

KAZAKHSTAN STOCK EXCHANGE INC.

Approved

by the decision of Kazakhstan Stock Exchange Inc. Council.

(protocol No. 23 of July 26, 2007)

Approved

by the decision of Kazakhstan Stock Exchange Inc. Shareholders Annual General Meeting

(protocol No. 13 of August 23, 2007)

STRATEGY

of development of Kazakhstan Stock Exchange Inc. for 2007-2010

This Strategy was developed in pursuance of the Kazakhstan Stock Exchange Inc. Council mandate (hereinafter - the Exchange) of July 13, 2007 (the meeting protocol No. 22). It defines the Exchange main areas of development and most essential activities to be implemented within these areas¹.

When developing and implementing this Strategy the Exchange is proceeding from the following factors:

- throughout the history the Exchange became the only financial exchange in the country and is aimed at further retaining of this status;
- the Exchange, despite of its "stock" title, operates as a universal monetary exchange aimed at executing trades in all standardized financial instruments existing in Kazakhstan;
- the Exchange is the operator of the special trading floor of the Regional Financial Center of Almaty and is interested in the maximum application of this trading floor related legal and taxation regimens to the entire organized financial market of Kazakhstan;
- the Exchange is the "club" for its member-shareholders that allows and will allow coming to the mutually acceptable balance between interests of the Exchange as of an independent legal entity and interests of its services consumers in terms of their expenses minimizing;
- during creation of the national financial market, the government used the Exchange as the regulation instrument, which to certain extent restrains the Exchange in decision making;
- the Exchange is the principal shareholder of the Central Securities Depository JSC (hereinafter – the Central Depository) and intends to retain this status in the future in order to influence on the Kazakhstan stock market settlements system.

This Strategy is based on accepted by the Exchange statement that determines its further business behavior:

¹ During development of this Strategy the agreements reached by the Exchange Conciliation Commission formed by the Exchange Council decision (protocol No. 15 of March 29, 2007) were used during negotiations with the leadership of the Agency of the Republic of Kazakhstan on Regulation of Activity of the Regional Financial Center of Almaty (hereinafter - ARA RFCA) and registered in relevant protocols of April 3, 2007, No. 1, of April 13, 2007, No. 2, and of May 25, 2007, No. 3.

"The Exchange is the leading regional financial market that enables investors from all over the world to trade a wide range of financial instruments with the minimum calculated risks and in compliance with the world's best practices, as well as utilize diverse, high-quality concomitant services of the Exchange".

During this Strategy validity term the basic principles of the Exchange operation and development were defined as follows:

- 1. The Exchange sees its principal competitors in those stock exchanges that have attracted, continue to attract, try and can potentially attract to placement and circulation of Kazakhstan issuers' securities on their trading floors.**
- 2. The Exchange must become the trading floor where Kazakhstan and foreign securities issuers can attract during one Initial Public Offering (IPO) not less than the equivalent of USD.**
- 3. The Exchange's target investment audience are Kazakhstan institutional investors, but at the same time, for ensuring the balance of price and volume at the national stock market KASE must strive for attraction to this market of "quality" foreign investors.**
- 4. The Exchange stock market must be viewed by retail investors (including investment management companies servicing such investors) as the convenient and efficient floor to place money and speculate in financial instruments.**

Principal areas for the Exchange development for 2007–2010 must be:

1. Commercialization. Corporate Structure.
2. Members of the Exchange.
3. Financial Instruments.
4. Listing.
5. Disclosure of Information about Issuers of Securities and their Activities.
6. Trades.
7. Technologies.
8. Settlements.
9. Information Support.
10. Regulatory and Supervisory Functions of the Exchange.
11. Tariff Policy.
12. Marketing and PR policy.
13. Location of the Exchange.
14. Organizational Structure and Personnel Policy.
15. Financial Activity of the Exchange. Capitalization of the Exchange.

Section 1. COMMERCIALIZATION. CORPORATE STRUCTURE.

With the goal of retaining of its status as the special trading floor operator of the Regional Financial Center of Almaty, attracting additional capital, raising the interest of the Exchange's shareholders in quantitative and qualitative growth of the organized financial market, the Exchange intends to waive its non-commercial nature under the applicable legislation.

