M-G-N CAPITAL

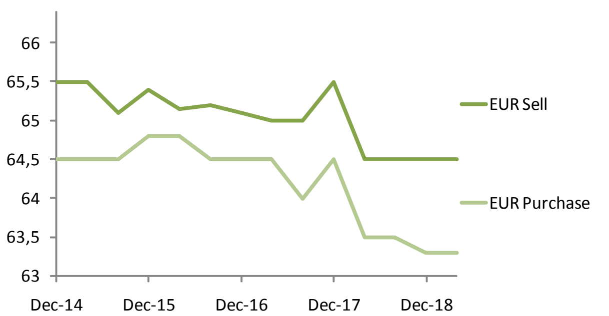
Weekly Update

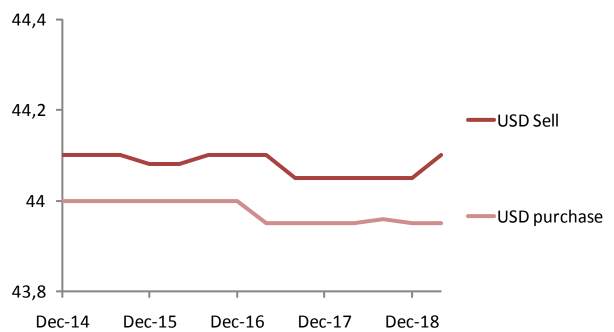
December 14 -18, 2009

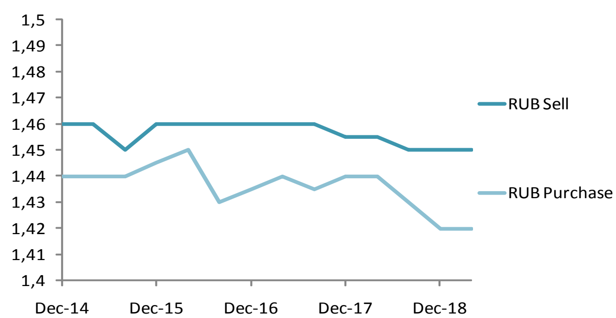
Weekly digest on business and market related news focused on Kyrgyzstan, produced by MGN Capital's Global Research Department

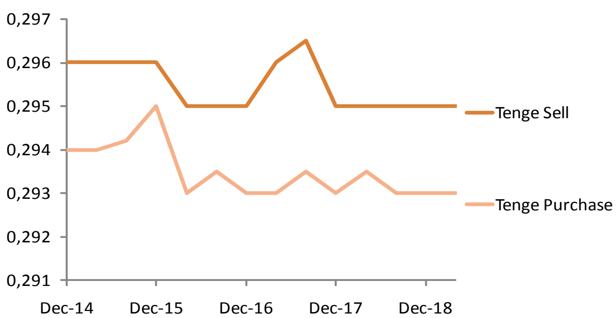
Changes in Major Currency Rates

December 14 - 18, 2009









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MGN Research

Parliament Approves Amendments to 2010-2011 Budget

The Parliament of Kyrgyzstan approved amendments to the public budget for 2009 and forecast for 2010-2011.

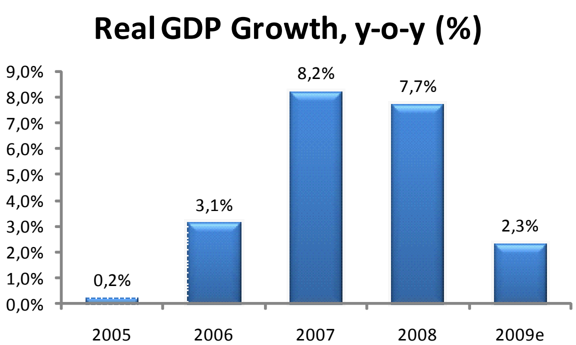
The amendments were presented by Finance Minister Marat Sultanov. The GDP growth is expected at 2.3% by the end of 2009, though it was previously planned at 0.19%.

The Finance Minister said the current public budget did not have deficit, while the deficit budget has a small deficit worth 3.142bln KGS.

Marat Sultanov stressed that the revenues of the local budgets grew. The additional funds were allocated for the social sphere, which budget grew from 4.544bln KGS to 5.075bln KGS. This rise was possible due to 40%-rise of pensions and assistance provided to the Social Fund for benefits.

The sport and culture budget grew by 60mln KGS. The Kyrgyz Transport Ministry was allocated additional 250mln KGS for construction of roads. Additional 60mln KGS was allocated to the Defense Ministry after the intrusion of militants in Batken oblast in sumer.

2009 Real GDP Growth at 2.3%



The real GDP growth rate is projected at 6% in the approved budget for 2009, however due to the outcomes of socio-economic development of the country in January-September 2009 and negative effects of financial and economic crisis the real GDP growth in 2009 is expected at 2.3%, according to the amendments to the law on 2009 public budget and 2010-2011 forecast.

