

JSC "KAZAKHSTAN STOCK EXCHANGE"

INFORMATION REFERENCE

Almaty

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Exchange activities in 2012

Offering of KazTransOil ordinary shares under "People's IPO" program

A program called "People's IPO" started in autumn 2012 in Kazakhstan.

Kazakhstan Stock Exchange (KASE) was assigned with the technical support of the share subscription during that program and the first stage of the program – the IPO of KazTransOil shares – was successfully implemented.

By outcomes of the first stage KASE states the following positive results of the IPO for Kazakhstan's stock market:

- an increase in the number of retail investors (over 34 thousand people took part in the offering);
- introducing the public to benefits of investing in stable companies with government share with prospects of dividends and growth of securities' market value;
- gaining actually the first successful experience of attracting investments from the broad public to the real sector of Kazakhstan's economy on a massive scale;
- advancement of corporate governance in government companies to a brand new level;
- opportunities of increasing the transparency of government companies on account of information disclosure through accomplished listing procedures on the home exchange were demonstrated;
- the Government, JSC SWF "Samruk-Kazyna" and the market infrastructure acquired unique experience in organizing large-scale public share offerings which will enable optimization of following IPOs by continuing the advance to an integrated market economy and the global experience of economic development;
- the foundation was laid for emergence of retail investment culture; an additional instrument for savings diversification appeared;
- professional participants of Kazakhstan's stock market acquired new experience in working with retail investors.

The order book for purchase of ordinary shares of KazTransOil – the state monopolist in the field of oil transportation – was opened within a month, as of November 6, 2012. Over 34 thousand physical persons and 10 accumulative pension funds of Kazakhstan took part in the subscription to shares organized by financial advisors and KASE. The combined demand for those shares exceeded the supply more than twice and eventually made up KZT59.4 bn.

Based on results of offering within the maximum allowed volume orders of physical persons were satisfied to 100 %. The volume of unsatisfied demand on orders in excess of the limit made up KZT71.6 m. The final distribution of shares looked as follows: shares worth over KZT22 bn were bought by physical persons; APFs purchased securities to the amount of KZT5.7 bn; the market-maker in pursuance of his duties acquired stocks worth KZT157 m.

The offering can be considered fairly successful. Currently, a KazTransOil share is traded at 12 % above the offering price; pension funds support the rank considerably, and investors are not in a hurry

to fix the profit. Against the background of positive market conditions as well as the company's good performance in 2012, it is logical to expect a further increase in the share's value.

During the preparation and conducting of the offering the Exchange carried out a lot of work involving all aspects of the stock market. Since the classical IPO procedure is "over-the-counter" according to international standards, KASE had to design from scratch procedures for its implementation on the Exchange. Terms of the "People's IPO" required a professional and precise approach to the implementation of important objectives set by the government. For that reason, it was necessary to deploy the professional infrastructure which is already operational on Kazakhstan's stock market and is maintained by the Exchange to the full extent.

KASE had to do a great deal of work involving the development of new rules, special software, thorough testing of systems' ability to accept and process a large number of orders during the introduction of the new trade module, as well as to conduct events involving stock market members. In addition, several useful actions and events were arranged for retail investors who used to be virtually out of touch with KASE.

All of that enabled KASE to bring its information and operational activities to a new level and prepare itself for further development.

Upon completion of the subscription to KazTransOil ordinary shares we can say that KASE successfully accomplished its role as trade organizer in the first stage of the nationwide program "People's IPO".

It is worth noting that secondary trading in KazTransOil shares (trade code KZTO) on KASE remains active. Since the opening of trading (December 25, 2012) its volume has exceeded KZT3 bn, and that is a very good indicator for our market. During that period KASE executed around 1,400 transactions in KZTO. For comparison, the volume of trading in ordinary shares of Kazakhtelecom (KZTK, the most liquid shares for the time being after KZTO) during the same period did not exceed KZT1.2 bn. And about 200 clients of brokerage companies traded in KZTK, while KZTO were involved in transactions of over 900 clients including new players who did not participate in the subscription (174 new accounts).

