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Major Economic and Financial Indicators

CURRENCY RATES (January 30, 2009)			
	US\$	EUR	RUB
UZS	1400.52	1968.43	42.58
UZS (weekly change, %)	0.15 ▲	0.81 ▲	0.82 ▼
KZT	121.56	158.85	3.49
KZT (weekly change, %)	0.20 ▲	0.39 ▲	5.68 ▼

Source: Central Bank of Uzbekistan, National Bank of Kazakhstan

COMMODITY PRICES (January 30, 2009)		
	Price (US\$)	Bi-Weekly change (%)
WHEAT FUTURE (CBT) (bu)	578.750	2.62 ▲
CORN FUTURE (bu)	380.000	0.91 ▼
NATURAL GAS FUTR (MMBtu)	4.565	1.08 ▼
BRENT CRUDE OIL FUTR (bbl)	45.750	0.88 ▲
GOLD 100 OZ FUTR	903.200	4.11 ▲
COTTON NO.2 FUTR (lb)	50.100	1.83 ▲

Source: Bloomberg

ECONOMIC INDICATORS (9 months 2008)		
	Uzbekistan	Kazakhstan
GDP (US\$, bln)	18.6	96.7
GDP (% , y-o-y)	9.4	3.9
Agricultural output (US\$, bln)	5.78	9.42
Industrial output (% , y-o-y)	12.4	2.9
Foreign Trade Turn-over (US\$, bln)	15.7	84.2
Export (US\$, bln)	10.1	56.1
Import (US\$, bln)	5.6	28.1
Inflation (%)	4.5	8.8
Population (mln)	27.4	15.7

Source: State Statistics Committee of the Republic of Uzbekistan, State Statistics Committee of Kazakhstan



Economy

Uzbekistan is planning to attract about US\$ 1.9 bln for 86 investment projects as foreign investments in 2009.

The real GDP of Azerbaijan in 2008 reached US\$ 46.34 bln that is by 10.8% more against 2007, including 7% increase in oil and 15.7% in non-oil sector .

Uzbekistan attracts US\$ 2.8 bln investments in 2008

The volume of attracted investments into economy of Uzbekistan increased by 60% year-on-year in 2008 to US\$ 2.8 bln, Minister of Foreign Economical Relations, Investments and Trade Elyor Ganiev stated at the international business forum in Tashkent on 28 January.

He reported that about US\$ 2.0 bln of total investments fell to share of foreign direct investments.

The Uzbek official said that about 70% of investments were foreign direct investments and 25% were credits, including those attracted under the guarantees of the government.

Elyor Ganiev noted there is no short-term, so called speculative credits, in the investment portfolio of Uzbekistan. In the result, the banking system of Uzbeki-

stan is working stably and do not face liquidity crisis.

The Uzbek minister said that the external debt of Uzbekistan makes up 12% to GDP, which is minimal figure and ensures sustainable economic situation in the country.

Uzbekistan planned to utilize foreign investments at the volume of US\$ 1.012 bln on 77 investment projects. At the same time, US\$ 325 mln were credits attracted under the guarantee of the Uzbek government and US\$ 692.7 mln – foreign direct investments.

In 2009, US\$ 481.75 mln. will be directed to finance 47 projects under the Government guarantee, and US\$ 1.39 bln. for 39 projects as foreign direct investments (FDI).

Major share of foreign investments in amount of US\$ 1.06 bln. will be allocated for 17 projects in fuel and energy sector, from which US\$ 970.95 mln is planned to invest into 13 projects of oil & gas sector. In particular, CNPC, a Chinese company will be investing US\$ 244.4 mln. in the construction of Uzbek part of the "Central Asia - China" gas pipeline for total cost of US\$ 2.9 bln.

An international consortium headed by KOGAZ (South Korea) is expected to launch a project to build an industrial gas-chemical complex on the base of Surgil, a deposit field located in Usturt plateau (Uzbekistan) for a total cost of US\$ 1.5bln. The planned investments for 2009 will amount US\$ 145.0 mln.