The GDP growth reached 2.9% during 9 months of 2009 due to agricultural growth for 5% and services sector for 4.2%. The industrial production is down 11.5 percent. The inflation rate in 2009 is expected at 7.5% instead of previously planned 15%. However, external and internal risks may affect the inflation pace, namely: volatility of prices for energy carriers and gold, declined demand for domestic products in the region, raise of tariffs for energy carriers, etc.

The decline in import of goods and services is expected at 20.8% in 2009 versus earlier planned 10% decline. The decrease in export of goods and services is expected qt 14.8% versus the previous 11.4% decline.

The budget revenues will grow due to signed agreements on Kumtor Project and U.S. Transit Center at Manas. The public budget revenues with official transfers are projected at 49.918 billion som, which is 4% more than planned or by 193.8 million som.

Tax receipts will total 30.320 billion som or will grow 4.8% (1.407 million som).
Non-tax receipts are expected to total 8.922 billion som or will grow 1.973 billion (28,3%).

Economic News

32.3Bln KGS of Capital Expenditures Over 11M2009

As reported by the KR Ministry of Finance, 32.3bln KGS of capital expenditures were used over the 11 months of the year 2009. According to the Ministry, capital expenditures provided by all sources of financing increased by 31% compared to the same period of the last year (a drop of 6.9% in January - November of 2008).

Kyrgyzstan Repaid Gas Debt

The Kyrgyz gas company has repaid its gas debt to Uzbekistan in full having transferred the remaining US$3mln, a source in the Kyrgyz gas company said. Specialists of the Kyrgyz gas company continue calculating the gas needs for 2010 which are due by December 25. The possible prices for Uzbek gas supplies in 2010 will be discussed then. In connection with the world gas price drop, the top management of the Kyrgyz gas company hopes that the gas prices will be lower.
Kyrgyzstan imports gas only from Uzbekistan.

Property Tax Introduction May Harm Business in Kyrgyzstan

From January 1, 2010, a property tax will be introduced in Kyrgyzstan. The tax is imposed in accordance with the new Tax Code, which came into force since January 1, 2009. Last week, the parliament of Kyrgyzstan discussed the Law “On Amendments to the Tax Code”, particularly those concerning the property tax with representatives of the business community.

Entrepreneurs’ view
Currently, the property tax has not yet been worked out in full measure, the Tax Service has provided a gradation for citizens who pay property tax. Entrepreneurs suggested a gradual introduction of the property tax. If the property tax is introduced now, many companies would be forced to go into the shadow economy.

Government’ view
The State Tax Service (STS) of the Kyrgyz Republic believes that the introduction of the property tax is aimed at the development of local government in rural areas. The property tax income will be spent on the development of local communities. According to the changes, in the next two years, among the objects of the first group, only capital constructions would be taxed, local authorities will exempt new companies engaged in the production or processing of products from taxation for five years. However, such benefits will only apply to companies that produce goods worth not less than 30mln KGS a year.

Parliament’s view
Many MPs supported the businesses during the meeting; the property tax cannot be applied to the businesses as it could result in great damages. Today, during the global crisis, governments all around the world are trying to support the business. In Kyrgyzstan, on the contrary, the Government plans to impose a new tax during a period of production decline and reduction in trade. In addition, migrants’ remittances have reduced by 30 percent. Moreover, from January 1, 2010 tariffs for electricity and heat will increase significantly. In these circumstances, it will be difficult for businesses to survive. MPs believe that the government should extend the current moratorium on taxes and refine it so that it does not harm entrepreneurs.

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Industry News

Capital Expenditures in Mining Industry Facilities Construction Increased 1.7 Times This Year

Statistics show that capital expenditures in mining industry facilities construction increased 1.7 times in January-October of this year compared to last year's numbers, amounting to 2,521.1mln KGS. Whereby a large part of investments used (90.2%) was contributed by firms and organizations.

Capital expenditures in processing industry facilities construction amounted to 2,744.2mln KGS which is 1.9% more than the year before. 55.2% of financing was provided by foreign loans, 19.6% - by foreign direct investments and 16.9% was contributed by firms and organizations.

