

SPECIAL ADVERTISING SECTION

THE KYRGYZ REPUBLIC LOOKS AHEAD

A stable environment and a multi-ethnic society provide new opportunities for foreign investors in Central Asia.

Located strategically in Central Asia, the Kyrgyz Republic is signaling that it's serious about boosting its standing in the investment world.

As nations compete to attract the attention of investors, one indicator shows that this country of five million people is headed in the right direction: The Kyrgyz Republic has jumped from 99th to 41st place in the World Bank's 2009 ease of doing business ranking, making it better than 75% of all countries. For getting credit, it is also in the top ten percent. For protecting investors, it is the 12th best country in the world. These are huge advantages.

The bullish sentiment is echoed around the capital Bishkek, where business leaders – both local and foreign – talk about an improvement in business sentiment.

Speaking at the Bishkek International Banking Conference recently, former US Senator Donald Riegle said the Kyrgyz Republic had already demonstrated some surprising strengths in the face of the global financial crisis. "In this difficult year of 2009, as the world reeled from the collapse of securities markets and major global financial institutions, the Kyrgyz Republic stayed steady, moved ahead with some important reforms, and held its footing despite real challenges."

The European Bank of Reconstruction and Development in June allocated US\$70 million for loans aimed at providing funds for entrepreneurs to develop small and medium sized enterprises. The move was praised by foreign commentators who said it would give the country's burgeoning private sector a hand up.

The government has also made some bold moves to cut taxes. Value-added tax has been reduced from 20% to 12%, and the overall number of taxes reduced from 16 to 8.





Lake Issyk-Kul: the world's second largest mountain lake and a popular holiday resort

There is still a lot of work to do. Real GDP growth slowed to 0.3% in the first half of 2009, due to a slowdown in industrial production and the retail trade and the wider effects of the crisis.

The country did however narrowly avoid recession by continued buoyancy in fixed investment and construction.

Exports fell 13% year-on-year in the first half, but imports dropped more, by 25%, narrowing the trade deficit to US\$783 million, compared to US\$1.2 billion a year earlier.

While analysts said gold output was disappointing in the first half of 2009, the signing of a major agreement with Canadian miner Centerra has provided a much needed boost to the confidence of foreign investors.

The Kyrgyz Republic is a mountainous country, and has rich resources of gold, copper,

and uranium that will provide wealth to future generations if developed properly, says Ilyas Davydov, Minister of Energy. He says the government is currently seeking investments to develop the country's sizable coal resources.



Davydov is also keen to see further development of hydro resources, using the Norwegian experience in hydro-energy resources as an example. "Each year, our

hydro-electric plants produce 10-12 billion kW of electric energy, however we could produce up to 150 billion kW, and we could provide electro energy and water resources to neighboring countries."

In his recent inauguration, President Kurmanbek Bakiyev said his goal was to ensure political and civil security as a prerequisite for economic development. Without it, the Kyrgyz Republic will not be able to realize its potential. Stability has always the priority for political leaders in the region as they sought to shape a national identity following the collapse of the Soviet Union.

While Central Asia has historically been prone to conflicts, President Bakiyev says he plans to continue a process of integration into the world community, strengthen bonds with neighbors in the region and provide a stable platform for foreign investors. ■

THE DEVELOPMENT FUND: WEALTH FOR FUTURE GENERATIONS



Alexey Eliseev

The Kyrgyz Republic has launched a national development fund to improve and stimulate investment in strategic priority sectors of the economy.

It's part of a bold new strategy to boost corporate governance and work closely with foreign and domestic investors to improve capitalization. Headed by lawyer Alexey Eliseev, the fund aims to stimulate the government's priority sectors of energy, industry, agriculture and tourism.

"We have considered experiences and best practices of other funds, and integrat-

ed them into our own work," says Eliseev. "We don't want to get involved with projects that don't meet our strict risk criteria. We want to become an ally and instrument for private business and not their 'big brother' that interferes in business affairs."

The fund will finance national projects (direct debt and shared) and projects through authorized banks (including regional programs). It will invest by participating in partnership with private investors and financial institutions (PPP), including: micro credit companies to finance agriculture projects, mortgage companies, Islamic financial institutions and leasing companies. The fund will also manage joint funds, gov-

ernment bonds and debt. Local investment bank MGN Group has been appointed the financial advisor and asset manager for the US\$286.3 million fund.

