



Uzbekistan as an Investment Opportunity

US-Uzbekistan Investment Summit

Co-sponsored by:

American-Uzbekistan Chamber of Commerce and
Ministry of Foreign Economic Relations of the
Republic of Uzbekistan

October 8, 2009

Uzbekistan Economic Overview

- **Strong macroeconomic profile**
 - Real growth has accelerated from 4% in 1996 to over 9% in 2008
 - Foreign exchange reserves quadrupled from 2003-2007
 - Relatively low external debt; declined from 64% of GDP in 2001 to 13% in 2009
 - Corporate tax rate down to 10% from 38% in 1996
- **Large cheap labor force**
 - Population of 27 million people
 - Young, dynamic, and literate population; average age <24
 - 37% urban and 63% rural residents
- **Vast natural resources**
 - World's 2nd largest exporter of cotton
 - 9th largest natural gas reserves; production exceeds 55bn m³ a year
 - 9th largest gold producer; 4th largest gold reserves
 - 12th largest uranium producer; 8th largest uranium reserves
 - 12th largest copper producer; 10th largest copper reserves
 - Holds 30% of Central Asia's petroleum reserves and 55% of its coal reserves



“...I welcomed the economy’s resilience to the global crisis, which reflects largely the authorities’ prudent policies that enabled them to accumulate considerable resources to support growth in this period.”

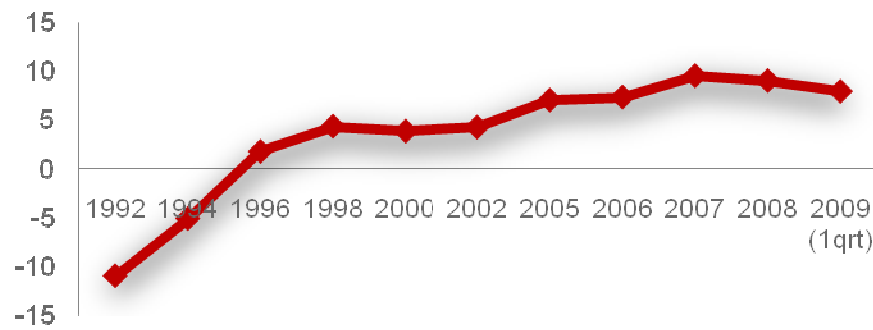
*Dominique Strauss-Kahn, IMF
Managing Director
June 2009*

Uzbekistan Economic Overview

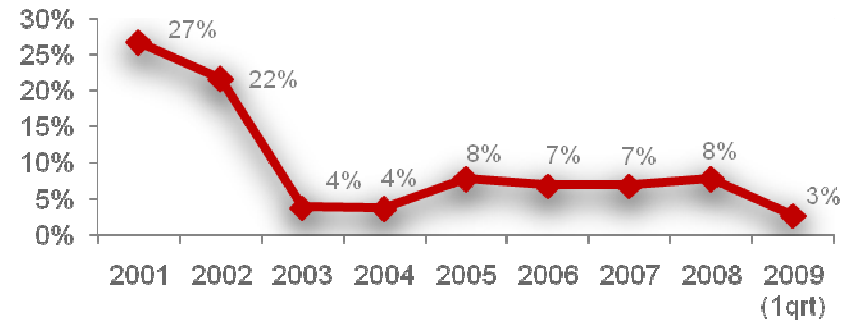
- **Privatization under way**
 - Favorable attitude towards privatization of state-owned assets
 - Since 1991, more than 84,000 state-owned enterprises were privatized
 - Sale of 174 state-owned assets during the 1H 2008
- **Pro-FDI government**
 - For the last 2 years, FDI increased more than 2.5 times
 - In 2008, the FDI inflow into Uzbekistan's economy accounted for USD 3 billion
 - In 1H 2009, FDI increased 33%
 - Despite an increase, FDI remains relatively low among transitioning economies relative to the economic size
 - FDI expected to increase as large state-owned assets are privatized
- **Banking sector (not a true financial intermediary yet)**
 - Largely unaffected by global financial crisis (unlike Kazakhstan)
 - The sector still has a relatively small number of banks (only 29) in comparison with other CIS states
 - Banks do not play an important role in financing enterprises; their share in total enterprise financing ranges from 3-5%
 - Commercial banks also perform treasury functions for the state such as tax collection
 - Currently, the main source of foreign currency financing to small enterprises is direct financing from IFIs