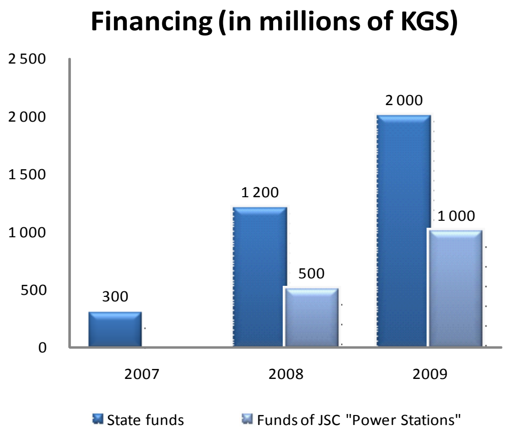
DF gives US$40Mln for Construction of First Hydroelectric Unit of Kambar-Ata 2

The Board of Directors of Kyrgyzstan Development Fund made a decision on Thursday to allocate US$40mln tranche for construction of the first hydroelectric unit of the Kambar-Ata 2 hydroelectric station.

This way the Development Fund approved the request for funding from the Electric Stations OJSC seeking a loan for construction of the given station. The Electric Stations OJSC submitted a request for funding to the Development Fund asking for US$100mln loan in August 2009. Since that time the Development Fund provided three tranches to the loan seeker: $20, 13 and 27mln soft loan for financing of the first hydroelectric unit of the Kambar-Ata-2 hydroelectric station.

All three tranches were allocated based on loan agreement of 24 August 2009 at 3.5% interest rate in the first year, 4% in the second year and 5% in consecutive years. The loan is extended for 10 years with grace period of 3 years.

The last tranche was allocated based on the loan agreement of 24 August 2009 with additional requirements put forward necessary to secure return of loan funds.



CADII Sets Up Micro-Credit Company to Finance Agricultural Sector

The micro-credit company will be set up in Kyrgyzstan to support agricultural sector. According to Maxim Bakiev, the goal of this project is to boost agrarian sector and to improve the living standards of villagers and farms via provision of access to financing.

The micro-credit company will begin working since February 2010. The micro-credit company will cover the entire country. Agricultural producers from the remotest parts of Kyrgyzstan will have access to funding, said Maxim Bakiev. The interest rates will be 8-10% lower than at other micro-credit companies.

The Development Fund will contribute 50mln KGS to the authorized capital of the micro-credit company. The credit portfolio of the company in 2010 may reach 1bln KGS and 2bln KGS in 2011.

Development Fund Increased Its Authorized Capital

On December 10, 2009 the Executive Council of the Financial Supervisory Authority under the Government of the Kyrgyz Republic registered a placement report for the second issue of the closed joint-stock company “Kyrgyz Republic Development Fund” in the amount of 590,000 ordinary registered shares with par value of 1000 KGS each for the total authorized capital amount of 590,000,000 KGS.

Key line of business: financial support of the real sector of economy.
The newly increased authorized capital of the Development Fund now makes up 600mln KGS.

€8Mln Housing Construction Agreement with Germany

The leading managers of MGN Group, the financial investment holding, talked The Kyrgyz Parliamentary Committee for Social Policy approved the draft decree of the Kyrgyz Government necessary to ratify the agreement on loan and financial support entered between the German Development Bank KfW and Kyrgyzstan for €8mln under the Credit Line for Housing Construction Project.

According to Finance Minister Marat Sultanov, €7.5mln is loan and €0.5mln is grant, which will be spent for consultancy services.

The loan is extended to Kyrgyzstan for 20 years at 8%, while the lending organizations will extend mortgage loans at 18% per annum. These funds will be provided to the population for purchase and modernization of housing, construction of 1- and 2-room apartments of economy class.

The main goal of the project is to provide houses to vulnerable sectors of the population, the Finance Minister said.

The given loan will be an additional source for provision of mortgage loans. The mortgage company will be set up at Kyrgyzstan Development Fund for these purposes, which will work based on public-private partnership principle.

A 100% Stake in a Distillery is Up for Sale

According to an announcement published by Slovo Kyrgyzstana newspaper on December 16, 2009, JSC “BLVZ”, the special administrator, will be holding a public auction to sell a 100% stake of the special administrator in “SLVZB” LLC distillery on December 28.

Appraised value of a 100% stake in the company is 35.9mln KGS. “SLVZB” LLC outstanding debts equal 26.9mln KGS.

The party with the highest bid placed for the asset shall be named the winning bidder of the auction.

