

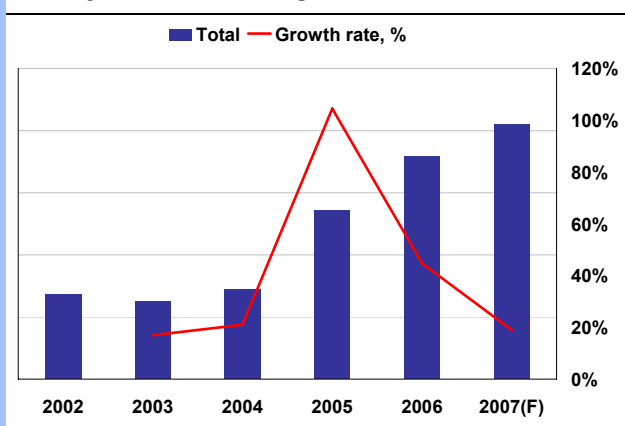
LEASING SECTOR: Results 2006

Uzbekistan's economy grows at an impressive rate as proofed by strong macroeconomic indicators (GDP growth in the first half of 2007 9.7%, Inflation 2.8%), but also when taking into account the news from firms of the various industry sectors. Yet, it should be mentioned that long-term growth at this level can not be achieved without increase of production quality and competitive capacities, likewise on domestic as well as on international markets. Various enterprises collide with resource shortages preventing them from adoption of new technology lines, equipment pools or introduction of new inventions. A solution to these shortcomings may be the access to bank loans, issuance of securities, attraction of investors' capital etc. This, however, will only apply to large (corporate) enterprises with a well-received credit history, stable cash streams and good earnings, whilst small and medium enterprises of various industries cannot make sufficient use of these choices. A potential solution to tackle this deficit could be to address leasing companies' services. In this manner, enterprises could obtain the necessary production equipment for comparable low advance payments and low interest, yet at long-term maturity.

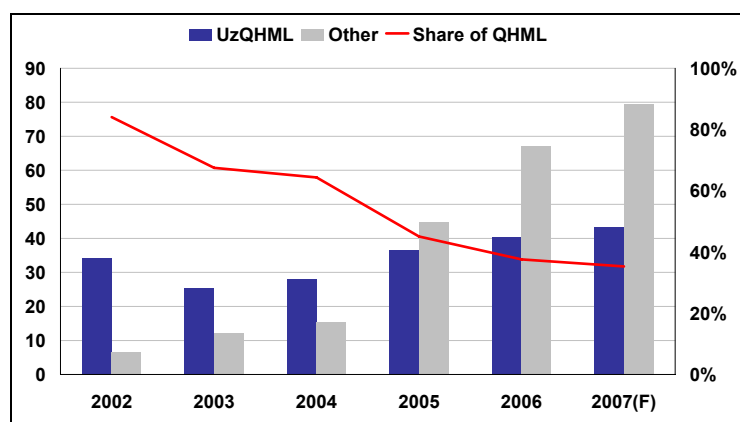
Uzbekistan possesses a huge potential for leasing, even a larger potential of client basis than in some other countries. The population of Uzbekistan exceeds 26,7 million, the main part of whom, lives in rural areas. Among these many try to take on their own business in sectors such as agriculture, animal husbandry, processing of agricultural products, services, manufacturing of construction materials etc. Many of these endeavours will not require large volumes of finance and capacities to identify a sufficient number of customers and to provide for the demands on regional, district and local level.

The development of leasing operations between 2002 and 2006 shows an annual growth of 25 billion sum, while during the previous two years the market could even grow by 40 billion sum annually. The accumulated transaction volume in last year amounted to 131,1 billion sum (approx. USD107,5 million), an increase by 44.7 percent compared to 2005. A preliminary forecast for 2007 puts the total volume for leasing finance at no less than 156 billion sum. On the average one contract amounted to 23,3 million sum in 2006 compared to 15,8 million in 2004. Since 2005 the total volume accumulated to 215,2 billion sum, an increase of 37.6 percent for the period 2005-2006.

Dynamics of leasing finance (volume)



Market structure

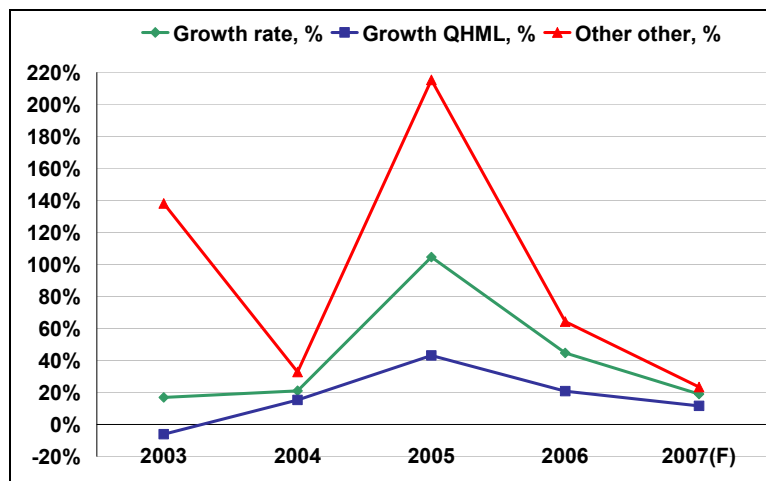


In 2006 a total of 33 leasing service providers operated in the country, out of which 13 were leasing companies, 18 commercial banks and in addition the „Association of Business Women, Karakalpakstan“ and „Uzkeyservice“. The largest companies in the industry are