On the whole, 278 physical persons actively traded in November; in December that figure was as high as 620.

IPO of Kcell

At the end of the year, apart from KazTransOil offering, the IPO of Kcell was conducted on KASE providing the market with another interesting investment tool.

Kcell shares were included in the first category of the Exchange's official list on November 29, 2012. Simultaneously with the listing of Kcell ordinary shares on KASE, the London Stock Exchange saw the listing of global depository receipts with Kcell ordinary shares as underlying asset.

During the subscription and special trading sessions involving Kcell ordinary shares it was possible to raise KZT7.5 bn (9.44 % of the total ask) on KASE exchange market. The total quantity of purchase orders reached 314.

Currently, the trading in Kcell ordinary shares (KCEL) is rather active. Since December 13, 2012 – the start day of trading on the secondary market – 340 transactions in securities to a total worth of KZT750 m have been completed.

At present Kcell ordinary shares are already part of KASE index, together with KazTransOil ordinary shares, thus increasing the representativeness of KASE index.

Listing of accumulative pension funds

In 2012 pension funds had to follow new regulatory requirements and undergo listing which was successfully completed. At present, stocks of all of 11 APFs in Kazakhstan are included in the third category of KASE market's share sector which is a positive result in terms of disclosing information regarding operators of pension assets.

Regulatory changes on stock market and in internal documents of Exchange

As of February 1, 2012 most articles of Kazakhstan's Act "On Introduction of Changes and Additions into Some Legal Acts of the Republic of Kazakhstan Regarding Regulation of Banking and Financial Organizations in Part of Risk Minimization" (hereinafter – the Risk Minimization Act) are effective according to which changes and additions were made to the Civil and Criminal Codes of the Republic of Kazakhstan, acts of the Republic of Kazakhstan "On the Securities Market", "On Joint-Stock Companies", "On Banks and Bank Operations in the Republic of Kazakhstan", "On Pension Coverage in the Republic of Kazakhstan", "On Investment Funds" and a series of other laws.

Amongst the important novelties related to the securities market, the following should be noted:

- establishing of the Integrated Registrar and Fund of Bad Loans;
- introduction of the ban on offering of listed bonds on over-the-counter securities market;
- introduction of the requirement for the mandatory availability of a representative of bondholders;
- setting of liabilities of the issuer regarding fulfillment of covenants and buyback of bonds at emergence of particular events (non-fulfillment of particular conditions);
- tightening of requirements for the issue and (or) offering of securities of an organization – resident of the Republic of Kazakhstan on the territory of a foreign state and listing of such securities on a foreign stock exchange, as well as sanctions for non-fulfillment of those requirements;
- taking by the Exchange's executive body of a decision on listing of securities according to the simplified procedure;
- the requirement for the mandatory presence of APF shares in KASE official list;
- the requirement for mandatory publication of financial statements and auditor's reports as well as information on corporate events on websites of the Depository of Financial Statements and stock exchange.

The mentioned changes had substantially influenced processes occurred on the country's stock market in 2012. And the Exchange had provided considerable resources for bringing its operations and internal regulations in line with the current situation.

In particular, the Exchange implemented in the reporting year a fundamentally new system to monitor KASE members – their financial strength and solvency which are checked continuously. One of apparent results of that monitoring are the new 60 pages of Exchange members on KASE website disclosing a big volume of open data necessary for investors seeking a partner on Kazakhstan's financial market.

In 2012 due to a change in Kazakhstan's legislation KASE introduced a requirement for disclosure of information on persons having access to insider information of listed companies. KASE introduced the requirement for disclosure of information in English compulsory for issuers of shares quoted in the official list's second category. In addition, the Exchange's Board of Directors approved requirements for disclosure of information in the annual report of the listed company, as well as for the deadline for its presentation to KASE. Other adjusting changes regarding the listing were made as well.

One of the most important issues for Kazakhstan's stock market is market valuation of securities. Within the year KASE had changed the methodology of securities valuation to improve its representativeness and objectiveness following changes in the market situation.