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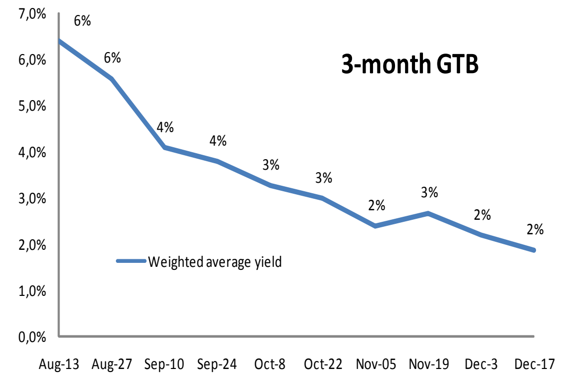
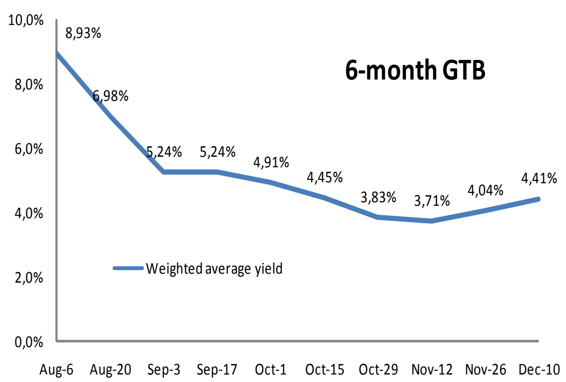
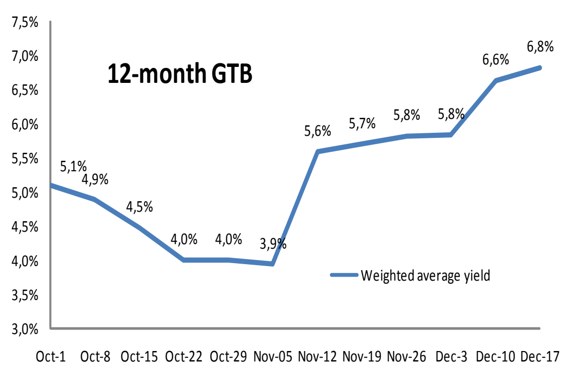
Stock Market

CHANGE IN WEIGHTED AVERAGE RETURN ON GTBs
December 7 - 11, 2009







Auctions of Government Treasury Bills

Weighted average return on 3-month GTBs at the close of the last trading on December 17, 2009 amounted to 1.87%, which is 0.32 percentage points lower than the last sale two weeks before. 25mln KGS worth of 3-month maturity GTBs were put up for sale on. The demand reached 106.69mln KGS.

There were no sales of 6-month GTBs for the reporting period (December 14-18). On December 10, 2009, 30mln KGS worth of 6-month maturity GTBs were put up for sale. Demand reached 71.13mln KGS. Weighted average return on 6-month GTBs amounted to 4.41%.

With regards to 12-month GTBs, their sales reached 60mln KGS, while demand amounted to 75.19mln KGS. Weighted average return on 12-month GTBs amounted to 6.82% which is 0.19 percentage points higher than the last sale week before.

Type of securities	Date	Demand ('000 KGS)	Sale ('000 KGS)	Min yield	Max yield	Weighted average yield
3-month GTB	Nov-05	91 790	25 000	2,31%	3,23%	2,39%
	Nov-19	54 140	25 000	2,19%	2,99%	2,67%
	Dec-3	155 660	25 000	1,99%	2,31%	2,19%
	Dec-17	**106 690**	**25 000**	**1,79%**	**1,91%**	**1,87%**
6-month GTB	Oct-29	107 780	50 000	3.61%	4.00%	3.83%
	Nov-12	15 160	15 160	3,50%	4,49%	3,71%
	Nov-26	42 422	30 000	3,50%	5,01%	4,04%
	Dec-10	**71 130**	**30 000**	**3,61%**	**5,01%**	**4,41%**
12-month GTB	Oct-22	89 370	30 000	4.00%	4.00%	4.00%
	Oct-29	22 490	22 490	3.80%	4.30%	4.00%
	Nov-05	47 670	47 670	3,70%	5,10%	3,94%
	Nov-12	9 250	9 250	3,94%	6,00%	5,59%
	Nov-19	63 620	60 000	4,00%	7,00%	5,70%
	Nov-26	70 890	60 000	4,00%	6,50%	5,82%
	Dec-3	79 310	60 000	4,00%	7,00%	5,84%
	Dec-10	72 700	60 000	4,50%	7,00%	6,63%
	Dec-17	**75 190**	**60 000**	**4,51%**	**8,50%**	**6,82%**

Kyrgyz Finance Minister: U.S. to Pay US$15 mln

The United States will pay US$15mln for stationing of the Transit Center at Manas Airport, said Finance Minister Marat Sultanov at the meeting of the Parliamentary Committee for Budget and Finances.

The Finance Minister said the United States will pay US$60mln compensation for the Transit Center within one calendar year and will pay US$15mln every quarter.

The Transit Center was set up in Kyrgyzstan in summer 2009 after Kyrgyzstan denounced agreement on stationing of the U.S. military base in Kyrgyzstan.

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MGN Research

The MGN Research team provides support to both the Corporate Finance and Asset Management divisions. The chief task of the research department is to provide analysis of publicly available information from the global debt and equity markets to support internal investment and management decisions. Additionally, the team routinely provides clients with insightful and cutting-edge research about investment opportunities in the Central Asian Region.

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