Azerbaijan is expected to have the highest GDP growth rate in 2009

By forecast of EBRD on the bank's official Web site, in 2009 the growth of Azerbaijan GDP will be the highest in Eastern Europe and South Caucasus.

Azerbaijan's GDP will grow 8% in 2009. GDP will fall 0.8% on average in the South Caucasus and Eastern Europe.

The bank expects GDP to rise 5.5% in Armenia, 2% in Belarus, 3% in Georgia and 1.7% in Moldova. The Ukrainian economy is expected to shrink by 5% in 2009.

GDP growth in Central Europe and Baltic states is projected at 0.4%, 1.5% in Southeastern Europe, 2.3% in Central Asia and 1% in Russia. Turkey's GDP is expected to shrink by 3%.

The EBRD reduced its 2009 economic growth forecasts, reflecting the prospects of a deepening recession in the developed world.

The EBRD now expects an average GDP growth of 0.1% in the 30 Central European and Asian countries where the bank has investments in 2009, compared to forecasts of 2.5% last November.

EBRD Chief Economist Erik Berglof said the region is feeling the full impact of the global crisis due to the region's increased integration with the world economy.

Kyrgyz government outlines US\$8.2 bln national development strategy

The Kyrgyz government has drawn up a US\$8.2 bln national development strategy for 2009-2011, reported Business New

Europe citing to Interfax.

The strategy is based on three different economic scenarios for the country.

The most optimistic strategy envisages annual GDP growth of 7%-7.5% a year, the second is based on 5%-5.6% growth, and the third - the anti-crisis scenario - forecasts growth of just 2.8% a year.

"The state budget will provide US\$4.8 bln to fund the implementation of the national development strategy. We plan to receive another US\$2.8 bln from the private sector and investment projects, while the remaining US\$600 mln will be provided by international financial institutions," said Economic Development and Trade Minister Akylbek Zhaparov.

**Economy (cont.)**

European Bank for Reconstruction and Development is the largest investor, who besides investing own money also attracts direct foreign investments. The bank belongs to 60 countries and two international organizations.

The bank invests money mainly in private companies, as a rule, jointly with its commercial partners.

Financial Markets

Agency of the Republic of Kazakhstan on Regulation and supervision of financial market and financial organizations (AFN or FSA) started its activity in 2004, which became the important factor of development of financial sector of the country.

EBRD Lowers its 2009 Economic Growth Forecast for Armenia

EBRD lowered its economic growth forecast for Armenia in 2009 by 2.8% to 5.5%. In November, the EBRD expected 8.3%.

The bank said in its report that economic growth was recorded at 6.8% in 2008, 13.8% in 2007 and 13.2% in 2006.

The European Bank lowered its expectations also for neighboring countries.

The 2009 economic growth forecast for Azerbaijan was lowered from 15% to 8% and for Georgia from 4% to 3%. GDP growth forecast for Russia fell from 3% to 1%. The EBRD expects decline also in 30 European and Central-Asian countries, in which the bank invests money.

As a whole, European Bank expects 0.1% GDP growth in

these countries in 2009 instead of 2.5% predicted earlier.

Erik Berglöf, the top specialist at the bank, said slowdown in global economic processes is visible in the EBRD region mainly because of increased integration in the world economy.

He thinks that the countries ability to stand outside pressures will heavily depend on the pace of global economy recovery, national governments and international financial institutions' joint efforts.

VIVACELL-MTS Mobile operator builds its own optic-fiber Networking in Armenia

The Armenian VivaCell-MTS mobile operator is building its own optic-fiber networking in Armenia, the company's General

Director Ralph Yirikian told reporters on Thursday.

He said the company built 100km of its own optic-fiber network in Yerevan in 2008. "We intend to continue building the network for connecting all base stations to implement programs on data transfer," said Yirikian.

According to him, connecting the base stations will enable the company to create a network for fast data transfers and will technically create its own system for the future, specifically, for providing broadband Internet services.

"We plan to provide Internet services, but no sooner than in 2010" said Yirikian, at the same time excluding the possibility of entering the market of fixed connection.

