THIRD MEETING OF THE

EURASIA GROUP ON CORPORATE GOVERNANCE FOR CAPITAL MARKET DEVELOPMENT

13 December, 2012
Istanbul

The Ceylan Intercontinental Hotel
Third meeting of the Eurasia Group on Corporate Governance for Capital Market Development

Presentations

- **Presentation of the report: Capital Markets in Eurasia: Two Decades of Reform**, by Daniel Blume, Eurasia Programme Manager and Senior Policy Analyst, OECD
- **Comments on the report: Capital Markets in Eurasia: Two Decades of Reform**, by Mustafa Gumus, Head of Strategy Development Department, Capital Markets Board of Turkey
- **Corporate Governance in Mongolia: Where are we now & what needs to get done**, by Ganbayar Davaa, Chairman, National Commission on Corporate Governance, Mongolia
- **Corporate governance in Azerbaijan Republic**, by Anar Hacızadə, Head of the Corporate Governance Department, Ministry of the Economic Development, Azerbaijan
- **Supervision and Enforcement in Corporate Governance: the Role of Securities Regulators**, by Marcello Bianchi, Chairman, OECD Corporate Governance Committee; Director, CONSOB, Italy
- **Corporate Governance Implementation of Turkey**, by Bircan Akpınar, Head of Corporate Finance Department, Capital Markets Board of Turkey
- **Board Effectiveness**, by Jigjid Unenbat, Executive Director, Corporate Governance Development Centre, Mongolia
- **Corporate Governance in Samruk-Kazyna Group**, by Salamat Kussainova, Director, Corporate Governance Department, Samruk-Kazyna, Kazakhstan
THIRD MEETING OF THE EURASIA GROUP ON CORPORATE GOVERNANCE FOR CAPITAL MARKET DEVELOPMENT

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CAPITAL MARKETS IN EURASIA: TWO DECADES OF REFORM

Report of the Eurasia Group on Corporate Governance for Capital Market Development

Daniel Blume, OECD Senior Policy Analyst

13 December, 2012
Collaborative effort based on input from 11 countries and supplementary research

• 8 Regulators and 9 stock exchanges contributed survey responses from:
  – Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Ukraine and Uzbekistan.

• Further input from September 2011 meeting in Kazakhstan, June 2012 meeting in Istanbul, fact-finding missions to several countries.

• Today we seek your endorsement of the report as a reference for future actions in the region.
• Report addresses several aspects:
  – Links between CG, Capital Markets and Economic Growth
  – Macroeconomic trends in Eurasia
  – Capital Markets Landscape in Eurasia
    • Financial market development
    • Institutional development (regulatory and stock exchange)
    • The regulatory and cg framework
    • SOEs and capital markets
  – Overall assessment, conclusions and recommendations.
Links between CG, capital market development and economic growth

• Review of empirical research on both developed and emerging markets shows:
  – CG contributes to firms’ success and corresponding economic growth, including:
    • Increased access to external financing by firms which, in turn, can lead to larger investment, higher growth, and greater employment creation;
    • Lowering of cost of capital and associated higher firm valuation;
    • Better operational performance through better allocation of resources and better management, which creates wealth more generally.
  – Access to finance a critical factor for economic growth, with banking development and stock market liquidity each exerting an independent, positive influence.
Eurasian economies have had high growth rates over the last decade (averaging nearly 10%), but growth has begun to slow.

In this context, new sources of finance will be important for future growth. Eurasian countries remain reliant mainly on bank financing to fund investment needs (Tables 2 and 3).

WEF Global Competitiveness indicators show most Eurasian countries ranking in the bottom third of 142 countries in financial market development, financing through local equity markets, and regulation of securities exchanges.

Some emerging markets (e.g. in Asia, Brazil) have benefited from capital market growth, while Eurasian capital markets remain less developed.
Eurasian countries have made some strides (e.g. legal and regulatory framework, improved infrastructure, some emerging pension funds, increased international collaboration).

Chapter 3 provides detailed findings on progress and gaps with respect to different elements relevant to capital market development.
Conclusions and Recommendations

• Creating Liquid and Vibrant Capital Markets requires attention to:
  – Overall strategies for capital market growth and the role of corporate governance
  – Institutional investors
  – Incentives and disincentives for companies to list
  – Development of corporate bond markets
  – Educating market participants
Enhancing the Effectiveness of Regulators and Protection of Shareholder Rights

- Striking the balance: Ensuring adequate protection of shareholders while avoiding excessive regulation
- Ensuring regulatory independence
- Maintaining credible deterrence: fines and penalties
The Role of Stock Exchanges

• Government versus private ownership:
  – government support can help in early stages of market development, if combined with high standards

• Ensuring the independence of exchanges:
  – structures and policies to address conflicts of interest

• Effective infrastructure and enforcement of listing requirements

• The value of international collaboration

• Incentives may be needed to stay on local markets

• Special consideration for SMEs
Improving Transparency and Disclosure

• Need for high accounting and audit standards
• Attention to audit institutions and processes.
• Improvements in non-financial disclosure
  – On CG, board members, remuneration policies, compliance and deviation from codes
• Related party transactions a key
More professional boards of directors

• Clarification of boards’ legal responsibilities, as well as their understanding of these responsibilities.

• Improving board practices requires concerted efforts of exchanges, regulators, IoDs, donors and the markets.

• Strengthened board independence may help, particularly on audit committees (not revision commissions).
State-owned enterprise IPOs one tool for spurring capital market growth

- Such listings must be accompanied by high CG standards.
- Many SOEs currently have weak CG practices, particularly lagging on transparency, weak or politically-driven oversight.
- Improved SOE and public governance can also improve efficiency and returns to state.
Looking ahead: Bringing it all together

Agenda consolidates these elements as reference for an overall strategy for capital market development, and five key priorities for discussion and follow-up:

• Strengthening the capacity and independence of market regulators to ensure even-handed protection of shareholder rights and timely and transparent disclosure to the market,

• Strengthening stock exchange infrastructure including systems to improve corporate governance,

• Improving disclosure of financial and non-financial information to meet international standards,

• Establishing effective and professional boards of directors, and

• Supporting capital market development through state-owned enterprise listings on local Eurasian markets.