Commercialization of the Exchange stipulates a waiver of "one shareholder – one vote" voting principle and transition to generally accepted in joint stock companies voting principle where one share equals one vote on the General Meeting of Exchange Shareholders.

Additionally, commercialization of the Exchange shall entail a waiver of limitation principle in compliance with which only professional participants of the securities market and other licensed financial institutions may become the Exchange **shareholders**. Thus, the right of purchasing Exchange shares will be acquired by any interested persons, and shares after listing on the Exchange must become a liquid financial instrument.

At the same time, in order to keep maximum possible neutral and unbiased status of the Exchange there will be a restriction, according to which no person can hold Exchange shares in quantity exceeding **5 percent** of total number of the Exchange placed shares. This restriction shall not only apply to state bodies, aggregated share of which in the total number of the Exchange placed shares may reach up to **25 percent**, in order to ensure state influence on the Exchange decisions. Given this, the National Bank of the Republic of Kazakhstan will retain the **"golden share"** entitling it to veto decisions of the Exchange bodies on issues related to currency regulation and regulation of the public securities market of the Republic of Kazakhstan.

Within six months from the date of adoption of appropriate amendments to the legislation of the Republic of Kazakhstan the Exchange will make **Public Offering** of its shares, prior to which it will:

- split its available 450 shares in the ratio of 1 : 1,000 in order to provide retail investors with the opportunity to purchase the Exchange² shares;
- increase the number of declared shares up to 5,000,000³;
- provide its shareholders with the opportunity to exercise the preferential right to purchase shares being placed by the Exchange.

The Exchange shares will be placed with involvement of a financial adviser selected on the competitive basis, and the main goal of the Exchange shares placement is attraction of the additional capital⁴ (see also Section **"Financial Activity of the Exchange. Capitalization of the Exchange"** of this Strategy). The number of shares placed by the Exchange will make up approximately 300,000 (the exact number of being placed shares will be determined during to such placement preparation and considering valuation of the Exchange business). Remaining unplaced announced shares of the Exchange will be used to support liquidity of its stock market and attraction of the additional capital as the need in it occurs.

It is assumed that ARA RFCA will become the new principal shareholder of the Exchange, as it intends to invest not less than KZT 600 mln in Exchange shares in case of insufficient additional capital attracted during the Exchange shares public offering.

The Exchange transition to the commercial organization rank will be accompanied by modification of its **corporate structure** aimed at the best corporate management standards of the commercially oriented organization and ensuring the balance of interests of all parties interested in effective operation of the Exchange – its shareholders, members, securities issuers and investors.

In particular, number of members of the **Exchange Council** will be reduced to 12 persons and will consist of:

² Existing balance cost of 1 share of the Exchange is about KZT 2 mln. The expected price of one Exchange share placement after split – KZT 10,000 (KZT 2,000,000: 1.000 x 5 "books").

³ The Exchange minimum listing requirement to the listed company or its candidate number of shares - 100,000.

⁴ The Exchange need in the additional capital is about USD 50 mln (or KZT 6 bln).

- 3 government representatives from the National Bank of the Republic of Kazakhstan, the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations and ARA RFCA;
- 4 representatives from the shareholders of the Exchange;
- 4 independent directors;
- President of the Exchange (by position).

Given this, the number of representatives from ARA RFCA and its affiliated persons (Regional Financial Center of Almaty JSC and other potential affiliated persons) in any case will not exceed one quarter of the total number of the Exchange Council members.

In addition to Audit and Nomination [Committees](#), the Internal Audit Service and Remuneration Committee for the members of the Exchange Council and the Exchange Board will be established under the Exchange Council.

[The Exchange Board](#) will be expanded up to five or six members, given this the main areas of the Exchange Vice-Presidents authorities and responsibilities will be as follows:

- business strategy and development;
- operational management;
- listing;
- information technologies;
- provision of information;
- market regulation and supervision;
- administrative management;
- finance;
- personnel.

In general the Exchange, as the commercial organization, intends to become the [ideal](#) joint stock and listing company, setting an example for other securities issuers in terms of corporate management and informational transparency.