Uzbekistan Economic Overview

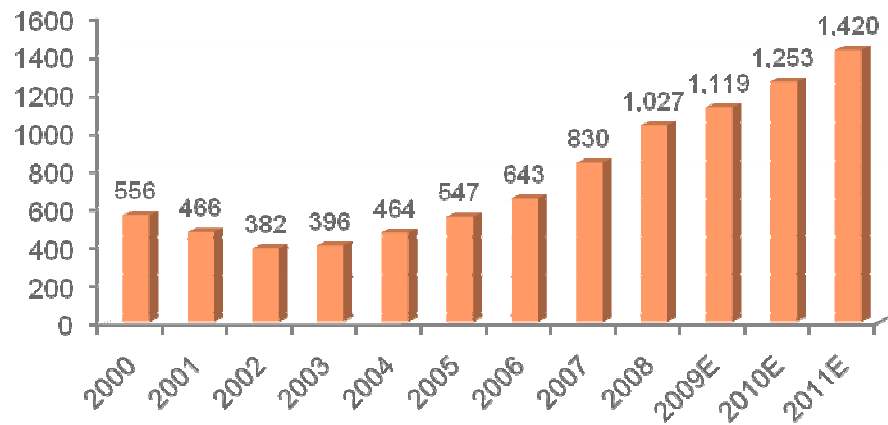
Real GDP Growth Rate (%)



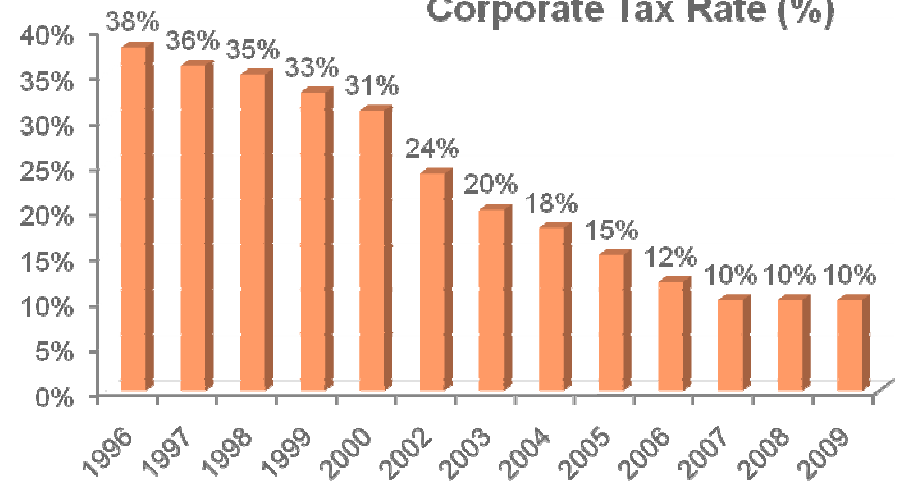
Inflation Rate (%)



GDP Per Capita (USD)



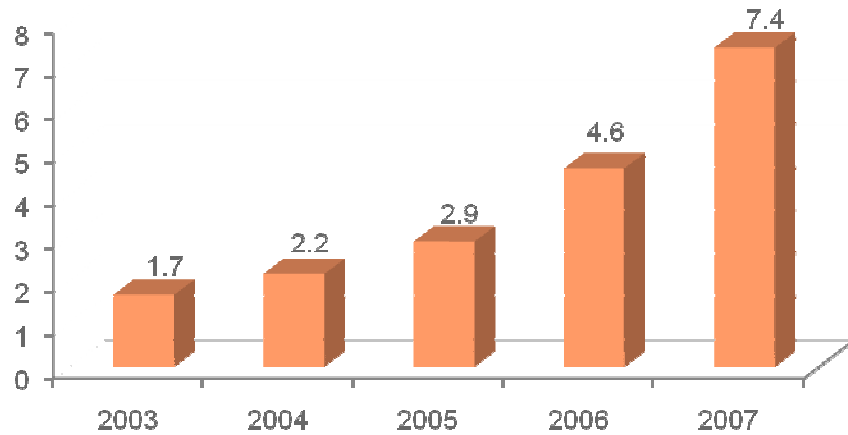
Corporate Tax Rate (%)