OECD, our co-organizers from the Turkish Capital Markets Board and Istanbul Stock Exchange, and other international and regional organizations may be well positioned to support or co-ordinate these efforts.
EURASIA GROUP ON CORPORATE GOVERNANCE FOR CAPITAL MARKET DEVELOPMENT

13 December 2012, İstanbul
Mustafa GÜMÜŞ
Capital Markets Board of Turkey
Strategy Development Department, Director
mgumus@spk.gov.tr
Tel:+90 312 292 8760
Agenda

- Macroeconomic Overview
- Capital Markets Overview
- Regulatory Framework
- Public Disclosure
- Shareholder Rights
- Board and Board Members
- Recommendations
# Macroeconomic Overview

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>PPLTN (million)</th>
<th>GDP (billion USD)</th>
<th>GNI per capita (USD)</th>
<th>GDP GROWTH RATES (%)</th>
<th>INFLATION (%)</th>
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</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>3,10</td>
<td>10,24</td>
<td>3.360</td>
<td>(-) 14,1 2,1</td>
<td>4,6</td>
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<td>Azerbaijan</td>
<td>9,17</td>
<td>63,40</td>
<td>5.290</td>
<td>9,3      5       1</td>
<td>16,7</td>
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<td>Belarus</td>
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<td>5.830</td>
<td>0,2      7,7     5,3</td>
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<td>Georgia</td>
<td>4,49</td>
<td>14,37</td>
<td>2.860</td>
<td>(-)3,8   6,3     6,9</td>
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<td>Kazakhstan</td>
<td>16,56</td>
<td>186,19</td>
<td>11.245</td>
<td>1,2      7,3     7,5</td>
<td>16,4</td>
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<tr>
<td>Kyrgyz Republic</td>
<td>5,51</td>
<td>5,92</td>
<td>920</td>
<td>2,9      (-)1,4  7</td>
<td>15,8</td>
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<tr>
<td>Moldova</td>
<td>3,56</td>
<td>7,00</td>
<td>1.980</td>
<td>(-)6,0   7,1     6,4</td>
<td>7,4</td>
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<td>2,80</td>
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<td>2.320</td>
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<td>Tajikistan</td>
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<td>6,52</td>
<td>870</td>
<td>3,9      6,5     7,4</td>
<td>13,3</td>
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<td>Turkmenistan</td>
<td>5,11</td>
<td>24,11</td>
<td>4.110</td>
<td>6,1      9,2     9,8</td>
<td>9,6</td>
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<tr>
<td>Ukraine</td>
<td>45,71</td>
<td>165,25</td>
<td>3.120</td>
<td>(-)14,8 4,1     5,2</td>
<td>15,6</td>
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<tr>
<td>Uzbekistan</td>
<td>29,34</td>
<td>45,36</td>
<td>1.510</td>
<td>8,1      8,5     8,3</td>
<td>15</td>
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</tbody>
</table>

Source: World Bank; web link
# Capital Markets Overview

## Table 1. Ranking of Financial Market Developments in Eurasia (lower numbers are better)

<table>
<thead>
<tr>
<th>Country</th>
<th>Financial Market Development</th>
<th>Selected Subcomponents of Financial Market Development Ranking</th>
<th>Regulation of securities exchanges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>94</td>
<td>98  69  77  54  88</td>
<td></td>
</tr>
<tr>
<td>Armenia</td>
<td>95</td>
<td>102 85  120 109 110</td>
<td></td>
</tr>
<tr>
<td>Georgia</td>
<td>99</td>
<td>107 79  122 97 122</td>
<td></td>
</tr>
<tr>
<td>Moldova</td>
<td>105</td>
<td>122 109 128 126 120</td>
<td></td>
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<tr>
<td>Kyrgyz Republic</td>
<td>113</td>
<td>133 131 131 136 134</td>
<td></td>
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<tr>
<td>Ukraine</td>
<td>116</td>
<td>115 128 123 114 127</td>
<td></td>
</tr>
<tr>
<td>Tajikistan</td>
<td>119</td>
<td>118 64 100 57 125</td>
<td></td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>121</td>
<td>91 120 107 92 112</td>
<td></td>
</tr>
<tr>
<td>Mongolia</td>
<td>129</td>
<td>124 136 97 137 131</td>
<td></td>
</tr>
</tbody>
</table>

### Capital Markets Overview

#### Table 2. Domestic Credit Provided by Banking Sector as % of GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>18.6</td>
<td>21.5</td>
<td>27.5</td>
<td>36</td>
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<tr>
<td>Azerbaijan</td>
<td>16.2</td>
<td>22.5</td>
<td>23</td>
<td>20</td>
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<tr>
<td>Georgia</td>
<td>32.7</td>
<td>33</td>
<td>33.2</td>
<td>34.3</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>54.2</td>
<td>54.6</td>
<td>45.4</td>
<td>40.7</td>
</tr>
<tr>
<td>Moldova</td>
<td>39.8</td>
<td>41.4</td>
<td>37.2</td>
<td>39.5</td>
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<tr>
<td>Mongolia</td>
<td>31.6</td>
<td>29.6</td>
<td>29.9</td>
<td>41.2</td>
</tr>
<tr>
<td>Ukraine</td>
<td>82.1</td>
<td>88.6</td>
<td>79.5</td>
<td>73.4</td>
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<tr>
<td>OECD Members</td>
<td>186</td>
<td>202.4</td>
<td>203</td>
<td>202.6</td>
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<tr>
<td>World</td>
<td>154.7</td>
<td>169.1</td>
<td>167.4</td>
<td>165.3</td>
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<tr>
<td>Europe and Central Asia</td>
<td>39</td>
<td>47.6</td>
<td>50.7</td>
<td>49.5</td>
</tr>
</tbody>
</table>

#### Table 3. Market Capitalization of Listed Companies % of GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>1.5</td>
<td>1.6</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>NA</td>
<td>.16</td>
<td>.22</td>
<td></td>
</tr>
<tr>
<td>Georgia</td>
<td>2.6</td>
<td>6.8</td>
<td>9.1</td>
<td>5.5</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>23.3</td>
<td>50</td>
<td>41</td>
<td>23.3</td>
</tr>
<tr>
<td>Moldova</td>
<td>1.8</td>
<td>1.5</td>
<td>1.6</td>
<td>2.8</td>
</tr>
<tr>
<td>Mongolia</td>
<td>7.2</td>
<td>9.4</td>
<td>17.6</td>
<td>18.4</td>
</tr>
<tr>
<td>Ukraine</td>
<td>13.5</td>
<td>14.3</td>
<td>28.9</td>
<td>15.5</td>
</tr>
<tr>
<td>OECD Members</td>
<td>60.1</td>
<td>84</td>
<td>91.6</td>
<td>71.8</td>
</tr>
<tr>
<td>World</td>
<td>58.7</td>
<td>83.8</td>
<td>88.7</td>
<td>66.3</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>19.8</td>
<td>50.6</td>
<td>51.8</td>
<td>33</td>
</tr>
</tbody>
</table>