Section 2. MEMBERS OF THE EXCHANGE

In order to create a well-composed and clearer system of membership the Exchange will exclude division of the Exchange members into multiple and not clearly differing among themselves categories by [integration](#) of existing categories "A", "K", "P" and "H", allowing the participation in exchange trades in securities of different types, into one general category (with possible complete or partial inclusion into this category of category "C" that allows participation in exchange trades using derived financial instruments).

As a result major categories of membership at the Exchange will become the ["currency"](#) and the ["stock"](#), clearly differing from each other by both financial instruments and payment conditions. At that, a "stock" member of the Exchange will possess access to any type of securities circulating on the Exchange regardless of their issuers types.

In its turn, with the purpose of reducing settlement risks on exchange deals with securities and increase payment discipline of the Exchange members, the "stock" category of the Exchange membership will be divided into two subcategories – ["clearing"](#) and ["trading"](#). At that, the Exchange trading member will have the right to only conclude deals, while the Exchange clearing member will not only conclude deals, but also execute them. The Exchange clearing member will also execute deals on behalf of served by them trading members, assuming responsibility for their possible failure to fulfill obligations under concluded deals. Considering the above mentioned the Exchange will make high demands to its clearing members concerning the size of own capital and other indicators specifying company financial sustainability.

Achievement of the above mentioned goals on settlement risks reduction on exchange deals with securities and improvement of payment discipline of the Exchange members will be accompanied by [general enhancement of requirements](#) for financial and reputation characteristics of the Exchange members and membership candidates, what explains the Exchange intention to transfer to net-settlements on deals with securities. The fact of even single non fulfillment by any organization of obligations on concluded by it deal must be considered the flagrant event entailing strict sanctions with respect to such organization up to its exclusion from the Exchange membership.

For the Exchange category "C" members will remain their current split into clearing and trading members.

Section 3. FINANCIAL INSTRUMENTS

The Exchange intends to further retain its universal financial exchange status where can circulate any existing in Kazakhstan openly traded financial instruments.

With the purpose of **expanding of the list** of financial instruments accessible for the Exchange members the following measures will be taken:

- launching of the currency swap market – deals on purchase and sale of foreign currency with obligation of its repurchase in certain period at a fixed rate;
- listing of shares of unit investment funds;
- intense marketing to attract new issuers of shares and bonds to the organized stock market focusing primarily on companies of the real economy sector from regions of Kazakhstan.

Moreover, the Exchange will examine the possibility to reanimate the market of **currency futures** having analyzed problems that impeding this market functioning and, if necessary, will modify its legal base. When revealing the interest of the financial market participants in currency futures, the Exchange will implement demo-training trades, simultaneously using currency futures as the most simple and illustrative type of derived financial instruments.

As the shares market develops the Exchange will start to prepare for launching of derivatives market for KASE_Shares **index** (the computation method of the above index will be modified to improve its representativeness) and the **ETF** market ("ExchangeTraded Funds").

To attract foreign corporate securities to Kazakhstan stock market the Exchange intends to discuss with the financial market regulators the possibility of introducing appropriate stimulating amendments to the Kazakhstan legislation.

Section 4. LISTING

With the purpose of forming on the exchange market of the “blue chips” category (attractive for portfolio investors of large sustainable companies shares), groups of "growing" companies shares, as well as attraction of foreign investors and securities issuers, the Exchange will strive for the maximum bringing its listing requirements and procedures closer to the best listing practices of the worlds largest stock exchanges recognized as international and regional centers of capital attraction (along with the critical perception of such practice and its adaptation to genesis and realities of the Kazakhstan stock market).

Under this intent general stock market of corporate securities will be divided into three separate markets of shares, bonds and shares of unit investment funds differing from each other by their structure and strictness of **listing requirements** (as of the moment of this Strategy approval listing requirements to shares and bonds are not significantly differ).

Through the system of listing requirements market of **shares** will be divided into several parts, including the sector of "**blue chips**", the sector of **mid-cap** shares and the so-called sector of "**start-up**", intended for shares of "young", "growing" companies.

Apart from the requirements to the size and sustainability of business, the "blue chips" sector will differ by higher requirements to the **free-float** level (free floating shares), e.g. not less than 25% of the total number of placed shares of a listed company or a candidate.