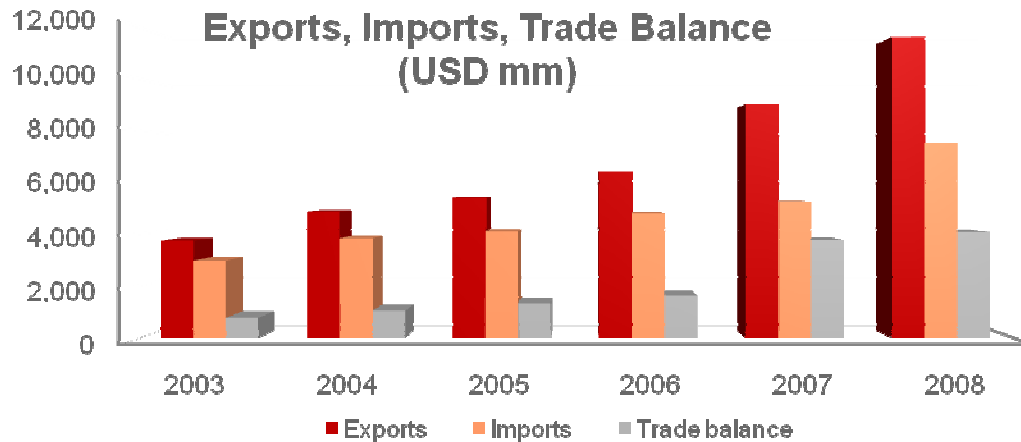
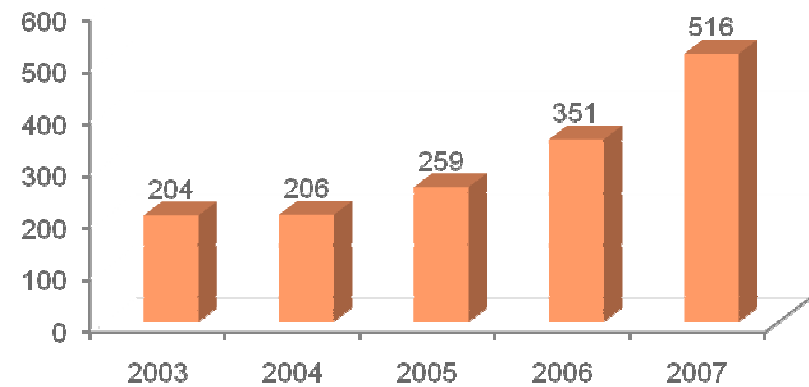
Source: Chamber of Commerce and Industry of Uzbekistan, IMF World Economic Outlook Database, April 2009, Uzinfoinvest

Uzbekistan Economic Overview

Foreign Reserves (USD bln)



Foreign Reserves Coverage of Imports (Days)



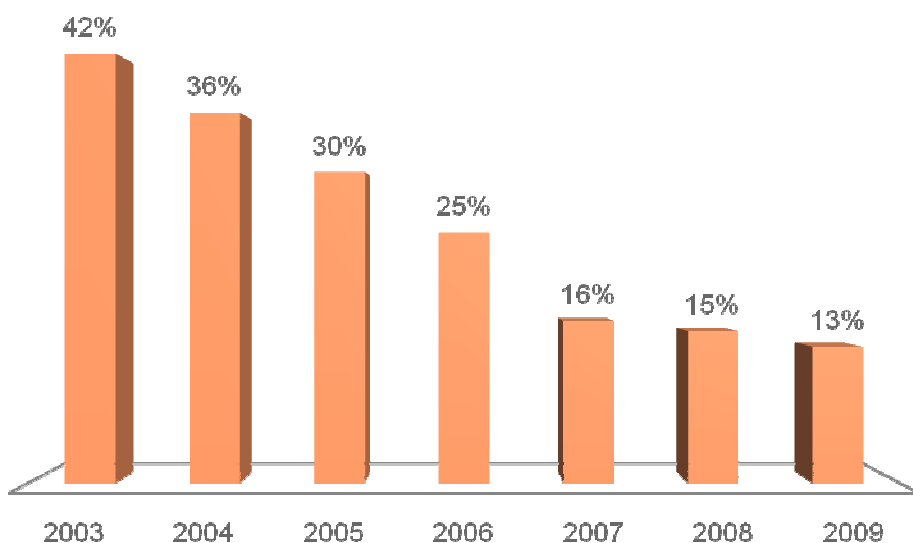
Major Exports:

- Cotton
- Gold
- Natural gas
- Mineral fertilizers
- Ferrous metals
- Textiles
- Food products
- Automobiles

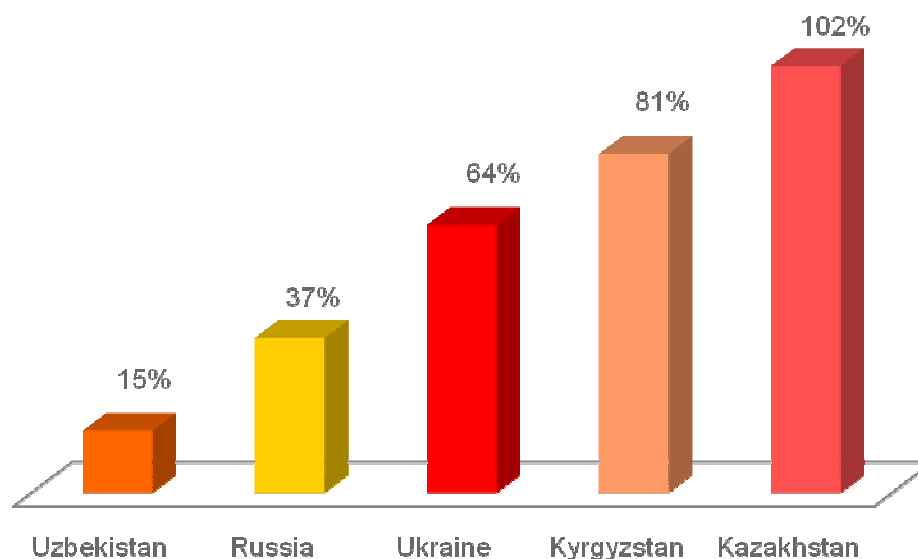
Source: IMF World Economic Outlook Database, April 2009, Uzinfoinvest, Uzbekistan Ministry of Finance, CIA World Factbook

Uzbekistan Economic Overview

External Debt Outstanding as a Percent of GDP



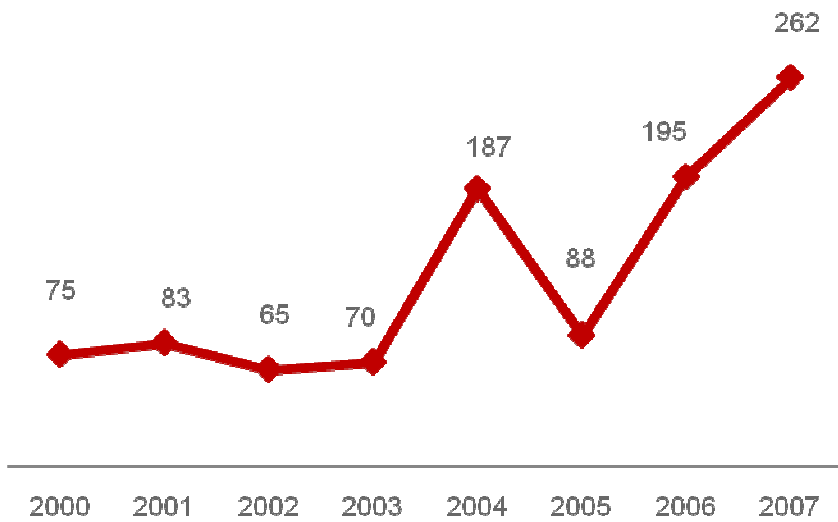
Total External Debt of Uzbekistan and Other CIS Countries for 2008 (% of GDP)