# Capital Markets Overview

## Table 6. Stock Exchange Landscape in Eurasia

<table>
<thead>
<tr>
<th>Country</th>
<th>Stock Exchange</th>
<th>Establishment</th>
<th>Ownership Structure</th>
<th>N° of Listed Companies (End of 2011)</th>
<th>Trade Volume (Stock million USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>Nasdaq OMX</td>
<td>2000</td>
<td>Privately-held</td>
<td>12</td>
<td>0.5</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Baku Stock Exchange</td>
<td>2000</td>
<td>Privately-held</td>
<td>2</td>
<td>551.5†</td>
</tr>
<tr>
<td>Belarus</td>
<td>Belarusian Currency and Stock Exchange</td>
<td>1998</td>
<td>State-Owned Company</td>
<td>1901†</td>
<td>92.9†</td>
</tr>
<tr>
<td>Georgia</td>
<td>Georgian Stock Exchange</td>
<td>2000</td>
<td>Privately-held</td>
<td>135</td>
<td>1.5</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>Kazakhstan Stock Exchange</td>
<td>1993</td>
<td>Privately-held²</td>
<td>63</td>
<td>1,089</td>
</tr>
<tr>
<td>Moldova</td>
<td>Moldovan Stock Exchange</td>
<td>1994</td>
<td>Privately-held</td>
<td>12†</td>
<td>20.7†</td>
</tr>
<tr>
<td>Mongolia</td>
<td>Mongolian Stock Exchange</td>
<td>1991</td>
<td>State-Owned Company</td>
<td>332</td>
<td>45.8</td>
</tr>
<tr>
<td>Ukraine</td>
<td>PFTS Stock Exchange</td>
<td>1997</td>
<td>Privately-held</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td></td>
<td>Ukrainian Exchange</td>
<td>2008</td>
<td>Privately-held</td>
<td>12</td>
<td>n.a.</td>
</tr>
<tr>
<td></td>
<td>Ukrainian Stock Exchange</td>
<td>1991</td>
<td>Not-for-Profit Company</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td></td>
<td>Perspectiva Stock Exchange</td>
<td>2006</td>
<td>Privately-held</td>
<td>41</td>
<td>262.8</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>Tashkent Republican Stock Exchange</td>
<td>1994</td>
<td>Public Institution²</td>
<td>68†</td>
<td>38.8†</td>
</tr>
</tbody>
</table>
• Separate independent securities regulators or consolidating under central banks or relevant ministries.
• Established legal and regulatory frameworks even if some are in need of refinement.
• The issue of independence in terms of regulatory, financial and operational approaches.
• Some significant developments in the Eurasian capital market regulatory environment.
Public Disclosure

- Strong interaction between corporate governance - transparency and disclosure,
- Disclosure of financial and non-financial issues
- Public Disclosure Platform by Ukraine
- External Audit
- Financial Reporting
Shareholder Rights

• Basic shareholder rights are well established and described in detail.
• The existence and protection of shareholder rights is an essential condition for attracting institutional and foreign investors.
• Lack of institutional investors’ participation except Kazakhstan.
• Being able to request the convening of an extraordinary meeting with some thresholds (from 10% to 25%).
• Proxy voting rights.
• Being able to nominate board members directly.
• No restrictions for shareholder proposal on the meeting agenda, but some thresholds exist.
• Minority shareholders’ right of to inspect the books and records of the company.
Composition of Board and Board Members

- In all Eurasian countries, shareholders are allowed to directly nominate board members to the board of directors.
- In some countries there were specific thresholds for nominating board members.
- The minimum number of board members is specified in five of the respondent countries (Armenia, Azerbaijan, Kyrgyzstan, Moldova and Uzbekistan).
- Independent board members are not generally required (except Armenia, Azerbaijan, Mongolia and Ukraine).
- The number of qualified candidates for independent membership is also limited in the region.
- Definitions of independence much more related to management and shareholders, but less to employees and stakeholders.
Recommendations

- Creating Liquid and Vibrant Capital Markets
- Enhancing the Effectiveness of Regulators
- Protection of Shareholder Rights
- Role of Stock Exchanges
- Transparency and Disclosure
- Professional Board of Directors
- International Financial Institutions
Thank You
CORPORATE GOVERNANCE NATIONAL COUNCIL

"Corporate Governance in Mongolia: Where are we now & what needs to get done"

For OECD Euroasia roundtable discussion
By: Ganbayar Davaa
Chairman of CGNC, Commissioner of FRC

Istanbul, Turkey
Dec 13, 2012
Where are we now

- At the outset of early 1990s, free Vouchers were distributed to all citizens equally in order to privatize SOE’s through Stock market
- In 1995, secondary trading started and few informed investors begun collecting shares with cheap price
- Minority shareholder rights often dismissed and violated. For instance, voting procedures during SHs’ meeting, dividends are not paid, disclosure of information is to FRC & MSE, not for public
- Actual IPO process for local companies started from 2005
- International listed companies operating in Mongolia are 35 more
- Mongolian government considering to privatize SOE’s through IPO
- London Stock Exchange implementing the MIT trading system at MSE
- No less than 10% stocks of mining companies must listed in domestic stock market
- T+3 Clearing & cash settlement system is in process
- Going to establish Global custodian banks through joint venture with local banks
- New “Stock market law” is on the way to get approved by the Parliament
- Investment fund would be established & Global Institutional investors on the way to invest into Mining finds
Where are we now

- MSE Listed companies – 332 total
  - Government ownership
    - 100% state ownership – 23 (not trading)
    - Partial state ownership – 35
  - Liquidity
    - Constant trading – 117 companies’ stocks
    - Terminated by FRC because of compliance issue- 115
    - Rarely trades – 100 companies’ stocks
- Number of shareholders ownership of all listed companies