AFN released key 2008 statistics on mortgage sector of Kazakhstan

Kazakhstan's Agency on regulation and supervision of financial market and financial organizations (AFN) has released key figures on country's mortgage market.

As of January 2009, mortgage companies' total assets had decreased 0.6% y-o-y to US\$ 1.77 bln. Their total liabilities were down to US\$ 1.35 bln, downing 5.4% y-o-y. The total loan portfolio of mortgage companies decreased 5.5% y-o-y, to US\$ 1.4 bln.

Standard loans accounted for 86.7% of the total portfolio, comparing to 95.5% as of January 2008. Doubtful loans accounted for 12.4% (up 8.5% over the year). Bad loans accounted for 0.9% of the total portfolio (up

from 0.6% in 2008).

The sector's total capital was up 17.5%, to US\$ 430 mln at the beginning of 2009.

There are 12 mortgage companies in Kazakhstan, some of which are subsidiaries of large banks and some of which are independent.

Bank CenterCredit raises US\$45mln from IFC

On January 26, 2009 Bank CenterCredit (BCC) had announced the signing of a US\$ 45.0 mln loan agreement with International Finance Corporation (IFC), reported Renaissance Capital. The loan will have a five-year maturity period, and will be used to support lending to SMEs operating in different sectors of Kazakhstan's economy. According to the agreement, loans extended to businesses should

not exceed US\$1 mln and should have maturities of at least one year. BCC and IFC have been cooperating since 2005, when the former became a participant in an IFC programme aimed at financing leasing operations in Central Asia.

This is the third loan agreement announced by BCC so far this year, following the raising of a five-year, US\$ 10mln loan from the European Bank for Reconstruction and Development, and a US\$ 40mln loan agreement with Citibank the latter partially guaranteed by the US state agency, Overseas Private Investment Corporation.

BCC repaid US\$550 mln of debt outstanding for 2008. Its redemption schedule for 2009 is favorable, with only US\$90 mln falling due this year.

**Company & Industry**

According to the *Business New Europe*, with its scattered population and low fixed-line penetration, **Kazakhstan** is a natural territory for wireless communications. Mobile penetration is now expected around the 100% mark, meaning there will soon be more mobile phones than people in the country.

KCell works with numerous third-party content providers; relatively low-tech products, in particular ringtone downloads, remain the most popular, though services for business users, such as push email are gradually becoming more widely used in Kazakhstan.

Baker & McKenzie is an international law firm, founded in Chicago in 1949 by Russell Baker and John McKenzie.

Clifford Chance LLP is the largest law firm in the world, both by number of lawyers and revenue, and a component of the UK's "Magic Circle" of leading law firms.

White & Case LLP is a leading global law firm with 2,300 lawyers in 38 offices in 25 countries and a total staff of more than 4,800, founded in New York in 1901.

First movers take all in Kazakh mobile market

In mobile market of Kazakhstan, the race is on to cover as much of the country as intensively as possible. KCell, the largest GSM operator with a market share of just under 50%, invested a total of \$250m in expanding its infrastructure last year.

Indicating the large-scale map of Kazakhstan on the wall of his office, CEO of KCell Veysel Aral says that, "Population-wise we are quite good, we are approaching to 80%. The main populated areas are already covered, as are the main roads and popular resorts."

What remains are the many small rural settlements across Kazakhstan's 2.7m-square-kilometre territory. Being a first mover in these areas is everything. KCell and its competitors are also increasing the number of base stations in already cov-

ered areas in order to increase the capacity and quality of their service.

Rapid growth in telecommunications and internet services followed new legislation in 2004 that opened the way for liberalization of the sector and ended Kazakhtelecom's monopoly. Mobile subscribers have soared from 260,000 in 2000 to around 12m early this year.

KCell's main competitor is the number-two GSM operator, Kar-Tel, which operates under the Beeline and K-mobile brand names. A competitive tender launched two years ago resulted in the entry of a third GSM operator to the market. Mobile Telecom-Service, which operates under the NEO brand (and is not to be confused with Russia's MTS), was formally launched in February 2007. The

country's main CDMA operator is Altel.

