494,716	4.6%	31,650,000	2.1%
Quvasoycement JSC*	11,111,111	-	-	-
Regional Electric Grids JSC	64,400,000	0.1%	-	-
TBC Bank JSC	398,747,775	0.9%	404,902,238	-
Thermal Power Plants JSC	-	-	39,814,940	-
Toshkentdonmaxsuloti JSC	1,497,222	0.6%	58,800,000	1.2%
Universal Bank JSC	112,625,000	6.0%	125,884,286	0.7%
Uzagrosugurta JSC	16,100,000	1.6%	-	-
UzAutoSanoat JSC	20,550,000	0.1%	19,714,286	0.0%
UzbekCoal JSC	-	-	36,109,333	0.5%
Uzbek Commodity Exchange JSC	8,052,355	0.2%	-	-
UzbekHydroEnergy JSC	51,375,000	20.7%	37,566,667	11.2%
Uzbekistan Heat Power Stations JSC	64,400,000	-	-	-
Uzkimyosanoatloyiha JSC	11,408,000	22.3%	12,152,000	2.3%
Uzmetkombinat JSC	-	-	386,400,000	0.3%
UzPost JSC	7,430,000	9.7%	-	-
Ziraat Bank JSC	8,052,355	0.1%	8,908,411	0.1%

Source: openinfo.uz, Calculations: Avesta Investment Group

*Quvasoycement JSC disclosed only the total amount allocated to the Supervisory Board. To ensure consistency with the other data in the table, we divided the total amount allocated by the number of board members.

Among the analyzed companies, information about remuneration was disclosed by 21 out of the 65 companies for the year 2022. The maximum annual amount paid per board member was 1,520mln UZS in Kapital Bank JSC. The average annual remuneration was

about 120mln UZS a year. The average remuneration size increased almost twice from the 2021 level of 48.4mln UZS, but mostly due to unstable and scattered data sets. The total remuneration size reached 0.2% of the net income of the companies for the 2022 FY (only 18 out of 65 companies had both NI and remuneration data available).

CONTACTS

Avesta Investment Group

Postal address: Uzbekistan, 100015, Tashkent city, Shahrisabz str., 22
Tel: +998 (71) 207-9070
E-mail: info@avestagroup.com
Web: http://www.avestagroup.com

The information and opinions in this report were prepared by Avesta Investment Group or one of its affiliates (collectively “Avesta”). The information herein is believed by Avesta to be reliable and has been obtained from public sources believed to be reliable, but Avesta makes no representation as to the accuracy or completeness of such information. Important Information Regarding Our Independence. The research analysts responsible for the preparation of this report receive compensation that is based upon, among other factors, Avesta’s overall revenues. Avesta may engage in securities transactions in a manner inconsistent with this research report and with respect to securities covered by this report, will sell to or buy from customers on a principal basis. Disclosures of conflicts of interest, if any, are discussed at the end of the text of this report or on the Avesta Investment Group’s website at http://www.avestagroup.com.

Opinions, estimates, and projections in this report constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Avesta and are subject to change without notice. Avesta has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. Prices and availability of financial instruments also are subject to change without notice. This report is provided for informational purposes only. It is not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction. The financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives. If a financial instrument is denominated in a currency other than an investor’s currency, a change in exchange rates may adversely affect the price or value of, or the income derived from, the financial instrument, and such investor effectively assumes currency risk. In addition, income from an investment may fluctuate and the price or value of financial instruments described in this report, either directly or indirectly, may rise or fall. Furthermore, past performance is not necessarily indicative of future results. Unless governing law provides otherwise, all transactions should be executed in the investor’s home jurisdiction. Additional information relative to securities, other financial products or issuers discussed in this report is available upon request.

This report may not be reproduced, distributed or published by any person for any purpose without Avesta's prior written consent. Please cite source when quoting.

© 2003-2024 «Avesta Investment Group».