"We would like to invite the potential international investment community and existing partners along with us to invest into the economy of the Kyrgyz Republic and create partnerships, co-finance on equitable basis and we will share the risks and rewards equally. We want to serve as a catalyst to improve the business environment that is more and more investor friendly," says Eliseev.



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AUB: BANKING ON GROWTH

Mikhail Nadel

The ages-old paradox of whether the glass is half-empty or half-full is not even a question for entrepreneur and investor Mikhail Nadel, chairman of the board of Kyrgyzstan's AsiaUniversalBank (AUB).

"I always see potential," says Nadel, and in the case of the Kyrgyz Republic he believes the opportunities are huge.

"Just look around and you can see the impact of the global financial crisis everywhere in the world. But here, all sectors of the economy are still growing and overall productivity is among the highest in Central Asia. The country's business environment is very friendly – there is strong and comprehensive banking regulation in place, tax rates are low and construction and labor costs are relatively inexpensive – and because the economy is still in the early stages of development, investors who come here have a great opportunity to create very profitable businesses."

And when they come, Nadel intends for AUB to be there to assist them. The chairman of Kyrgyzstan's largest bank believes that investors should look to leverage the country's geographic position and its ability to facilitate the development of commercial relations between the emerging markets of Central Asia and the rest of the world.

"Our goal is to be a long-term, reliable strategic partner for our clients – basically we aim to make it easier to do business in Central Asia."

It is AUB's philosophy of integrity, transparency, excellent customer service and innovation that Nadel believes will enable it to achieve its ambitious goals.

"When we founded AUB in 1997, it was basically a local bank with a small presence in Bishkek. Today AUB has grown into the biggest bank in the country in all terms, and also has the largest network of international correspondents."

In July 2009, AUB was recognized for the

fourth time by Euromoney magazine as the 'Leader in Corporate Governance in Kyrgyzstan', and the bank has also tapped into an international talent pool, with board members including two former US senators (R. Dole and B. Johnston), and a 25 years veteran of the International Monetary Fund (M. Mered).

"There are 22 commercial banks for a population of around five million and only 4-5% of the population actively utilizes the banking system. That means there are 22 banks competing for roughly 250,000 individual customers. The only way to not only survive, but to thrive in that kind of environment, is to be consistently the best. We also recently completed a very successful share capital increase, and we are now the best capitalized bank in the Kyrgyz Republic."

Operating in such a small and developing market does not come without obstacles, but Nadel sees the opportunities those challenges provide for AUB.

"While there is plenty of scope for further growth, particularly as we penetrate deeper into the retail segment, there is no question that the Kyrgyz banking sector is becoming increasingly competitive. In the near future we should see more consolidation – but AUB is no stranger to growth through consolidation (we recently absorbed former Kyrgyzpromstroybank), and ultimately we think it will help strengthen the overall system and improve the local banks' access to international capital."

Asked where he sees the brightest opportunities in Kyrgyzstan, Nadel cites manufacturing. "It is already a very interesting sector and will become more so in the near future when the hydro-electric power plant projects in the south of the country are completed. The price of electricity will be lower here than in the neighboring countries, and that will help make Kyrgyzstan an even more attractive destination."

Does Nadel believe these developments will create more opportunities for AUB?

"Of course it will," he says with his characteristic optimism. "AUB's role is to be a trusted partner facilitating international trade and commercial activities in the heart of Central Asia."



www.aub.com

CONFIDENCE IN TROUBLED TIMES

The Kyrgyz Republic has a small economy and is very sensitive to external changes, says Marat Alapaev, governor of the country's central bank. Alapaev explains that when the first shock waves of the global financial crisis were felt he knew preventative measures had to be taken, and fast.

The bank started by creating a refinance fund for the banking system. This provided some psychological support, boosting confidence in the bank's ability to protect personal deposits. Built into the legislation is a last resort clause that allows the bank to increase the liquidity if necessary.

"The fund became an easily accessible tool to respond to liquidity problems. It enabled us to influence rates on credit in commercial banks," says Alapaev.

"We have seen from the experience of other countries that providing direct resources to commercial banks does not work effectively in the long run as they put pressure on the exchange rates. We have linked the funds to the reinvestment fund to the credit portfolio of the commercial banks. So if a commercial bank applies for reinvestment funds then they have to increase their credit portfolio by the same amount."

The Central Bank has also increased the warranted amount of reinsurance, which can cover more than 90% of individual deposits.