KCell and its competitors are also looking to grow revenues from value-added services. Given the lack of fixed-line coverage in many remote areas, there is also high potential for mobile internet access.

The company plans to launch mobile broadband data services based on WiMAX technologies in the first quarter of 2009.

While Kazakhstan is in general the most mature telecom market in Central Asia, Uzbekistan has recently stolen a march in the 3G stakes.

The Uzbek subsidiaries of Russian operators Vimpelcom and MTS simultaneously announced the launch of commercial 3G on December 3.

Uzbekistan sales out its mountain resorts

Uzbekistan's State Committee on Property Management (SCPM) has signed three contracts to sell assets in three mountain resorts, according to Trend News.

The Russian Evrazstroyproyekt acquired a 14.4% stake in the Orom resort complex. Orom is located in Tashkent not far from the mountainous Charvak reservoir. The resort covers over two hectares. The value of the contract was not disclosed.

A tender was also issued to sell Orom to foreign investors in July 2007. The resort's starting price was fixed at US\$ 53,000 at the time. Under the tender terms, the volume of investments was to surpass the starting price.

The Chinese Expoline Limited

acquired a 100% stake in the Chirnik Suvokova resort complex. The resort is located not far from the capital. The starting price was US\$160,000. Investment liabilities were \$100,000.

The Uzbek-German joint venture Vera Future Group Invest acquired a 100% share in the Kazbek health resort. The starting price was US \$110,000.

Bakers, CC, White & Case launch Kazakhstan fund

Baker & McKenzie, Clifford Chance and White & Case have advised on the creation of a Euro 100 mln private equity fund on behalf of Kazakhstan's sovereign wealth fund.

The Kazakhstan Growth Fund will use money from the European Bank for Reconstruction and Development (EBRD) and Samruk-Kazyna, the sovereign

wealth fund, to invest in the country's development.

James Burdett, London funds head at Baker & McKenzie, and Almaty financial services partner Curtis Masters headed the team representing Samruk-Kazyna.

Kazyna Capital Management, the main investor alongside the EBRD, turned to Clifford Chance funds partner Nick Benson.

The EBRD was advised by White & Case partner Gregory Hammond. "The success of the Kazakhstan Growth Fund will be vital in the government's plans for the stabilization of the economy during the worldwide financial crisis," said Masters.

In February 2009, Samruk-Kazyna is planning to transfer funds to Kazakh commercial banks to credit small and medium enterprises (SME).



Specific Issue

According to market studies, **Nabucco Pipeline** has been designed to transport a maximum amount of 31 bcm/y.

Estimated investment costs including financing costs for a complete new pipeline system amount to approximately US\$ 15 bln.

On January 22 **President of Bulgaria** Georgi Parvanov paid a one-day visit to Baku. The issue on the agenda was obvious: diversification of the gas supply to the EU and making Caspian gas available to EU households.

RWE statement indicated that **Turkmen** energy extracted and shipped across the Caspian could then feed into an existing pipeline network originating in Azerbaijan and travel across the South Caucasus to Turkey. Such a route would circumvent Russia, which currently has a stranglehold over Turkmenistan's natural gas exports.

According to many experts, for realization **Nabucco project** in practice, significant support will be needed both politically and financially. The **EU** has been too slow until now on these fronts. Without backing from the EU, private companies will not move ahead with the project.

Position of Caspian States on Nabucco Pipeline Project

Background. The recent gas crisis between Ukraine and Russia made the EU start looking for alternative sources of gas and oil for its domestic consumers. Subsequently, the position of Caspian states as a potential alternative supplier and transporter of natural gas for the EU is rising day by day.

A high-level summit held in Budapest on January 26-27 about ways to move forward with the pipeline, already identified as a policy priority for both the United States and the European Union.

Nabucco pipeline was expected to transport gas from the Caspian basin and Central Asia or Iran to Europe via Turkey, Bulgaria, Romania, Hungary, and Austria, benefiting all 27 EU member countries.

This project has the financial backing of several European nations and the endorsement of the EU. Envisioned pipeline length is approximately 3,300 km, starting at the Georgian/Turkish and/or Iranian/Turkish border respectively, leading to Baumgarten in Austria.

