
BUSINESS MIRROR

Main macroeconomic events

In the following Avesta Investment Group explores on investment developments and latest events in selected industries. This list is not considered lavish, rather it provides a snapshot of what was going on in the country - in particular in the context of foreign investment - in recent months.

BANKING

2007 has seen several changes in the legal environment for the banking sector, such as a change of bank taxation, moving away from income taxation to profit taxation (now set at 17 percent). Since the beginning of 2007 new capital requirements are in place, defining for commercial banks US\$5,0 million and for private banks US\$2,5 million as required capital minimum. Various banks, such as Kapitalbank, Ipak Yuly Bank, Promstroybank and others increased their share capital. Subsequently, the volume of share issuances increased significantly and exceeds UZ\$50 billion (US\$39,5 million). Further stock sales are expected, preliminary estimates put the whole volume for 2007 at more than UZ\$160 billion (US\$126 million).

A new resolution of the President of the Republic of Uzbekistan on 'further capitalization of banks and banks' stimulation for participation in investment projects in the process of modernizing the economy' has been approved, recommending, among others, to commercial banks to retain (at least) 30 percent of their net earnings. Whilst an increasing capitalization will strengthen the banks' operational basis, promote a more diversified shareholder structure and provide for a potential enhancement of interest-earning assets, it may affect shareholders' dividend expectations. Besides, experience shows that a higher capital basis leads, at least in the short run, to lower profitability. Tax benefits for commercial banks are foreseen with regard to interest income out of loans, the maturities of which exceed three years and with an investment purpose (e.g. technological upgrading and production in industry sectors of priority). In case of initial issuance of bank stocks, with the exception of private banks, no less than 25 percent of circulating shares will be distributed via the stock exchange. Bank shares should be listed at the stock exchange and undergo regulated public quotation. A further decree limits the access of non-resident and foreign investors to bank shares. Accordingly, for acquiring shares of residential banks in the Republic, non-residents or legal entities with more than 50 percent share capital owned by non-residents must receive an obligatory permission by the Central Bank of Uzbekistan before carrying out any transaction.

CAR INDUSTRY

Japanese car maker Isuzu Motors Ltd. acquired eight percent of the Samarkand Automobile Factory ("SamAvto"). Sam Avto set up a new production line for smaller trucks, based on and in cooperation with Isuzu Motors. This cooperation will also provide for upgrading of production technologies, processes' redesign as well as staff training programs, thus, gradually allowing for production enhancement at full capacity. In the final stage an annual output of up to 4 thousand units has been foreseen.

A new agreement with General Motors Daewoo will allow for upgrading the Nexia cars, produced in the city of Asaka, from 2008 on. An increase of the "Lacetti"- car type output up to 30 thousand units per year and the assembly of the new model on the basis of the popular "Matiz" are foreseen. A limited number of about 2,5 thousand new vehicles of types Chevrolet "Takuma", Captiva" and "Epika" is supposed to be assembled under this cooperation.

CHEMICAL PRODUCTS

The “Kurgandski Soda Factory”, 100percent state-owned, which construction works could be completed in last year, started its operations. Project engineering and factory construction were carried out by Chinese CITIC. It will deliver to the local market as well as target export markets, such as Kazakhstan and Russia. A subsequent selling of parts of the State’s equity has been envisaged. With government support direct investments and international credit funds (in particular from China) a new project for production of fertilizers shall become operational and contribute to the reduction of imports from Russia. The three-year project’s costs are estimated at US\$70 million. Besides covering local demand, fertilizer exports to the Central Asia region as well as China are envisaged. The Spanish “MAXAM S.A.U.” acquired in a public tender 49 percent of “Electrochimprom” for US\$22 million with investment commitments of US\$53 million in addition.

CONSTRUCTION AND CONSTRUCTION MATERIALS

A new high-rise business complex construction project will start in the Tashkent’s city centre. This new real estate development project will be undertaken by Jisong Korea Industrial JV at an estimated investment volume of US\$470 million.