Listing requirements for other sectors of the securities market will be more liberal to allow mid-caps and "growing" companies the use of the Exchange as the floor for the share capital attraction.

Bonds market will not be divided by listing requirements categories as the main qualitative benchmark for buyers and bondholders must become their **ratings**.

The system of listing requirements to **shares** of unit investment funds will be developing along with intensification of the organized market of this new for Kazakhstan instrument.

Since state regulation of investment activity of institutional investors is still partially connected to listing categories, changes in listing requirements will be phased according to the time frame determined in agreement with the financial market regulating government authorities.

Listing procedures will be modified in order to primarily create the group of **auditing organizations** recognized by the Exchange, and not limited to the so-called "Kazakhstan Big Five" auditing companies. Concerning the remaining listing procedures aspects, they will be maintained at the level ensuring the absolute authority of the Exchange **Listing Committee** as highly professional, extremely ethical and unbiased body, whose conclusions serve for the Exchange Council as not only the basis for making reasonable decisions on listing or delisting, but also are used by the market community during investment activities as the source of high quality information.

The Exchange intends to **delegate** listing authorities from the Exchange Council to the Exchange Board or Listing Committee.

Section 5. DISCLOSURE OF INFORMATION ABOUT ISSUERS OF SECURITIES AND THEIR ACTIVITIES

During collection of information about listed companies and their activities the Exchange faces two main problems: issuers fail to meet the requirements on deadlines and volume of information to be submitted and present different from each other hard and electronic reports.

For solution of the second “technical” problem, the Exchange will transfer to accepting annual and quarterly reports from listed companies only on [electronic data carriers](#) in pdf format, which will automatically exclude possible discrepancies between “paper” and electronic reports, since mandatory periodical reports of listed companies will not be accepted on paper. At the same time such decision will require from the Exchange creation of specialized such information [storage system](#) ensuring the long-term electronic data safety.

The first problem, however, does not have the same clear and straightforward solution since it is associated with the necessity to develop in issuers of the “inborn instinct” of the informational transparency and the information using culture. To reach this goal the Exchange will maintain its information [monitoring](#) system in the “hot” mode. This will allow the continuous monitoring of information submitted by listed companies. The “hot” mode also constitutes a system that will provide the Exchange with continuous access to information. At any moment the Exchange will know which exactly listed company failed to provide information on time, what kind of information is missing and in what volume. Possession of this kind of important data will allow the Exchange to effectively apply the mentioned [system of sanctions](#), using it as the tool for improvement of the information culture among the issuers.

Ideally, the Exchange sees the system of information disclosure about issuers and their activities organized in a way when the Exchange serves only as an [information transmission mechanism](#) from listed companies to interested persons. In this case, the Exchange will only control the completeness and timeliness of information disclosure about listed companies and their activities. Therefore, the Exchange intends to start development of the specialized “is2in” system (“Issuers to Investors”; name is conditional). This system is based on the following principle: issuers independently compile and submit to the system their diverse information (both periodical and current), which after certain validation procedures is automatically placed on the Exchange website and on the system terminal. It is expected that in addition to automating of the information transmission processes from listed companies to concerned investors, the “is2in” system will be used to provide interested parties with additional information about listed companies. For example, information about the process and results of trades in their securities, archive data on requirements for applications and deals in these securities will be also available. It is also possible to purchase ready for use software and equipment identical to the “is2in” system.

Since Kazakhstan “blue chips” attract interest of foreign investors, those companies with shares listed in the Exchange top category official list will have to meet an additional requirement, i.e. submit information about the company and its activities (including periodic reports with quarterly and annual financial statements) in [English language](#).

Section 6. TRADES

From March 1, 2007 the spread between the best mandatory quotations for market-makers was reduced from 50 to 15 percent (of the purchase quotation) with simultaneous increase in the minimum volume of mandatory quotation from 1,000 - to 3,000-fold of MCI⁵.

From the same date the use of the Frankfurt trade method was ceased on ten most liquid shares due to coincidence or overlapping among the prices of selling and purchasing orders during trading.

The above measures were taken in increase the liquidity of the securities market. They also reflected emergence of more or less actively traded shares at the market. Applying the Frankfurt trade method for such shares was a factor restraining further liquidity growth.

