

[On BAT letterhead - to be translated]

DRAFT

Mr. Farkhad Mahsudov,
The Cabinet of Ministers,
Mustakillik Square,
Tashkent,
The Republic of Uzbekistan.

[13th] June, 1994

Dear Farkhad,

Sir Patrick Sheehy's Visit to Uzbekistan and the Cabinet of Minister's Decree.

I thought I should write to you to let you know of Sir Patrick Sheehy's visit to Uzbekistan on the 22nd ~~and 24th~~ June. This trip was planned when the Share Purchase Agreement was signed so that Sir Patrick and President Karimov together might celebrate Completion. The Ministry of Foreign [Affairs / Economic Relations] inform me that a meeting with President Karimov should take place on 22nd June.

I am very conscious of your commitment to Completing the transaction as soon as possible and that you and your colleagues have been working extremely hard over the last fortnight to finalise the Decree. My colleagues and I are eager to achieve the same end and you know that we were available in Tashkent last week to negotiate what we understand to be the outstanding points. I understand why you have been unable to see us. Nonetheless, having seen a recent, Russian language version of the proposed Decree, I thought it prudent to set out the following points to help finalise the Decree in a mutually satisfactory form.

Major Issues.

I believe that there are now only four issues of major importance to resolve:

- *excise and VAT reform terms of reference.* BAT believe that it is extremely important to set out the terms of reference for such reform in the Decree. At a meeting with Dr. Abdurkadirov of the Ministry of Finance last week, Mr. Abdurkadirov expressed the same view. ~~If you do not consider this appropriate then I would wish to have a letter signed by the Cabinet of Ministers, the GKI and the Ministry of Finance acknowledging that the terms of reference for reform are as set out in Annex I of the Share Purchase Agreement and that the equality of treatment principle and the deadline for the submission of proposals are contained in the Decree.~~ In any event, it is important that discussions on the reform start promptly; therefore, I have arranged for a BAT excise expert to come out to Uzbekistan this week to meet Dr. Abdurkadirov;
- *termination of any outstanding contracts with UPP; the inclusion of the sale of fermented leaf to UPP on the Monopolles' Register.* I notice that paragraph 3 of the Decree has been deleted. Mindful of UPP's concerns about leaf supply, I am very reluctant to see this paragraph disappear. The principle enshrined in the Share

if that is possible

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Purchase Agreement is that dealings between UZBAT and UPP should be on reasonable, freely negotiated commercial terms. The omission of paragraph 3 undermines this principle. Moreover, the addition of the requirement that UPP's fermented leaf purchases should be on the Monopolies Register increases my concern and I do hope that you have been able to have this proposal removed as I know that you understand it is wholly unacceptable to BAT;

- *exemptions from foreign currency reserations.* I notice that this has been deleted. Given the implications of this for fermented leaf exports this material change is likely to have a noticeable adverse effect on the tobacco leaf industry; and
- *the negotiation of land use leases with the hakims.* This is, in part, a new point. However, it arises from BAT's contacts with the relevant hakims. I do not think that the issuing of decrees by the hakims will be rapid unless encouraged directly by the Cabinet of Ministers. As this is a condition precedent for Completion, there is a risk of further delay unless more direction is given in the Decree. The district hakim in Tashkent wants as much direction as possible as to the terms of any lease. Therefore, in addition to the information currently set out in the Decree, it would be helpful to state that future lease payments should be nominal and that the relevant local decree should be issued within two weeks of the publication of the Decree. [Alternatively, you may consider it more appropriate to achieve this by way of a letter agreed with BAT from the Cabinet of Ministers and the GKI setting out the structure of any lease and the deadline for agreement in more detail. If this is the preferred route, then I believe it would be appropriate if these letters were agreed, signed and despatched prior to the publication of the Decree.]

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Minor points.

As far as I am concerned, the remaining outstanding points are of lesser significance. Indeed, I would suggest the following resolutions to these points:

- *the right to negotiate an exclusive distribution agreement* - any such agreement, if accepted by either Uzbekaleya or Uzbekbryllashov or both should not extend beyond the end of 1999. *to enable BAT Central Asia a good time to control itself.*
- *environment and health & safety grace period from prosecution for non-compliance with existing legislation* - [BAT will make a formal commitment to raising standards to international levels but it must be recognised that the 3 year grace period applies to non-compliance arising both under State and BAT's control, except where non-compliance directly arises from BAT's negligence;
- *comfort us to book profits arising from foreign exchange gains on USS denominated Charter Capital contributions* - as previously suggested, this should be done by way of letter from the Ministry of Finance agreed, signed and delivered to BAT prior to the publication of the Decree. [I have taken the liberty of submitting appropriate wording to the Ministry of Finance for their consideration, and ~~to be considered~~
- *excise, import, VAT and other duties exemption on Capital Contributions: in the form of cigarettes and the duration of exemption* - BAT agrees to your position that it

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should not be exempt such taxation other than provided in law on cigarette imports. However, all other Capital Contributions should be free of such duties indefinitely.

excise, import, VAT and other duties on the import of fixed and current assets. I understand that in the most recent draft there may have been a small misunderstanding which materially changes the meaning of the penultimate paragraph; BAT suggested the inclusion after the words "... (excluding finished tobacco products" the qualifying words " unless they are exempt in any event)". As you can see from that draft of the Decree, the qualifying words have been placed outside the brackets when BAT believe they should be within the brackets.

ability of tobacco leaf farmers to control leaf production is generally said

I am assuming that no new points have arisen since you met with my colleagues on Friday 3rd June other than the suggestion that we should accelerate the negotiation of the first year of the leaf framework agreement with UPP. I am also assuming that the matter of registration with the Ministry of Justice is finally resolved and that the registration of both Uz Tobacco and UZBAT will be handled by the Ministry of Finance in the interests of speed.

that you would prepare a draft relating to this from if available I would be grateful for it.

As I believe you know, we think it will be difficult for UPP to find the 13,000 tonnes of fermented leaf which it requires to fulfil its commitments before the end of 1994. Regardless of BAT's presence, this would be a difficult task in 1994. Fermented leaf stocks at both SFP and UFP are currently low, principally because of the Collective Farms' decisions to reject UPP's pricing and sell freely for higher prices. In addition, the size of the 1994 leaf crop will not be known until late August. Therefore, I think UPP should seek deferral of its commitments until the size, pricing and processing calendar of the 1994 leaf crop are known. I could consider offering BAT's worldwide resources to help UPP source leaf overseas although BAT would not be prepared to subsidize any purchases and could give no guarantees as to prices or volumes. I hope that UPP can satisfy its requirements out of its share of the up-front cash payment, which further stresses the need to Complete promptly.

I hope that you find this letter helpful. Please let me know if there are other matters which you think we should discuss in relation to the publication of the Decree. Of course publication will lead to a rapid escalation of activity with the land leasing, registration and other processes. Can I assure you that BAT will have the resources in place to act as quickly as possible to move to Completion. However, I am reluctant to bring resources out to Uzbekistan until I have a clearer idea of your timetable.

I look forward to meeting you again before, or during, Sir Patrick Sheehy's visit next week.

Yours sincerely,

Neil Bruce-Miller,
Head of BAT's Uzbekistan Project Team.

cc: Alexis Bedos, KPMG-PEG (Geneva)
Nabil Khadodad, Mayer Brown & Platt

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