"We are quite sure that we have overcome the first shocks and we believe that the commercial banks are to a certain extent sound," confirms the governor. Eugene Gourevitch, the CEO of investment bank MGN Group, agrees: "The system has also been made a lot more stable by the establishment of the agency for deposit insurance as well as a fund for banking and financing, and as a result, a number of new banks have come into the country, even since 2004." The total assets of the banking sector have grown by 30% since 2006, deposits by 24%, and total credit portfolio by annual factor of 34%."

While ensuring stability in the banking sector has been the immediate priority, transforming the Kyrgyz Republic from a "dead-end country" into a transit-zone country is the next step of the plan, says Minister of Finance Marat Sultanov. "Until recently we have been a blind country,



MGN: LOCAL SUCCESS, GLOBAL AMBITIONS

Eugene Gourevitch

MGN Group is the first international investment bank in the Kyrgyz Republic to offer the full range of investment banking services. The company has offices in London, New York, Moscow and Bishkek, and runs across three business lines.

MGN Capital is essentially engaged in corporate finance, mergers and acquisitions and research services. The other two lines are MGN Asset Management, and MGN Capital Partners, which invest directly into the economy. Currently the MGN Group manages about US\$200 million – a tidy sum considering the size and level of development of the country.

For CEO Eugene Gourevitch, the Kyrgyz Republic is an ideal base because investors are realizing that higher returns will continue to be generated in frontier

and developing markets. He says the Kyrgyz Republic's business environment is more business friendly compared to its neighbors. MGN's strategy is to offer international best practices combined with local knowhow. It also plans to work closely with local companies to boost standards and continues to cooperate with the Central Asian Stock Exchange. (MGN is a 50% stakeholder in the bourse).

“We realize that, as opposed to working in developed markets, where you have companies used to corporate governance standards, to transparency initiatives, a functioning board that interacts with management, it is not really the case here. So, one of our first jobs is to explain to the companies that all these aspects are critical in working with investors and to relate that confidence to investors. We have an educational role.”

Despite the fallout from the global financial crisis, the bank is off to a flying start. It was recently awarded the tenders to work as financial advisor and asset manager for the government's new Development Fund. Gourevitch is

thrilled about the unique prospects of the Kyrgyz market.

“What's really interesting here is that you essentially have most of the financing through equity or through debt, just borrowing from the banks. You don't have any international bond offerings so far, they have very limited activity in local bond markets and even banking penetration is very low. It creates an interesting situation for future growth. The whole region is very compelling, and if you look at it there are probably very few regional platforms which provide the same level of growth as the Kyrgyz Republic. We invite you to work with MGN group to actually find interesting opportunities and to structure those investments.” Gourevitch has bigger plans for the MGN Group and he is keeping his eyes open for new opportunities in the region and further afield.



www.mnggroup.kg

where we didn't have China to work with so we mainly looked to Kazakhstan, Uzbekistan and Russia, and we did not have roads going further. That was the situation when we just became independent.”

The country soon realized it could leverage the trading relationships in the region but it needed to build the lifeblood of trade in this part of the world: roads.

“The Great Silk Road” strategy has seen the building of two corridors, one in the south and another in the north. The next stage of the strategy is to build a railroad which will further act as a conduit for international trade. Airport upgrades and construction are also a priority, says Sultanov. He says there will be continuing opportunities for foreign investors to participate in ongoing infrastructure projects. The minister also sees financial sector development as a key part of the country's plan to revitalize its trading credentials. “We have one of the most liberal currency regulations and exchange rates. Regional banks, including a number from Kazakhstan have shown interest in opening branches here and this will provide benefits for the Kyrgyz Republic.” ■



Opera house in Bishkek

CASE: BRINGING BUSINESS TO THE BOURSE

Success for a stock exchange is measured in trading volume and so Altynbek Alymkulov, president of the Central Asian Stock Exchange, has reason to be pleased.

Out of the three exchanges operating in the Kyrgyz Republic, CASE has recently achieved the highest volume and continues to attract high quality listings. Most of CASE's listed companies are blue chips of the Kyrgyz Republic.

The smooth running of a stock exchange also relies on infrastructure. The bourse is investing in the most

sophisticated IT and telecommunications infrastructure, says Alymkulov.

“We have just completed development and we are now implementing a software system that can handle fully automated trading, depositary and clearing transactions.”