Concrete is the main locally produced type of construction material. It has also good export potential to neighboring countries Kazakhstan, Kyrgyzstan and Tajikistan, with Afghanistan as a future potential market. “Kyzylkumcement”, the largest concrete factory of the country, with a planned production capacity exceeding three million tons of cement, has been incorporated in the government’s modernization program for technological upgrading and reconditioning from 2007 onwards. After completion of all works an increase in limestone extraction by 500 thousand tonnes has been predicted. The annual output in cement shall grow by roughly one quarter to more than four million tons. Overall, the forecasted investment volume exceeds US\$150 million.

For an expected total of US\$486 million „TKB-Invest“, a Russian company, has started to set-up new concrete processing facilities in the Djizakh oblast. Expected project duration until full completion of facilities: three years.

GAS AND OIL

Russian "Gazprom", the world’s largest single gas exploitation and distribution industrial complex, concluded an agreement on export of Uzbek natural gas with a total volume of 13 billion cubic meters. "SoyuzNefteGaz East LTD" (a 100% subsidiary of the Russian "SoyuzNefteGaz") and the national holding company (NHC) "Uzbekneftegaz" have signed a memorandum on investigation and development of oil-and-gas deposits in the Central Ustyurt and Southwest Gissar regions. The envisaged investment volume has been put at more than US\$360 million. In late April, the state energy company, UzbekNefteGaz reached a deal with the China National Petroleum Corporation to construct a 530-kilometer pipeline with a projected capacity of 30 billion cubic meters of gas per year.

INSURANCE

The insurance industry grows dynamically. Whereas 2006 shows a total of UZS48,5 billion in insurance premiums, this level could almost be reached in the first six months of 2007. Overall the 26 insurance providers collected UZS38,9 billion (US\$30,7 million), pay-outs amounted to about UZS2,8 billion (approx. US\$2,2 million). Subsequently, pay-outs in correlation to collected premiums further diminished and stand now at seven percent. The cumulative nominal capital of the insurance sector during the first six months of 2007 grew by roughly five percent (in comparison with the respective period of previous year). This should be seen in context with the government’s efforts to tighten the capital requirements for insurance companies. For general insurance providers these stand now at US\$500 thousand, for life insurance at US\$750 thousand, for damage and collateral obligations at US\$1 million and at US\$3 million for re-insurers.

INTERNATIONAL CREDIT LINES

Chinese Eximbank is supposed to provide about US\$12 million for modernization of postal services. This should be seen in context with the acquisition of 25.4 percent of shares of "Uzbekistan pochasi", the national operator of postal services, by the Chinese Company Finex Ltd.. Alokabank has been granted a credit line offered by the Chinese Development Bank of up to US\$18 million, in particular for leasing financing related to equipment procurement investments of JSC "Uzbektelecom" and associated companies. The main equipment contractor is Huawei Technologies from China. (It should be noted that Uzbektelecom is a shareholder of Alokabank). NBU Bank and Eximbank of China signed loan agreements amounting to US\$15,9 million. Loans shall be used to purchase and install equipment for two hydroelectric power plants.

The European Bank for Reconstruction and Development (EBRD) concluded a loan agreement with Hamkorbank with the purpose to establish a trade finance facility, whereas the Islamic Development Bank approved three credit lines to Asakabank, Uzpromstroybank and Ipotekabank with a total volume of USD15 million. They are designed exclusively for investment projects in manufacturing and agriculture.

MACHINERY AND EQUIPMENT

Russian "Peresvet-Invest" acquired 75 percent of shares of "Samarqand liftostroitelny Zavod" at US\$1,3 million in the framework of a tender organized by the State Property Committee (SPC) of Uzbekistan. Subsequently, Peresvet-Invest is expected to invest during a period of five years US\$7,5 million to modernize and increase capacities for cargo and passenger lifts. In addition, a US\$50 million investment in real estate development to be made by Peresvet-Invest has been envisaged. "Samarqand liftostroitelny zavod's" current production capacity is about 7,000 units, pre-sumed to be significantly underutilized (20 percent capacity utilization only). First orders have in the meantime been placed by the Russian Navy.