![Pie chart showing distribution of shareholders]
Where are we now

- Follows legal compliance

- By August 29, 2012 – Out of **215** Publicly listed companies:
  - Shareholders meeting held: 170 companies
  - Submitted shareholders meeting report: 145 companies
  - Submitted financial reports: 115 companies
  - Not announced & conduct SH’s meeting: 45 companies

- Action taken by FRC:
  - Notified to the companies and public
  - Terminated Stock trading at MSE
  - Frozen company account in bank
Our strategy to develop good governance

- Governance development stage in Mongolia
  - **Start-up business**: Run by him/herself - from 1990’s
  - **CEO**: 100% ownership of own company - from 1995
  - **BoDs**: Sharing ownership with others - from 1997

- What need to get done:
  - **Mentality of business owners** needs to get changed as view of shareholders
  - Owners need to understand Good Governance is an **intangible value to business** for long run

- What Regulators need to be aware of:
  - Understand the **culture of the company**/ study **business practices** in the country
  - Develop the **strategy / tactics** on **how** to implement & **what** need to get done
Regulatory actions for Good Governance

- OECD CG Standard translated and required to adopt in 2007 by Financial Regulatory Commission

- “National Program on Corporate Governance Development” is approved in March 2011 by Mongolian government & approved 9 organizations for council members
  - Report to FRC every half year, report to the Government annually
  - Develop the “Corporate Governance National Report” annual report

- New “Company Law” approved in Oct 2011 by the Parliament which mandatorily required to comply important CG standards
  - Board member & Board secretary (public, SOE's, LLC's which acquired capital from public) have to study on Corporate Governance training and must be certified
  - More than 1/3 of the board must be independent directors. Committees etc.,
Chairman of National Council:
- Commissioner of Financial Regulatory Commission of Mongolia

National Council Members:
- CEO of Mongolian Stock Exchange
- Head of SOEs’ management Department of State Property Commission
- Head of Innovation & PPP Department of Ministry of Economy Development
- Head of Legal Department of Central Bank of Mongolia
- Head of Strategic Planning Department of Chamber of Commerce of Mongolia
- Chairman of Corporate Governance Development Center
- Head of Business Communication Department of MONIF
- CEO of Mongolian Bankers’ Association
CGNC activities

Training of BoD’s on Corporate Governance:
- Developed 36 hrs of CG Training curriculum with 14 subjects & conducted ToT program for 70.
- Developed Policy for Training centers follow & made contract with 8 institutes for CG Certification training accredits
- CG Training campaign for 1800 from SOE, 2000 Public, 120 Banks, 200 NBFI, 120 Insurance, 200 Auditing companies’ BoDs

Good Governance Public awareness/education program
- MOU with Mongolian Economy Journal, developed weekly CG Section – Best practice & Chairman Interview
- Mongolian National Broadcasting TV – CNBC like Interview
- Bloomberg Mongolia established recently – CG program
- Press conference with Press Institute – Public disclosure of Annual report / IPO issue
CGNC activities

Discussion and guidelines:
- Quarterly round table discussion among government representatives / businesses
- Develop CG implementing guidelines / policies to businesses and discussed by NC & approved by FRC
- Provide recommendations for laws / international agreements in order to implement good governance

CG Assessment:
- Developed CG Assessment questionnaires with assistance of USAID, Mr. Demir Yener
- CG Assessment for Commercial banks, SOEs, Public companies, Insurance, NBFI and Family owned LLCs
- Assessment get done by taking survey questionnaires through representing NGO such as Bankers', Insurers' Association etc.,
- CG Assessment will be published in our CG 2012 Annual Report sector by sector
CGNC activities

CG Portal site in process: www.governance.mn
- Centralized BoD’s database for regulatory purpose
- Board HR Info, financial statement of companies to public
- CG Assessment online survey
- Board member recruitment announcement / submission

Promoting good governance PPP with NGOs:
- Promote NGOs provide consulting/ research on CG
- Organize workshop/seminars on CG related issues
- Let NGOs to nominate member companies fpr good governance based on CG assessment results
- Collaborate with NGO’s to develop CG 2012 National Report
  - Chamber of commerce, MONIF – LLCs
  - Bankers’ Association – Commercial banks
  - Traders’ Association – Investment banks
  - Insurers’ Association – Insurance companies
  - NBFI Association – Non-bank financial institutions
  - SCC Association – Saving & Credit Cooperation
  - Academy of Management – State owned Enterprises
What needs to get done

- **Policy development**
  - Information disclosure policy of public company for public
  - Selection & recruitment policy of Independent BoDs for SOEs
  - Develop operational guideline for sub-committees
  - Develop Investor Protection Act

- **Regulatory actions**
  - Liquidity: De-centralize concentrated shares – no more than 70% of shares of company to the related parties with same interest

- **Improve Auditing firms:**
  - Promote independence of Audit firms through categorizing based on good governance
  - Establish independent audit committee at Institute of Audit to investigate companies based on shareholders complaint

- **Transparency of financial statement**
  - Promote commercial banks to issue business loan based on financial statement to state tax office and CG

- **Shareholders Activism**
  - National Association on Shareholders’ Rights – investigate compliant
THE END
Ministry of Economic Development of Azerbaijan Republic

Стамбул - 2012
Корпоративное управление в Азербайджанской Республике

Corporate governance in Azerbaijan Republic
Корпоративное управление в Азербайджане регулируется следующими документами:

1. Стандарты Корпоративного Управления Азербайджана
2. Кодекс Корпоративной Этики
3. Методология по оценки корпоративного управления в хозяйственных обществах.

In Azerbaijan corporate governance is regulated by the following documents:

1. The Azerbaijani Corporate Governance Standards
2. Code of Corporate Ethics
3. The Methodology for assessing corporate governance in companies
Цель Стандартов

Цель Стандартов Корпоративного Управления Азербайджана заключается в оказании помощи в применении передовых механизмов корпоративного управления путём согласования местной и международной практики корпоративного управления. Таким образом, стандарты были направлены на повышение конкурентоспособности и привлекательности хозяйственных обществ для инвесторов в любой экономической конъюнктуре.
The purpose of Standards

The purpose of Standards is to assist companies in applying the good corporate governance mechanisms by coordinating local and international experiences of corporate governance. And thus the Standards are directed to increase competitiveness of companies and their attractiveness to investors.
Процедура подготовки

- Стандарты были подготовлены соответственно Принципам корпоративного управления ОЭСР.
- Стандарты были подготовлены Рабочей Группой при Министерстве Экономического Развития, состоящей из представителей соответствующих государственных органов, Бакинской Фондовой Биржи и Международной Финансовой Корпорации.
Procedure of preparation

- The Standards were prepared according to the OECD Principles of Corporate Governance.
- The Azerbaijani Corporate Governance Standards were prepared by Task Force established by the Ministry of Economic Development which included representatives of relevant state authorities, Baku Stock Exchange and International Finance Corporation.
Юридическая сила

Положения Стандартов носят не обязательный характер, а добровольный.