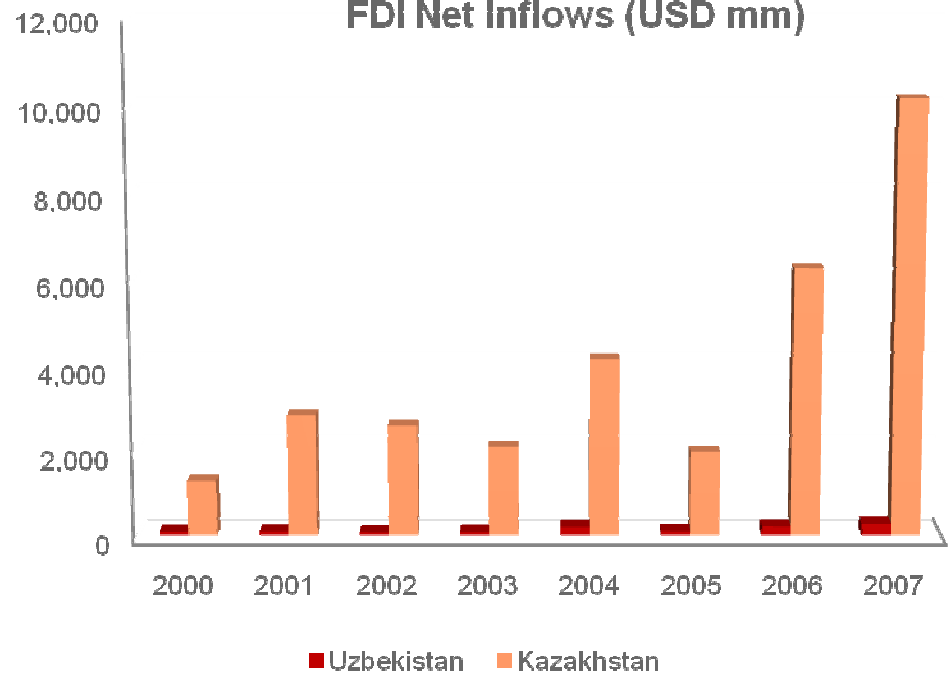
Source: IMF World Economic Outlook Database, April 2009, Uzbekistan Ministry of Finance

Uzbekistan Economic Overview

FDI Net Inflows (USD mm)



FDI Net Inflows (USD mm)



Source: World Bank Indicators CIA World Factbook

Incentives for Foreign Investors

- Major profit tax reductions
- Certain custom duty and VAT exemptions
- Co-financing and guarantees from the government (if investment >USD 20 mm)
- Operations under Production Sharing Agreements (PSA)

**LARGEST INCENTIVES ARE GEARED TOWARDS
EXPORT-ORIENTED COMPANIES**

Strategic Investors - Gaining Momentum

- **Lukoil Oil Company (Russia)**

- In 2006, Lukoil launched “Lukoil Uzbekistan Operating Company” for the development of the Kandim gas deposits
- In 2008, Lukoil Uzbekistan acquired 100% of SNG Holdings Ltd. for USD 580 million



- **Gazprom (Russia)**

- In 2004, Gazprom and Uzbekneftegaz signed a PSA for a period of 15 years to develop the Shakhpakhty gas deposits
- The company spent USD 215 million exploring 7 deposits in 2007 and 2008



- **CNPC (China)**

- In 2006, CNPC entered into PSA to explore and develop prospective natural gas deposits
- In 2008, the company signed a cooperation deal with Uzbekneftegaz on joint exploration of Mingulok filed



- **Kogas (Korea)**

- In 2008, a consortium of Korean players led by state-run Kogas signed a 50-50 joint venture with Uzbekistan’s state gas company Uzbekneftegaz to invest USD 1.8 billion to develop the Surgil gas field in western Uzbekistan



Strategic Investors - Gaining Momentum

- **Korean Air (Korea)**

- Korean Air is participating in the creation of the transcontinental inter-modal logistics center at the Navoi airport, which will be the only of such kind in the CIS



- **Nestle (Switzerland)**

- In 1998, the company bought 34.9% stake in Nafosat
- In 1999, the company set up a joint venture, Nestle Uzbekistan, with charter capital of USD 7 million



- **British American Tobacco (UK)**

- Following privatization of the tobacco industry in 1994, British American Tobacco invested USD 247 million in the Uzbek economy to modernize farms and improve production yields