PRIVATIZATION

Larger or strategic assets are frequently sold only with minority stakes being allocated to investors or remaining (substantial) government equity participation, yet with significant investors' investment commitments required. The State Property Committee reports a total of (up to) 281 privatization transactions for the first six months of 2007 with an estimated sales value of UZ\$50.8 billion (US\$40,1 million). The reported number of 281 is considered misleading as simple asset sales are supposed to be included in this figure. The effective number of privatized enterprises is supposed to be significantly lower. Main deals included "Electrochimprom" (49% acquired by "MAXAM S.A.U.", Spain, "Uzbekistan pochasi", 25.4% acquired by "Finex", China, "Samarqand liftostroitelny Zavod", 75% acquired by "Peresvet-Invest", Russia, "Uzbekistantrans", 79% acquired by American investors).

The newly approved program on privatization for 2007-2010 includes about 200 objects expected to be (at least partly) sold in the mid term. Among others stocks in "Uzbekistan Airways", "UZDaewoo Cars", "Kurgandski Soda Factory", "Asaka Bank" and "Ipoteka Bank" as well as from major insurance providers, such as "Uzbekinvest", "Uzagrosugurta" or "Kafolat" are on the agenda. For the latter three sales of equity participation between 20 to 49 percent can be expected, taking into account a part or full deinvestment of the state, while maintaining already existing private investors' share in equity.

REPUBLICAN STOCK EXCHANGE

Trade turnover at the stock exchange shows a decrease by factor 1.5 in comparison with the previous period. The main reason should be seen in the absence of sizable share packages as this has been the case in 2006 with companies, such as "Fargona Electric Tarmoklari", "Markazi osie trans kurilish" or "Bukhara Electric Tarmoklari". These shares had been placed in the market subsequently to privatization and were considered likewise attractive for foreign direct investment. In 2007, on the contrary, remarkable stock tradings referred rather to additional issuances of bank stocks (in the context of capital increases), whereas larger IPOs as

a result of enterprises' privatization did not occur. As far as larger privatization transactions took place, these occurred outside the securities markets. The total transaction volume amounts to approx. UZS34,8 billion (US\$27,5 million) and included shares from 284 issuers. Banks represented more than 38 percent of traded shares, followed by financial service providers (such as investment funds, leasing or insurance companies) with almost 12 percent and food/beverages respectively chemical products following with 11.13 and 9.93 percent. The three largest companies in terms of stock trading were "Pakhta Bank", "Surkhonosikovatsanoati" (food/beverages industry) and "Hamkorbank", which count for nearly one fifth of all tradings. By presidential decree the issuing of bonds has been limited to legal entities with "open joint stock company"-status only.

TELECOMMUNICATIONS

The Swedish-Finnish company TeliaSonera acquired 100 percent of shares of American MCT Corp., which manages telecommunications operators in Central Asia and Afghanistan -its subsidiary JV "Coscom" being the third biggest GSM operator in Uzbekistan- for US\$300 million, out of which an estimated 50 percent refer to Coscom shares. Taking into account the existing subscriber basis TeliaSonera paid on the average US\$385 per subscriber, while MTC's initial investment costs per subscriber amounted to US\$520. During the last seven years the number of subscribers to mobile phone services in the country increased by more than 20 times. In the context of its regional business development strategy, TeliaSonera may consider a re-branding, under which all services will be offered.

By mid 2007, the Russian Joint Stock Company "MTS" purchased the remaining 26 percent of shares of LLC "Uzdunrobita" (trade mark "MTS-Uzbekistan") for US\$250 million, thus acquiring 100 percent of Uzdunrobita's capital. MTC acquired a license for 3G net services.

With an estimated level of penetration of 13 percent lavish space for further market growth appears to exist. The leading company in Uzbekistan's telecommunications market is "Uzdunrobita" (subsidiary of OJSC "MTS"), with an estimated market 52.6 percent, followed by «Unitel" (subsidiary of "Vimpelcom") with approx. 32.4 percent, whereas "Coscom" comes in third with a market share of 11 percent or about 410 thousand subscribers.

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