Regulations of Standards are legally non-binding, i.e. voluntary.
Структура Стандартов

ВВЕДЕНИЕ

ГЛАВА I. ОБЩЕЕ СОБРАНИЕ АКЦИОНЕРОВ

ГЛАВА II. ПРАВА АКЦИОНЕРОВ

ГЛАВА III. НАБЛЮДАТЕЛЬНЫЙ СОВЕТ

ГЛАВА IV. ИСПОЛНИТЕЛЬНЫЙ ОРГАН

ГЛАВА V. ФИНАНСОВАЯ ОТЧЁТНОСТЬ, ПРОЗРАЧНОСТЬ И РАСКРЫТИЕ ИНФОРМАЦИИ

ГЛАВА VI. СИСТЕМА ВНУТРЕННЕГО КОНТРОЛЯ, ФУНКЦИЯ ВНУТРЕННЕГО АУДИТА И УПРАВЛЕНИЕ РИСКАМИ

ГЛАВА VII. КОРПОРАТИВНЫЙ СЕКРЕТАРЬ

ГЛАВА VIII. ЗАИНТЕРЕСОВАННЫЕ ЛИЦА
The Structure of the Standards

INTRODUCTION

CHAPTER I. GENERAL MEETING OF SHAREHOLDERS
CHAPTER II. THE RIGHTS OF SHAREHOLDERS
CHAPTER III. SUPERVISORY BOARD
CHAPTER IV. MANAGEMENT BOARD
CHAPTER V. FINANCIAL ACCOUNTABILITY, TRANSPARENCY AND INFORMATION DISCLOSURE
CHAPTER VI. INTERNAL CONTROL SYSTEM, INTERNAL AUDIT FUNCTION AND RISK MANAGEMENT
CHAPTER VII. CORPORATE GOVERNANCE OFFICER
CHAPTER VIII. STAKEHOLDERS
Кодекс корпоративной этики

Code of corporate ethics
Кодекс состоит из 3-х основных разделов:
1. Введение
2. Этические принципы
3. Исполнение кодекса

The codec is consists of 3 main parts:
1. Introduction
2. Ethical principles
3. Execution of code
В первом разделе разъясняются моральные ценности, на основе которых компания должна строить свою деятельность.

Во втором разделе были указаны этические принципы, регулирующие внешние и внутриорганизационные отношения компании.

В третьем разделе отмечены правила исполнения кодекса.
The first section explains the moral values on which the company must align its activity.

The second section is about the ethical principles regulating the external and internal relations in company.

The third section deals with the implementation rules of the Code.
Методология оценки корпоративного управления в хозяйственных субъектах Азербайджана

Methodology of Evaluation of Corporate Governance in Azerbaijani companies
Цель методологии – оценка корпоративного управления в компаниях и, таким образом, создание первого впечатления об уровне качества управления организациями.

The purpose of the methodology - evaluation of corporate governance and, in such a way, creation of first impression about the level of governance quality of companies.
За основу в подготовке методологии были взяты Принципы Корпоративного Управления ОЭСР и Стандарты Корпоративного Управления Азербайджана.

В том числе, в этом документе отображены отзывы и предложения соответствующих государственных организаций, Международной Финансовой Корпорации, Глобального форума по корпоративному управлению, а также общепринятых международных экспертов этой сферы.
The OECD Principles of Corporate Governance and Corporate Governance Standards of Azerbaijan were taken as a basis for the preparation of the methodology.

Particularly, the document reflects feedbacks from relevant government bodies, International Finance Corporation, Global Corporate Governance Forum, as well as internationally recognized experts in this sphere.
Критерии оценки:

- Общие обязательства по корпоративному управлению
- Общее собрание
- Права акционеров
- Наблюдательный совет
- Исполнительный орган
- Финансовая отчетность, прозрачность и раскрытие информации
- Система внутреннего контроля, функция внутреннего аудита и управление рисками
- Корпоративный секретарь
- Заинтересованные лица
Evaluation criterions:

- General obligations of the Corporate Governance
- General meeting of shareholders
- The rights of shareholders
- Supervisory board
- Management board
- Financial accountability, transparency and information disclosure
- Internal control system, internal audit function and risk management
- Corporate governance officer
- Stakeholders
СПАСИБО ЗА ВНИМАНИЕ!

THANK YOU FOR ATTENTION!
SUPERVISION AND ENFORCEMENT IN CORPORATE GOVERNANCE: THE ROLE OF SECURITIES REGULATORS

Marcello Bianchi
Director of Corporate Governance Division
Chairman of the OECD Corporate Governance Committee
The conceptual framework: The OECD Principles

• Without effective supervision and enforcement the letters of laws and regulations have little meaning.

• The opening chapter of the OECD Principles emphasizes the need for an effective legal and regulatory framework.

• The importance of effective supervision and enforcement for sound corporate governance was also underlined in the Committee’s report from 2009 on *The Corporate Governance Lessons from the Financial Crisis.*
Enforcing corporate governance rules: an OECD survey in member countries

The main findings (work still in progress):

• Private supervision and enforcement should complement public supervision and enforcement, but in most countries are seldom used (inefficient judicial system)

• A lack of independence and/or resources constrains the ability of many securities regulators to perform effective and timely public enforcement
Five Corporate Governance Reform Priorities for Capital Market Development in Eurasia

Priority 1
Goal: To improve independence and capacity of regulators

Instruments:

• the risk of political intervention should be reduced
• their mandate should be clearly articulated
• financial and human resources should be adequate
Securities regulators: independence

• Political independence of the securities supervisor is typically addressed through:
  – the creation of a formal governing body (a board, council, or commission)
  – fixed terms of appointment (no removal)
  – members’ appointment staggered and designed not to coincide with the political calendar.