The Exchange intends to further reduce boundaries for use of the [Frankfurt trade](#) method when trading listed shares, completely ceasing the use of such method on the most liquid shares.

The Exchange also plans to continue tightening requirements to [market-makers](#) on shares in terms of the increase of the minimum volume of mandatory quotation and decrease of spread between the best mandatory quotations (from quotation on purchase):

- up to 10 percent – by the end of 2007;
- up to 5 percent – in 2008.

On the other hand, the Exchange intends to create prerequisites for intensification of non-liquid shares market by concentration of demand and supply having reduced the [trading day](#) duration on these shares up to two hours (e.g. from 14:00 to 16:00 ALT), as well as application of the continuous counter auction method and standby mode, or the Frankfurt trade method only.

Additionally, to avoid possible manipulations in trades in non-liquid securities the Exchange by the end of 2007 will introduce the rule of closing Frankfurt trades in a [random moment](#) during certain period of time to the end of the trading day.

Also, the Exchange intends to exclude the possibility of using of its [confirmation system](#) through initiation of amendments to the legislation on securities market and the Exchange internal documents in compliance with which confirmation of already conclude deals will not be required.

⁵ Monthly calculation index for accounting of pensions, allowances and social payments, and application of penalties, taxes and other payments in compliance with the legislation of the Republic of Kazakhstan, the value of which is set by laws of the Republic of Kazakhstan on the national budget for corresponding years.

Section 7. TECHNOLOGIES

The following hardware and software products that apply different server equipment and databases are the basic Exchange **technological components**:

- trading system;
- back-office;
- Internet site.

The Exchange adheres the policy of **autonomous** development and maintenance of mentioned components to minimize costs and ensure operational efficiency and adequacy of their modification implemented in response to the market complication and the new needs of the Exchange members.

In general the Exchange does not plan to use **outsourcing** on mentioned components, apprehending:

- inflexibility of outsourcing providers (each exchange is connected to specificities of corresponding national market; standard products do not exist for stock exchanges);
- high price of such outsourcing;
- instability of outsourced products maintenance;
- excessive dependence of the Exchange on outsourcing products providers, accepting such postulate statements as the "outsourcing is a drug" and the "outsourcing company experiences the same staff problems as its services consumers".

Together with this the Exchange does not exclude the possibility of using the external software products installed on other stock exchanges that will be determined in specific cases by functionality, productivity, reliability and adaptability of such products, as well as terms of their purchase, maintenance and update.

In case of modification of mentioned components the Exchange will rely on the results of technical examination conducted in 2006–2007 by **OMX** Swedish company - operating Scandinavian and Baltic stock exchanges, including this examination main outcome - the existing Exchange trading system answers its needs for **3–4 years** given the load increase by 10 times.

Within its **trading system** modification the Exchange will focus on:

- improvement of the trading system sustainability and reliability, continuous monitoring of the trading system productivity margin;
- improvement of the trading system user interface (making it easier for Internet users);
- diversification of the trading system services through inclusion of graphic information;
- inclusion into the trading system of the specialized module for trades in derived financial instruments;
- support by the trading system of FIX-protocol being used by many foreign investors;
- inclusion into the trading system of automatic control of application parameters "correctness" to minimize or completely exclude the possibility of unintentional or intentional errors when these parameters entering or selecting.

In addition to the trading system improvement the Exchange will implement the following **concurrent** activities:

- cardinal solution of the problem related to access to the trading system through adjustment of relations between the Exchange and telecommunications services providers;
- improvement of the trading system reliability and functioning quality indicators;
- support of the internet-trading aimed at its popularization and activation;
- full documenting of the trading system.

Modification of the trading system will be accompanied by regular, not less than once each 4–5 years, update of the trading system **hardware component** to support and improve its productivity and reliability.

Starting 2009 the Exchange intends to begin development of a brand new program code for the trading system which will allow:

- ensuring high level of productivity of the trading system;
- increasing the rate of reliability of the trading system;
- facilitating the system's tracking process;
- improving graphical interface of the system terminal.

"**Back-office of the Exchange**" is the hardware and software product developed relatively recently. It represents the structured database with universal interface allowing different departments of the Exchange to perform their functions using functional possibilities of this product. It will be modified as new needs of the Exchange arise.