Alymkulov explains that part of CASE's strategy is to contribute to the development of the capital markets in the country and help bring new products to the investment market. “One of our strategic initiatives is to trade in state securities. The government has announced a tender to select a stock exchange that will serve as the platform and we are hoping to win it.”

CASE is also looking for foreign partners who can bring technical expertise and assistance to further assist in the development of the exchange.



www.case.kg



Owned by Canada's Centerra Gold, the Kumtor mine has produced more than six million ounces of gold between 1997 and 2007.

FOREIGN INVESTORS RIDING RESOURCES WAVE

Foreign mining companies operating in the Kyrgyz Republic have reason to express renewed confidence after a number of breakthroughs that show the government is serious about business.

Canadian miner Centerra Gold is the highest profile company working in the country and has reached an agreement with the government over the Kumtor mine after a lengthy negotiation.

The Kumtor mine is the largest gold mine operated in Central Asia by a Western-based company, with 2008 gold production exceeding 556,000 ounces.



Robert Wunder

The government has taken a 'hands-off' approach to the mining sector, says Valery Tutykhin, advisor to the director of the former State Agency of Geology and Mineral Resources (now Ministry of Natural Resources) and partner at John Tiner & Partners law firm. Tutykhin helped the agency draft new mining legislation. "The new legislation on mining is unique in that it leaves only a few strings in the hands of the government to control the fate of the mining licenses. In most developing nations we see the opposite: nothing is automatic, you have to deal with bureaucracy," explains Tutykhin.

"It will definitely be welcomed by mining investors who want a more legally secure environment for their activities. Coupled with very liberal tax law, almost non-existent exchange controls and the right to directly export own mineral produce, this legislation should boost the country's bid for mineral



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Bishkek, the capital of the Kyrgyz Republic, is one of the greenest cities in the world

investment from abroad,” affirms Tutykhin. Newly appointed Minister of Natural Resources Kapar Kurmanaliev echoes the sentiment: “In no way can the government expropriate an investor. They are protected if they respect our legislation. Licenses can be taken away or suspended only if the company is not working honestly or if the environmental law is not respected or it doesn’t pay its taxes – and this will be through our judicial system.” Centerra’s investment in the Kyrgyz Republic is already more than US\$ 1 billion, according to Robert Wunder, president of the Kumtor gold operation, which is 100% owned by Centerra.

“We have also paid back into the country the equivalent of nearly US\$1 billion over the past 10 years in taxes, wages and benefits paid to the employees.”

Kumtor gold mine began production in 1997, and has produced more than 213 tons of gold. The mine is a large, complex mining oper-

ation, located 4,000m above sea level. Wunder reckons in terms of safety and environment, the Kumtor mine is “without question the safest and most environmentally responsible business in the Kyrgyz Republic and in Central Asia.”



Downtown Bishkek

The operation employs more than 2,500 people, of which less than 5% are expatriates. “The Kyrgyz people are interested in working, they are good workers and quite well educat-

ed. We have a very challenging operating environment at the mine site. We have invested substantially in training our workforce since the beginning of our operation,” he says. Wunder believes foreign companies need to give back to the community if they want to be successful in a place like the Kyrgyz Republic.

“Our focus on the needs of Issyk-Kul province and support for the sustainable development of the region sees us contribute 1% of proceeds from gold sales to the Issyk-Kul Development Fund. These resources, amounting to nearly US\$5 million per year, will be used to improve infrastructure, build new schools and support viable business projects that will help provide business and job opportunities.”

Kumtor also continues to support a regional development program developed by the company that has, over the past three years, helped renovate a number of schools and libraries, rural health and cultural centers. ■



Vugar Khalilov

FLEXI COMMUNICATIONS: GETTING THE MESSAGE OUT

There's a big gap in the market for full service communications, according to public relations and media specialist Vugar Khalilov, who launched Flexi Communications to offer PR services to companies in the Kyrgyz Republic and wider afield.

“We found that our market is the whole of Central Asia since even in big markets like Kazakhstan, the communications business is still very young,” says Khalilov. “There was a misunderstanding of basic communications practice, and more importantly, very little appreciation of how communications and public relations fits into a company’s business plan.”

A UK citizen, Khalilov says his solid

background in the Western media and PR industries are put to good use at Flexi Communications. “I bring in my overseas experience and combine that with my team’s broad knowledge of the local and regional market.” This approach allows Flexi Communications to provide local and international companies in Kyrgyzstan and the wider Central Asia region with ‘international standard’ corporate financial communications, marketing, market regulators relations and special events planning.