• The survey reveals that while most of the jurisdictions do have such arrangements in place, independence can actually be harmed by political pressure (see next slides).
Securities regulators: clear mandate

• A challenge for securities regulators are implicit or explicit dual mandates:
  • supervision and enforcement,
  • to promote a country’s (or city’s) financial market.

• The survey revealed that explicit dual mandate is not common,

• while many regulators consider (or are pressed by political and media framework to consider) national interests (also to protect domestic companies)
Securities regulators: resources

• Securities regulators can be financed either through:
  – the government budget
  – levying fees from regulated entities,
  – the imposition of fines on wrongdoers
  – a combination of the three.

• The survey shows that securities regulators
  – in most jurisdictions (58%) are self-financed (mainly through fees), although they usually need budget approval by Government or Parliament
  – Number and qualification of human resources is an open issue not only for budget constraints:
    – They need flexible and efficient instruments for recruiting and maintaining skilled and motivated people
The Italian Experience

• Independence: Consob’s main decisions are taken by a Commission
  – Composed by 3 members
  – Appointed for 7 years (not renewable) by Government with Parliament (non-binding) advice

• Mandate: Consob’s mandate is clear but....

• Resources:
  – 150 millions Euros mainly collected by fees (public financing 0,3%) approved by Government.
  – 610 staff (70% in supervision and enforcement)
Supervision and enforcement of Corporate Governance rules in Consob

• The Corporate Governance Division (created in 2011 with 51 staff) focuses on:
  – Auditing
    • the independence and the technical skills of auditors of public interest entities (listed companies and non-listed financial firms).
  – Bid-offers and major shareholders
    • Information in takeover bids’ document
    • Mandatory takeover bid (exemptions)
    • Information on corporate ownership (major shareholders and shareholders agreement)
  – Shareholders’ rights and Related Party Transactions
    • Information for shareholders’ meeting and proxy solicitation
    • Transparency and fairness of RPTs
The main challenge is on RPTs

Consob faces the same problems identified in the survey:

• Almost all jurisdictions lack public oversight of abusive related party transactions apart from disclosure requirements.

• Disclosure rules implementation works quite well
  – Based on on-going information on material RPTs (>5% of market value)

• Fairness rules implementation is much more problematic
  – Lack of independence by independent directors and advisors
  – Misuse of exemption for RPTs “in the ordinary course of business”
  – Weakness of the judicial system discourages private enforcement
CONCLUSIONS

• The enforcement of corporate governance rules is an open issue all over the world.

• Even with a strong and “smart” regulatory framework, we cannot have a sound corporate governance system:
  • if public enforcement is not supported by a clear mandate and adequate resources
  • If private enforcement of contracts and shareholders’ rights does not complement the public enforcement
  • If courts “are inefficient and inexpert”

• To overcome these problems a big effort of “institution-building” is needed.

• The OECD offers a forum for policy dialogue and the expertise to support reforms in this directions (not only with new laws but also and mainly through a strong and wide “institutional engagement”).
CORPORATE GOVERNANCE IMPLEMENTATION of TURKEY

Bircan AKPINAR
Head of Department
Capital Markets Board of Turkey
Legal Background for Corporate Governance in Turkey

- The Capital Markets Law (CML) *(amended by Decree Law-654)*
  - Communiqué Serial: IV, No:56
  - Communiqué Serial: IV, No:41

- The New Turkish Commercial Code *(effective as of July 1st, 2012)*

- Newly enacted Capital Markets Law
  - It will provide a framework in which implementation of corporate governance principles will be encouraged and a higher level in sound corporate governance practices in Turkey can be sustained.
How will the CGPs be implemented?

Listed companies divided into three groups:

1. Category I: Market Cap > 3 Billion TL and Free Float > 750 million TL;
2. Category II: Market Cap > 1 Billion TL and Free Float > 250 million TL,
3. Category III: All other ISE Companies.

Category 1 companies are required to comply with all mandatory CGPs whereas Category 2 and Category 3 companies benefit from certain exemptions.
Mandatory Principles (1)  
(General Assembly)

• Announcement at least 3 weeks prior to the meeting date.

• Detailed information shall be announced:
  – # of shares and voting rights,
  – Changes in the management and activities,
  – Dismissal or appointment of board members,
  – Any request for addition an item to general assembly agenda,
  – Proposed changes in the article of association (if any)
  – Activities of related parties that may generate conflict of interest,
Mandatory Principles (2)  
(Composition of Board of Directors)

- At least 5 members,
- Majority is non-executive,
- At least 1/3 of members independent,
- 3 years of duty,
- Qualifications of independent board members,
Mandatory Principles (3)  
(Nomination of Independent Board Members)

- Nomination Committee evaluate each independent director candidate and present a report,
- The BoD send the list to the CMB,
- CMB’s view about the independent candidates (only for C1 companies),
- Announcement of final list,
- Following the general assembly meeting, appointment decision, dissenting votes and their reasons shall all be posted on the website of the company.
Mandatory Principles (4) (Material Transactions)

• Material Transactions are;
  – Transfer of all or material portion of the assets or
  – Establishment of real rights thereon,
  – Acquisition or renting of an important asset,
  – Grant of privilege or change of scope of subject of an existing privilege,
  – Delisting from the stock exchange

• Rules for Executing Material Transactions:
  – Approval of independent board members,
  – Otherwise general assembly’s approval,
Mandatory Principles (5) (Related Party Transactions)

• Approval of independent board members is required

• In case of disapproval;
  – Public disclosure,
  – General assembly approval,
  – Related parties are not entitled to vote
Mandatory Principles (6)
(Committees)

• Mandatory committees are;
  – Audit Committee,
  – Corporate Governance Committee,
  – Nomination Committee,
  – Committee for Early Inspection of Risks,
  – Remuneration Committee.

• All the members of Audit Committee and chairman of other committees shall be independent directors.

• CEO shall not be a member of the committees.
Other Rules For Related Party Transactions

Publicly held companies’ other requirements;

• Listed companies shall obtain an independent report for related party transactions,

• Additional disclosure requirements;
  – The relationship between the parties,
  – The nature of the transaction,
  – Summary of the independent review report,
  – Reasons for executing the transaction at terms other than the ones stated in the independent review report,
  – Review report is prepared by the board of directors for prevalent and recurrent related party transactions and this report submitted to the GA.
Legal Background for Corporate Governance in Turkey

• For the breach of mandatory rules the CMB is empowered to;
  – Determine the breach,
  – Ask courts for precautionary legal measures,
  – File a lawsuit for execution of the related corporate governance principles.