By the end of 2007 the Exchange intends to launch its new **website** version to fill gaps and eliminate shortcomings discovered during the current version functioning.

Section 8. SETTLEMENTS

To improve safety of settlements on deals with [foreign currencies](#) the Exchange will introduce limitations on the largest volume of an open item for all or separate members. In this case a "small" member (not necessarily bank) previously sold or purchased maximum one million US dollars a day, would not have an opportunity to make a nonrecurring purchase or sale of USD 100 mln and, thus, will not pose a threat to stability of the entire currency market and the realm of a principle of trust to the Exchange and participants of its foreign currency trades.

Currently applied on the [stock market](#) "deal after deal" according to T+0 settlement system is customary and convenient for the existing the Exchange members, as it was developed specifically for the needs of major participants of the stock exchange considering a small number of transactions per day. The shortcomings stated below are accepted by the Exchange members as a natural "fee" for rapid settlements, where as cancellation penalties charged by the Exchange for failure to fulfill transactions are excessively covered by the immediate profits of the fast-growing volatile market.

However, the existing system has quite significant shortcomings:

- lack of guarantee of the deals settlement, since any participant of trades can waive his obligations using, for instance, specificities of the Exchange confirmation system or Central Depository registration system;
- impossibility to carry out such speculative operations as "uncovered sale" which constrains market liquidity;
- unusualness and inconvenience of the market for foreign investors.

The most adequate method for the elimination of the above shortcomings is transition to settlements on [net-positions](#) of the exchange trades participants. In its turn, this will require establishment of the [guarantee fund](#). It is assumed that participants of the exchange trades will be able to conduct transactions at the Exchange in volumes proportional to the volumes of their contributions to the guarantee fund.

To achieve the continuity of settlements the split of "stock" participants of the Exchange into clearing and trading (see Section "[Members of the Exchange](#)" of this Strategy) will also take place.

In addition, the Exchange will start development of the system for risk evaluation and monitoring of financial status of its members with possible limitation of volumes of their current exchange transactions.

It is possible that the assumed use of the Exchange as the "universal" special trading floor of the Regional Financial Center of Almaty will entail the necessity to transfer equity settlement to T+2 or [T+3](#) settlement scheme more familiar for foreign investors.

Section 9. INFORMATION SUPPORT

The Exchange considers its system of the [exchange information](#) distribution adequate to the current and future interests of its consumers. Placement of such information on the Exchange website is the basic information dissemination tool.

The Exchange information service will be improved primarily by launching a new version of the [website](#), which will be clearly structured, more informative and convenient for use (see also Section "[Technologies](#)" of this Strategy).

The new version of the website will allow the use of the "[is2in](#)" system advanced capacity, i.e. website pages will be filled with data about any securities by their issuers (see also Section "[Disclosure of Information About Issuers of Securities and Their Activities](#)" of this Strategy).

[Analytical research](#) by the Exchange on financial instruments is associated with occurrence of the direct conflict of interests and undermines the perception of the Exchange as unbiased information originator and provider. Therefore, the Exchange will abstain from conducting and publishing of such researches and will consider immediate placement of authentic initial data on its website as its primary objective. Analytical activity of the Exchange will be mainly conducted under development of its periodic reviews and reports, as well as presentations and statements conducted by its representatives at different conferences and other events.

To provide foreign issuers and investors with the opportunity to do business at Kazakhstan financial market the Exchange will translate its internal documents into [English](#).

In order to attract new groups of Kazakhstan issuers and retail investors to the organized stock market the Exchange intends to start development and dissemination of its information in [Kazakh language](#).

Section 10. REGULATORY AND SUPERVISORY FUNCTIONS OF THE EXCHANGE

The Exchange regulates and supervises activities of listed companies and its members at the exchange market. It intends to improve performance of such functions, focusing primarily on the following critical areas:

- improvement of requirements for **disclosure of information** about issuers and their operations and improvement of monitoring of information submitted by listed companies (see also Section "Disclosure of Information About Issuers and Their Activities" of this Strategy);
- development of the automated system for supervision of the Exchange members trading activities aimed at prevention of **price manipulation** (currently the Exchange only informs the government authority for regulation of financial market about "suspicious" deals, i.e. about transactions falling under the criteria of recognizing deals with securities as concluded with the purpose of price manipulation);
- update of the Exchange's internal documents that regulate **ethics** of business behavior of executed by the Exchange trades participants.