He says he continues to work with local companies to help them understand the importance of keeping an impeccable reputation and the significance of publicity in raising financing.



www.flexicommunications.com



TSP: PRODUCING FOR THE WORLD

Tash-Kumyr Silicon Productions – TSP – opened a new factory in July 2009 manufacturing polysilicon, the basic material for production of solar cell panels, electronic devices and systems.

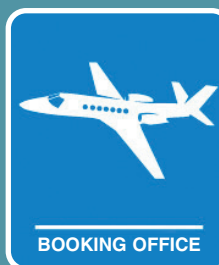
When President Kurmanbek Bakiyev visited the plant, located in the city of Tash-Kumyr in the country’s west, he said the start of production gave the Kyrgyz Republic “a chance to become a noticeable player in the world market for silicon products.” Demand is constantly growing, and production is only possible in a few countries, including the Kyrgyz Republic. The president noted that it was essential to develop the company’s capabilities to include finished products in a bid to significantly increase profitability.

www.tsp.kg

Santas of world unite: The Kyrgyz Republic's location provides logistical efficiency

THE MOST EFFICIENT LOCATION FOR SANTA'S BASE

Number crunchers at Sweco Consulting say taking into account Earth's rotation, the Kyrgyz Republic would provide the best location from which to deliver gifts to the world's 2.5 billion households because it would avoid time wasting detours. But even if Santa uses the Kyrgyz Republic as his starting point, he still has his work cut out for him – his reindeer would need to travel at 5,800km per second and spend only 34 microseconds on each chimney stop to complete all deliveries. ■



MC: Connecting You to the Kyrgyz Republic!

MC is the leading travel and tour agency in the Kyrgyz Republic. We offer airline ticket arrangements, individual as well as group tours, nature and camping visits, hotel bookings, mobile phone rentals, as well as a host of other travel related services. Experience the hospitality of the Kyrgyz people, the charm of the Tien Shen mountains, and the majesty of Lake Issyk Kul.



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The Kyrgyz Republic
Beauty - Nature - Serenity



GETTING CONNECTED

The telecommunications sector in the Kyrgyz Republic is one of the most dynamically developing areas of economy.

Driving the growth is the fast expansion of the mobile market. Rapid growth in subscriber numbers has been accompanied by steady reductions in prices and increases in regional network coverage.

There's still plenty of room for growth. While developed countries are reaching saturation point in the mobile market, the level of penetration of mobile in the country was about 50% in the middle of 2008. Fixed line penetration sat at around 10%.

The government's privatization of OJSC Kyrgyztelecom is intended to ensure higher rates of development of wire and wireless fixed telecommunications to meet the existing demand for basic telephone services, and also additional services of internet access, data transfer, intellectual networks and other services that are provided by the possibilities of modern telecommunication networks. ■

MEGACOM: LEADING THE WAY

MegaCom is the most dynamically growing mobile operator in the Kyrgyz Republic, providing services in standard GSM 900/1800.

Having launched a little over three years ago, the company is now a market leader in the telecommunications sector in Central Asia.

Revenue grew by a staggering 815% in 2007 and 233% in 2008, and as a result, the company has become one of the ten biggest taxpayers in the Kyrgyz Republic. Its mobile coverage now reaches 90% of populated territory across the country.

New subscribers have been driving MegaCom's financial growth. By the end of 2006, following an April launch, the company had attracted 153,000 subscribers. Growth really took off in 2007 and 2008 with 572,000 and 1.13 million

subscribers, respectively. Even in 2009, the company continued to post robust numbers with 45% growth between January and October and its customer base topping 1.7 million.

Today MegaCom enjoys a 37% market share in the Kyrgyz Republic, thanks in part to its products being available at more than 7,000 points of sale. The company is considered a leader in innovation and is the first mobile operator in the Kyrgyz Republic to be awarded ISO 9001:2000 quality management certification.

MegaCom's services provide customers the best combination of price and quality, a superior range of services, reliable communications and transparent charging.



OJSC «Kyrgyztelecom» provides its customers with following kinds of services:

- ITC (International Transit Circuit service)
- IDD (International Direct Dial service)
- Local calls service/Long Distance calls service
- Internet Access service
- VPN
- IPLC (International Private Leased Circuit)
- NPLC (National Private Leased Circuit)

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