In 2012 the Exchange several times made changes to the Rules of Market-Makers' Activities in order to reduce liquidity risks on KASE as much as possible. The changes were related to fines for failure to fulfill obligations, violations, spread amounts, terms of display and maintenance of quotations.

Debut issue of Islamic securities

On August 3, 2012 Development Bank of Kazakhstan successfully placed the first issue of Islamic bonds "Sukuk "Al-Murabaha" to the amount of 240 million Malaysian ringgit (MYR) with an annual margin of 5.5 % and 5-year maturity. 62 % of the issue were distributed amongst Malaysian investors, and 38 % were sold on KASE.

The issue of those Islamic bonds was the first offering of its kind in the CIS.

Obtaining by Exchange of clearing license

According to the Risk Minimization Act clearing of transactions in financial instruments has become a licensed type of activities on Kazakhstan's securities market.

For obtaining of the clearing license the Exchange had to draw up and approve many new internal documents which proved to be a success. In July 2012 KASE received the clearing license.

Following a decision of the Management Board of July 23, 2012 the status of a clearing participant of the currency market was assigned to 32 Exchange members, the status of a clearing participant of the derivatives market – to 10 KASE members.

Expansion of futures market

Another important event of the reporting year was the opening on December 19 of trading in futures on the market's most liquid shares with execution due half a year later on. Today KASE provides facilities for trading in USD/KZT futures, KASE index futures, as well as futures on ordinary shares of four issuers (ENRC, Kazakhmys, JSC "Halyk Savings Bank of Kazakhstan", JSC "KazMunaiGas Exploration Production"). The debut transaction in ordinary shares of JSC "KazMunaiGas Exploration Production" was conducted on January 9, 2013.

Technological development of Exchange

The reporting year was just as full of events in terms of technology

The beginning of the year was marked by the commissioning of the electronic document system IS2IN, allowing companies listed on KASE to transmit their data in automatic mode and generate standardized news items with their subsequent display on the website like on most developed international markets. KASE members obtained access to IS2IN in the second quarter.

In the fourth quarter 2012 the revised version of the trading system (2.34) was released and the trading module "Subscription" was commissioned which features improved capacity, as well as many options such as generation of the order ledger, selection of orders subject to satisfaction, interaction with the Central Depository in part of registration of orders and transaction settlements. Execution of transactions was optimized and the FIX-gateway (specific data transmission protocol) was overhauled.

The Training trading system (TTS) was improved for the successful conducting of simulated trading sessions (Exchange Simulator). Several new versions of the online trading system "Strade" were commissioned consecutively during 2012.

KASE's IT department commissioned several new products (such as the new version of safe electronic document transmission system "eTransfer.kz"), overhauled systems of the back office, website, the Exchange's hardware and telecommunications.

PR-campaign of Exchange

Last year was full of events and projects in the field of public relations. The most important for the Exchange in this regard was the information support of the "People's IPO" program, whereas:

- an advisory group on IPO issues was established;
- a special page on the "People's IPO" was incorporated into KASE website;
- measures were arranged for the support of promotion of resources and information on the "People's IPO" program; a large amount of explanatory materials was prepared and published;
- seminars and workshops were organized for market participants, media and investors;
- solemn ceremonies were held in honour of the opening of trading in shares of KazTransOil and Kcell on the secondary market.

In addition to the permanent information support of the "People's IPO" KASE was busy strengthening its partnership with issuers and its members. Several round tables on changes in the legislation were held for market participants and listed companies; workshops on corporate governance took place; two separate seminars for investors and two round tables for brokers at KASE were conducted; KASE also hosted a seminar for journalists and made presentations at two seminars for media (including one in Astana).

On May 19 the first large-scale event for prospective investors – "Day of open doors on Kazakhstan's stock market" – was conducted at KIMEP in close association with the country's leading brokerage companies. The event was attended by more than 300 people representing prospective and real retail investors from all over the world.

In 2012 the Exchange's subsidiary – LLP "Information agency of financial markets IRBIS" – in association with KASE twice conducted the "Exchange Simulator" contest in which 230 students of 20 universities from 9 cities of Kazakhstan took part.