Position of Azerbaijan. According to the present of Azerbaijan I.Aliev "Azerbaijan, which enjoys giant oil and gas reserves and a modern transport infrastructure, will play a much more important role in the diversification of the supply of energy resources to Europe in the future." At a January 16 cabinet meeting, the government agreed to start exporting gas to Greece and Bulgaria in 2009 via the Baku-Tbilisi-Erzurum pipeline if transit agreements are signed.

Whereas earlier Aliyev had tread cautiously to avoid spoiling po-

tential gas sales to Russia, this time he drew a sharp comparison between Azerbaijan and Russia as reliable energy providers.

Discussions with President Ilham Aliyev were very useful; and Bulgaria, together with Greece and Italy, are expected to become the first purchasers of Azerbaijani gas from the Shah Deniz field.

The Visit of the President of Bulgaria to Azerbaijan was connected to the gas conflict between Russia and Ukraine," Azerbaijan's Minister for Foreign Affairs Elmar Mammadyarov told journalists on January 21

On January 26 Aliyev left for Hungary to participate in the Nabucco summit. Heads of state and government of several EU countries will also participate in the event.

The presence of Aliyev in this important but politically sensitive event once again proves that Azerbaijan's foreign policy is independent and that Aliyev is willing to take risks when the national interests of his country are at stake.

Russia opposes this summit and the whole Nabucco project, and President Aliyev is showing a great deal of courage by taking part in this important meeting.

Position of Turkmenistan. Turkmenistan is prepared to sell gas to anyone who wants it, the head of the state agency for natural resources has said.

"Turkmenistan's gas reserves are enough to fulfill treaty obligations and for transportation," said Yagshigeldy Kakayev, speaking at the Budapest conference on energy issues, held

January 27. "The principle of diversified energy supplies is an objective requirement of the global market," the Azerbaijani news agency Trend quoted Kakayev as saying.

Ashgabat already has supply arrangements in place with Russia and Iran. A pipeline connecting Turkmenistan and China is also in the works.

The amount of natural gas reserves in Turkmenistan remains a tightly guarded secret in Ashgabat, but Kakayev insisted that the Turkmen government's ability to enter into other export agreements is "not limited."

"Negotiations with the European Union have positive dynamics," he added. EU and US officials have pressed Turkmen leaders to commit to exporting gas via the proposed Nabucco network.

Ashgabat has expressed interest in opening a new export route to Europe, one that evades Russia, but so far it has offered no firm participation guarantees.

The head of Germany's second largest electricity and gas company, RWE AG, hailed Turkmenistan's "promising" market and expressed a readiness for "constructive interaction in the energy sphere" during a visit to Ashgabat, news agencies report.

This visit is raising speculation about Turkmen intentions to participate in the long-planned trans-Caspian and Nabucco pipeline projects.

Jurgen Grossman, as saying that German companies had a "deep interest in giving greater scope" to working in Turkmenistan.

Ansher Capital is the leading investment banking company in Central Asia. The Company offers full-fledged investment banking and advisory services to both international investors and the companies in Central Asia. Ansher Capital represents major foreign investors in Central Asia and assists in implementation of their strategic acquisitions and investment projects in the country. The Company advises key government agencies and leading Central Asian enterprises in areas of privatization, attracting foreign investment and raising capital in international and domestic capital markets.“

Contacts

Akmal Mirsadikov

Deputy General Director, Ansher Capital
akmal.mirsadikov@ansherholding.com

Nodir Egamberdiev

Director, Research & Analysis
nodir.egamberdiev@ansherholding.com

Ilhom Isomitdinov

Banking Analyst, Research & Analysis
ilhom.isomitdinov@ansherholding.com

Toshtemir Haydarov

Financial Analyst, Research & Analysis
toshtemir.haydarov@ansherholding.com

Hushnubek Yulchiev

Financial Analyst, Research & Analysis
hushnubek.yulchiev@ansherholding.com

Aziz Rakhimov

Financial Analyst, Research & Analysis
aziz.rakhimov@ansherholding.com

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