• CML Art. 47/A empowers CMB to impose administrative pecuniary fines to real and legal persons in case of breach of CMB legislation.
New Capital Markets Law

• The CMB is empowered to make rules regarding certain material transactions.

• In case of violation, CMB is entitled
  – to impose pecuniary fines,
  – to sue for the cancellation of the transaction,

• Shareholders who vote against such transactions would be permitted to force a mandatory redemption of their shares by the company.

• Related party transactions is also regulated by the new law.
THANKS FOR LISTENNING...

Bircan AKPINAR
bakpinar@spk.gov.tr
Board Effectiveness

Eurasia Group on Corporate Governance for Capital Market Development

Istanbul, Turkey on December 13, 2012
by Unenbat J. CGDC (Mongolia)
## Legal Framework

<table>
<thead>
<tr>
<th></th>
<th>Company Law of 1999</th>
<th>Company law of 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board is required for</td>
<td>PLC</td>
<td>PLC, SOE</td>
</tr>
<tr>
<td>Number of Directors</td>
<td>At least 9 for PLC’s</td>
<td>At least 9 for PLC, SOE’s</td>
</tr>
<tr>
<td>Method of Election</td>
<td>Cumulative</td>
<td>Optional</td>
</tr>
<tr>
<td>Independent Directors</td>
<td>Yes, but number not specified</td>
<td>At least one third of total</td>
</tr>
<tr>
<td>INED’s number requirement</td>
<td>None</td>
<td>If not elected to reach the minimum Board is powerless</td>
</tr>
<tr>
<td>Committees</td>
<td>None</td>
<td>Mandatory AC, NC, RC</td>
</tr>
<tr>
<td>Directors training</td>
<td>None</td>
<td>Mandatory for Directors and Corporate Secretaries</td>
</tr>
</tbody>
</table>
CG in Practice

• Rule of Law vs Law on Book.
• Many boards do not guide or supervise management, but instead manage the company on a day-to-day basis according to ROSC 2009.
• But things have changed since, widespread formation of boards not only in PLC and SOE’s.
• CGDC has provided DT for nearly 1000 directors since 2009, 250 of which certified.
• Financial and Non financial Disclosure needs to be developed.
Independent Directors

• Inside or NED’s are easily recruited, but not INED’s
• Is there real shortage of INED’s?
• Boards are seeking for ‘right’ independents for compliance reasons.
• Some one-man NGO’s have been established.
• Independent by form or independent by mind?
CORPORATE GOVERNANCE IN SAMRUK-KAZYNA GROUP, KAZAKHSTAN

EURASIA GROUP ON CORPORATE GOVERNANCE FOR CAPITAL MARKET DEVELOPMENT MEETING

Istanbul, December 2012
Kazakhstan at a Glance

**1,894km**
coastline with Caspian Sea, the largest among all sharing neighbors

**9th** largest proved oil reserves in the world

World’s **2nd** largest reserves of uranium, lead, zinc, chromium

World’s **5,6,7,8th** largest reserves of copper, iron, gold, coal, respectively

Around **130** ethnic groups and **40** religions are represented in the country

**Territory of Kazakhstan**
- World’s 9th largest territory with 2.7m km$^2$
- One of the world’s least populated lands with density of 6 people per km$^2$
- Located in the center of Eurasian continent with vast natural resources
- Total border with five neighboring countries - 12,185km that includes Russia (6,846 km), China (1,533 km), Kyrgyzstan (1,224 km), Uzbekistan (2,203 km) and Turkmenistan (379 km)
- Russian border is the longest single-segmented border in the world
- Divided into 14 regional provinces, the capital of Astana and the major city of Almaty
- Astana is one of the youngest (since 1998) and fastest growing capitals in the world
- Almaty is the financial and business center of the country
Kazakhstan at a Glance

Strong Economic and Financial Fundamentals

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP, USD bn</td>
<td>115.3</td>
<td>148.0</td>
<td>186.4</td>
</tr>
<tr>
<td>GDP per capita, USD</td>
<td>7,165</td>
<td>9,070</td>
<td>11,181</td>
</tr>
<tr>
<td>Population, mn</td>
<td>16.1</td>
<td>16.3</td>
<td>16.7</td>
</tr>
<tr>
<td>CPI, %</td>
<td>6.2</td>
<td>7.8</td>
<td>7.4</td>
</tr>
<tr>
<td>Unemployment, %</td>
<td>6.6</td>
<td>5.8</td>
<td>5.4</td>
</tr>
<tr>
<td>Current Account Balance/GDP, %</td>
<td>8.7</td>
<td>2.0</td>
<td>4.5</td>
</tr>
<tr>
<td>Net Foreign Direct Investment/GDP, %</td>
<td>8.7</td>
<td>2.0</td>
<td>4.5</td>
</tr>
<tr>
<td>External Debt/GDP, %</td>
<td>97.9</td>
<td>79.9</td>
<td>66.4</td>
</tr>
</tbody>
</table>

Creditworthiness proved by credit ratings from S&P, Moody's, and Fitch of the investment level (BBB+/Baa2/BBB+)
Overview of Samruk-Kazyna SWF

- Kazakhstan's largest state-owned holding company (since 2006)

- Manages the state's assets in oil-and-gas, energy, transportation, telecommunication, financial and innovation sectors