- **General Motors (USA)**

- GM Uzbekistan was set up in 2008 as a joint venture to assemble and distribute cars in Central Asia



- **Mobile TeleSystems (Russia)**

- Acquired a 74% stake in Uzdunrobita for USD 121 million in 2004
- In 2007, MTS purchased the remaining 26% of the stock for USD 250 million



Portfolio Investment – The Next Step

■ Listed-Equity Investing

- The local stock exchange (TSE), although in operation for several years, is not a practical option for foreign investment
 - Low transparency
 - Little equity culture
 - Extremely low liquidity
 - Low volume of secondary market
 - Fixed income and corporate bonds market is practically non-existent
 - Exchange primarily used for private placements

■ Foreign Stock Exchanges

- Currently the only listed Uzbek company is Oxus Gold on London's AIM

STILL TOO EARLY...

Portfolio Investment – The Next Step

- **Private Equity Investing**
 - Early stage (3-5 year time horizon)
 - Late stage/Pre-IPO (<2 years)
- **Keys to Private Equity Investing**
 - Strong local partner
 - Strong management team (internationally competitive)
 - Financing
 - Majority shareholding
 - Valuations, audits, financial reporting

Investment Opportunities

- **Private sector investment opportunities (through established local private companies)**
 - Natural Gas, Condensate
 - Mining (minerals, metals)
 - Construction and engineering (pipelines, compressors)
 - **Example:** Zeromax - a rapidly-growing company that conducts business in Uzbekistan in sectors such as, oil and gas, agriculture, textiles, construction, mining, and logistics

- **Public sector investment opportunities (through governmental JVs)**
 - Natural resources
 - Machinery
 - Power generating
 - Construction materials
 - Food industry
 - Textiles
 - Services

Possible Opportunities - Zeromax GmbH

Company Name	Business	Ownership %	Partner	Operating Details	Valuation Parameters	Value of Equity Stake* (USD mm)
JV Gissarneftegaz	E&P	20%	UNG and Gazprom	135,000 boed (mostly exported)	\$15,000/boed	1,013
JV Ko'kdomalak – Gaz	Gas Utility & Production	25%	UNG	Utilizes 6Bcm of flared gas per year 4.5 Bcm (73k boe's/d) prod. (exported) 1.5 Bcm reinjected into the wells	\$15,000/boed	274
JV Neftgazmontaj	Construction	51%	UNG Subsidiaries	\$1.5 Billion Backlog; Uzbek piece of the China natural gas pipeline	3 yr /30% marg.	383
FSE Uzgazoil	Gas Stations	100%		85 gas stations & 4 storage depots; shipped 10 million tons of fuel to Afghanistan in the last 12 months	\$2.5 M/Station	213
JV Sho'rtan Gaz Mahsulot	Gas Processing	25%	UNG/Arch	Processing Capacity = 6 Bcm year Products = LPG & Condensate	Replacement Cost	600
JV Neftgaz Sanoat Loyiha	Engineering	50%	ULN	Civil engineering, construction and project management	An Uzbek Bechtel?	????

*Equity value is based on valuation parameters selected by LR Global against other listed comparable companies. Represents value to Zeromax, not for entire entity.

Largest Public Opportunities

Enterprise Name	Industry	Offered Share (%)
NHC Uzbekneftegas	Gas & Oil	49
JSC Uzbektelecom	Telecom	49
JSC Navoiazot	Fertilizers	49
JSC Uzkimyosanoat	Chemical	49
JSC Uzdaewoauto	Automobile	50
Asaka Bank	Banking	51

Earmarked for privatization in 2010-2011

Source: United Nations Development Program Country Office for Uzbekistan, 2009

Risks and Challenges

- **Currency conversion and transfer restrictions**
- **Transparency of the regulatory system**
- **Transparency of private corporations**
- **Taxation**
- **State intervention in business**
- **Foreign investment restrictions**
- **Expropriation and dispute settlements**
- **Other challenges**
 - Privatization process is moving slowly and limits opportunities available
 - Discrepancies in major macroeconomic variables between the government and World Bank

Summary – The Opportunity

- Still undiscovered by institutional investors
- Ingredients for success are in place
- Time to blaze the trail into Uzbekistan...