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## Reform of state-owned enterprises and the privatization of state assets.

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On October 27, 2020, President Shavkat Mirziyoyev signed a decree ["On measures to accelerate the reform of state enterprises and the privatization of state assets"](#).

According to the document, shares in 479 state-owned enterprises and 15 real estate objects will be put up for public sale at auctions. In addition, it is planned to prepare 62 enterprises for privatization, transform 32 enterprises, and improve operation efficiency of 39 state-owned companies. In addition, 386 objects specified in previous acts and 559 objects, the implementation of which is authorized by khokims (mayors), will be put up for auction.

*We believe this is the most realistic and well-prepared documents on privatization in Uzbekistan. Despite the fact that privatization programs have been regularly issued since independence and in most cases have not been implemented, this document should be taken seriously, given the reforms of recent years and the government's desire to improve competitive environment.*

This time government sufficiently increase authorities of organizations in charge of the process, accept and instruct to attract foreign advisory companies and massive foreign participation in management and supervisory boards.

Within last two years all state-owned assets accumulated in State Assets management Agency (ASAM), inspected, categorized and scrutinized with attempts for valuation and sale. Moreover, restructuring process done in few sectors like oil&gas and energy production. This helped now to prepare privatization plan with regards on these details and distribute companies by separate group, which will not be sold in nearest future, will be sold in next few years or put for sale from November 1<sup>st</sup>.

The Cabinet of Ministers was instructed by December 1, 2020 to develop and submit to the Legislative Chamber the draft laws "On the management of State property" and "On privatization". Then, within three months, take an inventory of acts of legislation on privatization, approve the updated provisions on privatization with their unification.

The Ministry of Economic Development and Poverty Reduction, the Ministry of Finance, the Antimonopoly Committee, and the Anti-Corruption Agency were instructed to conduct an inventory of benefits and preferences that affect the competitive environment by December 1, 2020 – we believe number of preferences and benefits to be cancelled with turning from personal benefits of state-owned companies into sectoral benefits, applicable for all participants of the market.

Simultaneously with the process of transformation of the enterprises specified in the document, an action plan will be developed for a complete transition to the principles of market relations, the formation of a competitive environment and the involvement of the private sector in the scope of these enterprises.

The transformation of large enterprises will be carried out by a department formed in the structure of the Ministry of Finance. They are entrusted with the following tasks:

By April 1, 2021

- prepare financial statements of enterprises for 2019-2020 according to IFRS;
- prepare road map of getting international credit ratings;
- prepare strategies for financial recovery;
- increase operational efficiency, as well as medium and long-term development with the involvement of international consulting companies on a competitive basis;

By July 1, 2021

- implementation of a modern corporate governance system, as well as the formation of compliance and anti-corruption services;
- staffing with qualified international specialists at least 30% of the composition of supervisory boards and at least three managerial positions on the board of the enterprise.

State Commission for Tendering for the Sale of State Assets for each object has following deadlines:

- by February 1, 2021 - engaging consulting organizations and developing roadmaps for the implementation of these works;
- by July 1, 2021 - development of targeted programs for pre-privatization preparation and increasing the investment attractiveness of enterprises.

The document also states that from November 1, 2020, the ASAM is putting up a block of shares in enterprises and real estate for public auction. Shares not exceeding 100 million UZS, put up for open auction at book value (if the amount of net assets is less than the authorized capital at par-value), if they are not sold within three months, will be re-put up for auction in the following way:

- shares in LLCs - at the starting price "1 UZS",
- stocks - according to the principle "1 share - 1 lot".

In addition, the practice of selling state property objects at a "zero" redemption value is canceled, and an open auction will be held instead of them at a starting price of "1 UZS" with the adoption of investment and social obligations.

Below we listed most interesting companies from different groups of privatization list:

### **Transformation (restructuring) process:**

Totally 32 largest and most interesting companies, including:

- JSC Navoi Mining;
- JSC UzbekOilGaz (holding company for oil&gas exploration, production and processing);
- JSC UzTransGaz (UTGA);
- All four main electric energy sector companies – hydro-energy operator, inter-regional transportation, local distribution networks and heat-power generation operator;

- JSC UzChemical Product (holding company for chemical and fertilizers producers);
- JSC NavoiAzot;
- JSC UzbekTelecom (UZTL);
- JS Uzbekistan Post;
- JSC UzAgroSugurta (UZAS, Insurance);
- JSC UzDonMahsulot (holding company for wheat flour production);
- JSC UzAutoSanoat (holding company for auto-car production companies);
- JSC Uzbekista Railways;
- JSC Uzbekistan Airports;
- JSC Uzbekistan Airways;

### **Introduction of international reporting, audit, compliance, corporate governance and increase in efficiency:**

Totally 39 companies, where in nearest time we could expect sufficient changes in management and corporate governance, which will be followed by improvement of financial results and efficiency:

- Metallurgical companies currently under the management of SFI Group:
  1. JSC Almalyk Mining (AGMK, 97,5%);
  2. JSC UzMetCombinat (UZMK6 85%);
  3. JSC UzIkkilamchiranglimetall (collection and processing of non-ferrous scrap metal, 50,5%);
  4. Tashkent Metallurgical Plant LLC (49.9%)
- Fergana Oil Refinery LLC (100%);
- Three coal and electric generation companies under the management of Central Asia Energy company:
  1. JSC UzbekCoal (UZIR, 90.1%);
  2. JSC Angren power station (99%);
  3. JSC new-Angren power-station (99.6%)
- Cellular operator UCell (100%);
- UzRTSB (URTS, 26%);
- Infrastructure of stock market:
  1. Stock Exchange (50%)
  2. Central Securities Depository (100%);
  3. OTC platform operator Elsis-Savdo (60.4%);
- UzbekInvest Insurance (83.3%);
- Three white-spirit producers:
  1. JSC Biokimyo (BIOK, 51%);
  2. JSC Andijon Biokimyo Zavodi (ABKZ, 96%);
  3. JSC Bektemir spirt-eksperimental zavodi (51%)

### **Sale after pre-privatization preparations**

Number of potentially interesting companies could be sold currently at relatively low valuations, so government prefer to introduce active reform of management and corporate governance to increase valuations and interest from investors. Timeline and pricing mechanism to be determined later. There are totally 62 companies, including:

- JSC Kvarts (KVTS, 89.9%);
- JSC Qyzylqumcement (QZSM, 86.9%);
- Controlling and minority shares in 26 research and design bureaus, including JSC UzbekEkspertiza (51%), JSC Boshtransloyiha (21.6%), JSC

Tashgiprogor (41.5%), Worley Parsons Uzbekistan Engineering LLC (25%). JSC UzLITINeftegaz (LITI) is not in the list.

- JSC Ferganazot (48%);
- JSC Uzbekhimmash zavodi (UZHM, 44.7%);
- JSC Kafolat (KFLT, 49.3%);
- JSC Uzagrolizing (QXML, 88.8%);
- Cellular operators MOBI.UZ (100%) and Perfectum Mobile (65%);
- 5 winery and alcohol producers, including JSC Toshkentvino kombinati (71.2%);
- Hotels Poytaxt and Hyatt Regency (100%);
- JSC Qoqon mexanika zavodi (KUMZ, 64.1%);
- Coca Cola Ichimligi Uzbekistan LLC (57%);

### **Full sale of shares in companies on public auctions (stock exchange, e-auksion.uz, etc.) from November 1<sup>st</sup>, 2020**

List contain of 479 companies, including number of listed and OTC-traded public companies. We could mention minority shares in:

- JSC Hamkorbank (HMKB, 0.01%)
- JSCB Trasnbank (TRSB, 1%);
- JSCB Savdogar (SVDB, 0.02%)
- JSC Alskom (ALSM, 6.3%);
- JSC Markaziy Ippodrom (17.3%);
- RUAPB (1.9%);
- JSC INGO-Uzbekistan (2%);
- JSCB Ipak Yuli Ban (IPKY, 0.41%);

Sufficient majority and controlling stakes in:

- Controlling stakes in 12 oil-processing plants;
- Controlling and sufficient shares in 31 winery and alcohol producers (excluding largest JSC Toshkentvino kombinati (TKVK));
- JSC Andijan tajriba-sinov zavodi (ATSZ, 51%);
- JSC Buhoroneftegazpormalash (BNGP, 51.3%);
- JSC Buhoro tamirlash-mexanika zavodi (BTMZ, 40%);
- JSC Jizzakh Plastmassa (JIPL, 53%);
- JSC Mubarekneftegazmontaj (MNGM, 71.2%);
- JSC Surhon Parmalash Ishlari (SUPI, 51%);
- JSC Sarbon-Neftegaz (51%);
- JSC ORGRES (30.8%);
- JSC Elektrtarmoqqurilish (ETQR, 37.3%);
- JSC Elektrqishloqqurilish (EQQU, 53.4%);

### **Real estate and property complexes**

Government is going to fully sell 15 objects with total 124k sq.m of premises on 129k sq.m of land in Tashkent and 1.2m sq.m of land in Tashkent regions (3 recreation zones). Among these 15 are such buildings as Ichan-Qala hotel, former headquarters of National Security Services, former building of stock exchange and others. All objects to be sold at once.

### **Others**

Companies of UzAgrosService (agriculture technic rent and use) and Uzqishloqhujaillikimyo (fertilizers distribution) structures to be reformed based on the plan to be prepared by January 1<sup>st</sup>, 2021.

State-owned markets and trading complexes to be reformed and prepared for privatization.

Free-economic zones to be transferred under the external management.

## CONTACTS

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