- Largest buyer of goods and services in Kazakhstan

- Board of Directors chaired by Prime Minister

- BBB+ (S&P) rating at the sovereign level

- Acts under a separate law providing special status and rights

- $30bn revenue in 2011

- $91.5bn consolidated total assets

- $2.4 net income

- 337,914 employees
**Portfolio companies**

Samruk-Kazyna participates, either in whole or in part, and coordinates strategies across more than forty direct subsidiaries, largest of which:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Participation in companies</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil &amp; Gas</td>
<td>KazMunayGas</td>
<td>National oil &amp; gas company</td>
</tr>
<tr>
<td>Transportation</td>
<td>Kazakhstan Temir Zholy</td>
<td>National railway operator</td>
</tr>
<tr>
<td></td>
<td>Air Astana</td>
<td>National carrier</td>
</tr>
<tr>
<td>Communications</td>
<td>Kazakhtelecom</td>
<td>National telecommunication company</td>
</tr>
<tr>
<td></td>
<td>KazPost</td>
<td>National post operator</td>
</tr>
<tr>
<td>Power</td>
<td>Samruk-Energy</td>
<td>National power generating company</td>
</tr>
<tr>
<td></td>
<td>KEGOC</td>
<td>National electricity grid operating company</td>
</tr>
<tr>
<td>Financial</td>
<td>Development Bank of Kazakhstan</td>
<td>Development bank</td>
</tr>
<tr>
<td></td>
<td>Kazyna Capital Management</td>
<td>Fund of Funds</td>
</tr>
<tr>
<td></td>
<td>BTA, Kazkommertsbank, Halyk Bank, Alliance Bank</td>
<td>Commercial banks</td>
</tr>
<tr>
<td>Mining</td>
<td>Kazatomprom</td>
<td>Nuclear industry</td>
</tr>
<tr>
<td></td>
<td>Tauken Samruk</td>
<td>Mining industry</td>
</tr>
<tr>
<td>Chemical &amp; Pharmaceuticals</td>
<td>United Chemical Company</td>
<td>Chemicals</td>
</tr>
<tr>
<td></td>
<td>SK Pharmacy</td>
<td>Pharmaceuticals</td>
</tr>
</tbody>
</table>
Mission - to increase the national welfare of the Republic of Kazakhstan through increase in long-term value of the organizations and efficient assets management belonging to the Fund’s Group.

Vision of the Fund by 2022 - a strategic holding company that brings together companies that have reached the world’s best practice, a leading catalyst for development of non-oil companies and the foundation for the maintenance of sustainable functioning of the country’s economy.

Strategic Areas of Development
1. Increasing the long-term value of the Companies
2. Participation in modernization and diversification of the national economy
3. Social responsibility
Improving the Corporate Governance level

The Fund sets the task to constantly improve the corporate governance rating

<table>
<thead>
<tr>
<th>Year</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>48.3%</td>
</tr>
<tr>
<td>2010</td>
<td>49.0%</td>
</tr>
<tr>
<td>2011</td>
<td>56.2%</td>
</tr>
<tr>
<td>2015</td>
<td>75.0%</td>
</tr>
<tr>
<td>2022</td>
<td>85.0%</td>
</tr>
</tbody>
</table>
Corporate Governance Assessment Tool

General corporate governance level in 2012

General corporate governance level in 2011

Best practice

Corporate governance analysis results for Company in 2012

Corporate governance analysis results for Company in 2011

Structure

Process

Transparency

Corporate governance structure

Limits on competencies

General compliance with corporate governance principles

Rights of financially interested parties

Conflict of interests

Board effectiveness

Corporate social responsibility and sustainable development

Planning and monitoring

Risk management

Remuneration and continuity

Information policy

Internal audit

Disclosure of non-...
Diagnostics of corporate governance in 2009-2012, S-K subsidiaries
What has been achieved in Corporate Governance

✓ Codes on Corporate Governance of the Fund and its Companies developed on the basis of OECD corporate governance principles and UK Combined Code on Corporate Governance

✓ Committees of the Board of Directors, Internal Audit Service, Corporate Secretary

✓ Independent directors in all BoDs of the Companies

✓ New structure of long-, medium- term and annual planning of the Companies

✓ Financial Reports audited by big 4

✓ KPIs introduced and Management Information System to be operational

✓ Corporate Risk management system being introduced

✓ Personnel policies of the Fund and Companies being improved

✓ Developed a methodology for assessment of corporate governance jointly with KPMG
On current status of “People’s IPO” Program
Objectives of “People’s IPO” Program

- Provide the opportunity for all citizens of the Republic of Kazakhstan to acquire shares of the largest national companies and participate in the future growth of the economy and the value of companies;
- Diversify and increase people’s savings by investing in the securities market;
- Revitalize the stock market and give impetus to further development;
- Create investing culture of people in the stock market;
- Increase the transparency and efficiency of the largest companies in Kazakhstan.

The Program is approved by the Decree of the Government of the Republic of Kazakhstan №1027 dated September 08, 2011
Key Parameters of the Program

- Initial public offering will take place on the Kazakhstan Stock Exchange (KASE);
- Offering will be performed by book-building on the basis of infrastructure of KASE and CD;
- The program is a long-term, for the period 2012 - 2015 and further;
- Placement of shares will take place among the citizens of the Republic of Kazakhstan and the pension funds;
- The number of shares in the “one hand” will be limited during the initial offering;
- Shares from 5% to 15% of the total number of voting shares are subject to placement;
- The proceeds will be mainly used to finance the development of the companies;
- The program includes a range of activities, the results of which will facilitate the placement of shares.

www.HALYK-IPO.KZ
Candidate-Companies for “People’s IPO”

I tier companies (2012):
- “KazTransOil” JSC

II tier companies (2013 planned, to be confirmed):
- “KEGOC” JSC;
- “KazTransGas” JSC;
- “Samruk-Energy” JSC;
- JSC “NMSC “Kazmormortransflot”;

III tier companies (2014 planned, to be confirmed):
- JSC “NC “Kazakhstan Temir Zholy”;
- “Kaztemirtrans” JSC;

The group of companies with a high risk of volatility of the stock (After 2014-2015, tbc):
- JSC “NC “KazMunayGas”;
- “Kazatomprom” JSC;
- Other mining companies
“KazTransOil” JSC has worked with a team of consultants:

- Financial consulting - UBS AG, “Kazkommerts Securities”;
- Audit - PriceWaterhouseCoopers and Ernst & Young;
- Legal expertise and legal support - White & Case and Curtis Mallet-Prevost.
First IPO Program; KazTransOil preliminary results

- 10% - 1 share offered (27,88 bn. KZT)
- 725 KZT per share
- from Nov. 6 to Dec. 5 2012

As of Dec. 5th 2012
- Demand 2 times higher than offered amount:
  - 18,7 bn. KZT (citizens)
  - 37,3 bn. KZT (pension funds)
- 41 000 broker accounts opened in 2012 (10 000 accounts were opened during 1991-2011 гг.)
Republic of Kazakhstan,

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