“Uzselkhoz mashleasing”, “Uzbek Leasing International” and “Kurilishleasing”; two of these are considered specialized leasing providers, one for agricultural equipment and machinery, the second one for construction business and small mechanic items. A considerable competitor is the banking sector, which maintains sufficient resources and a large base of potential leasing clients among its clientele. “Asakaqbank”, “Microcreditbank” and “Galabank”, for instance, actively target the diversification of their businesses.

As the chart below documents the market leader is “Uzselkhoz mashleasing”, in particular taking into consideration long-term leasing projects for agricultural equipment and processing machinery for enterprises linked to the “Uzselkhoz mash Holding”. However, the company's share has been steadily declining, explainable by rising competition and with the fact that its leasing projects appear to grow at a rate under usual average market market growth. The critical moment was 2005 when the share of “Uzselkhoz mashleasing” turned out to be smaller than the one of its competitors, which had been able to increase their financing volume by factor three.

Growth of leasing finance

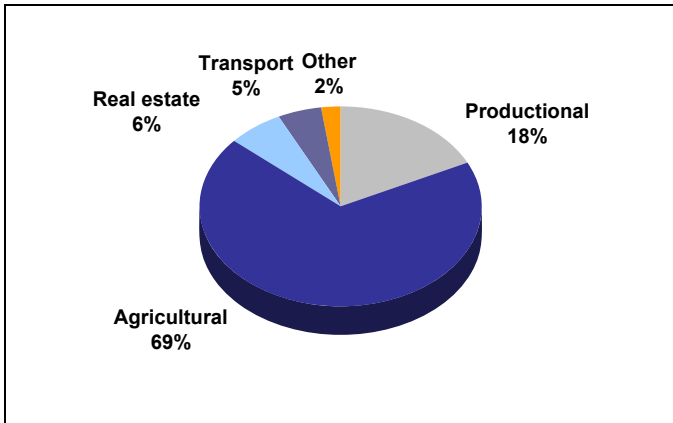


The market structure reflects a more active economy, where demand for leasing springs-up. First of all this refers to agriculture, a sector in which “Uzselkhoz mashleasing” holds a considerable share. Yet, the share for agriculture equipment declined by 0.7 percent during 2006, down to 68.5 percent. On the contrary, the share of manufacturing projects has since 2004 increased (by 0.9 percent), representing now a total of 17.9 percent in the leasing market segment. Real estate declined by 17.3 percent, amounting nowadays to 6.3 percent.

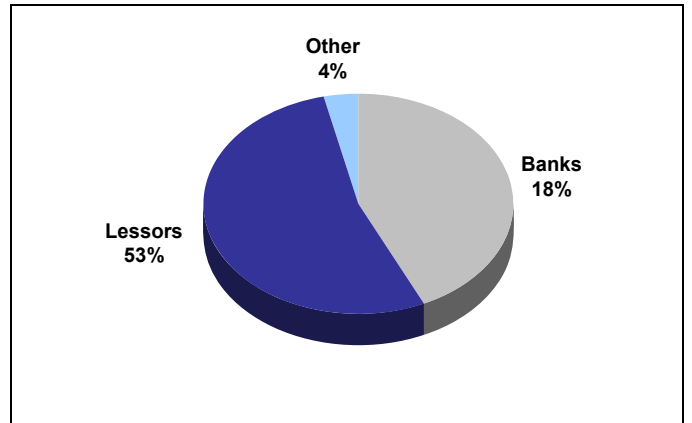
Specialized leasing companies represent more than 53 percent of the total market; yet, the banking sector, which raised its financing volume by 250 percent up to 56,5 billion sum has been able to considerably increase its market share (from 23.7% to 43.1%)

In connection with this the share of specialized leasing providers, the volume of transactions of which grew by 6.1 percent only, has declined.

Market structure according to type of leased property



Market Structure according to type of lessor



For further developing the leasing sector a considerable factor are the favorable tax and legal regulations, which envisage incentives for lessor and lessee, stimulating not only supply but as well demand. Among the principle regulations the following shall be mentioned in particular:

- ◆ The leasing object is free of property tax and in addition provides for accelerated depreciation
- ◆ The taxable income of the lessee will be reduced by his leasing interest payments
- ◆ Since April 1st, 2006 for a period of three years leasing services are exempted from profit tax and unified tax payments
- ◆ Leasing payments are exempted from VAT
- ◆ Equipment purchases under leasing contracts are exempted from VAT and custom dues.

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