The automated system of supervision of the Exchange members trading activities aimed at prevention of price manipulations will be developed by the Exchange. The Exchange will consider supervisory **experience** of other stock exchanges. In case of availability of the technical solution the Exchange might consider purchasing the software product required for the mentioned system.

Section 11. TARIFF POLICY

The current Exchange tariff policy does not exclude sponsorship of some exchange market sectors at the expense of others. For example, the Exchange does not collect commission fees on deals with government securities of the Republic of Kazakhstan, and "currency" member can avoid paying commission fees on deals with foreign currencies by paying monthly membership fee equal to 150 fold of MCI.

Considering the above mentioned the Exchange [main actions](#) on tariffs:

- will be aimed at elimination of imbalances in tariff policy;
- will take into account the warrantee of the Exchange not to increase tariffs at the corporate securities market during validity of this Strategy (listing fees and commission fees on corporate securities sales and purchase deals)⁶;
- will be aimed at promotion of growth of trading and issuing activity on the organized financial market;
- will be aimed at provision of sustainable funding for implementation of the Exchange current activity and development.

Monthly membership fee rate on [foreign currencies market](#), which was not revised since 1999, will be increased considering drastic increase in volumes of trades with foreign currencies and consequently increased workload of the Exchange.

Taking into account creation of a single "stock" category of the Exchange membership (see section ["Members of the Exchange"](#) of this Strategy) the system of membership fees on the exchange [securities](#) market will be modified accordingly.

The Exchange intends to alleviate tariff burden for securities issuers by gradual reduction of [listing fee](#) rates for those companies, whose securities trade generates a stable income from commission fees for the Exchange.

⁶ Registered in protocol No. 3 of the meeting of the Exchange Conciliation Commission and ARA RFCA of May 25, 2007.

Section 12. MARKETING AND PR POLICY

Prior to 2007 the Exchange marketing policy was to support the legislation of the Republic of Kazakhstan to be attractive enough for the securities issuers and investors to naturally strive for using the Exchange as the floor for securities placement and trading.

As a consequence of changes in the legislation of the Republic of Kazakhstan that deprived the Exchange of the mentioned privileged status, the Exchange is launching the new [marketing policy](#) to attract new securities issuers and investors.

The main methods of this policy implementation will include:

- trainings for securities issuers (primarily in the regional centers of Kazakhstan), designed to demonstrate advantages of attracting participatory share and loan capital through the stock market;
- distribution of educational and informational materials developed by the Exchange among issuers and potential investors.

The Exchange marketing policy does not exclude provision of individual sessions with separate most interesting for investors securities issuer.

The Exchange [PR-policy](#) will be aimed at promotion of its products (first of all, KASE_Shares index) and the Exchange itself among the population and entrepreneurs.

Section 13. LOCATION OF THE EXCHANGE

With the purpose of the location problem solution (and directly connected to it problem related to creation of new work places for new employees), the Exchange implemented its territorial division into front-office and back-office.

The Exchange front-office means its structural subdivisions interaction with the Exchange shareholders and members, issuers, the Exchange information products consumers and other third parties.

The back-office of the Exchange includes its structural subdivisions implementing organizational and technical support of the trades and settlements support.

For its location the Exchange intends to purchase approximately 5,000 m² (including trading hall, large multipurpose conference room, and basement facilities for the technical center).⁷ The facilities will be located in the building of the Regional Financial Center of Almaty which is currently under construction, and until the construction completion, the Exchange will rent the space for its front-office at the address: 291/3, Dostyk ave. (if necessary, in the future the Exchange will continue renting this facility for some of its subdivisions).

The Exchange intends to continue renting the existing facilities located at 67, Aiteke Bi str. to avoid high expenses associated with transportation of the server and telecommunications equipment, as well as telephone lines. This space will be used for location of the back-office of the Exchange and later for establishment of the back-up technical center.

Ideally, the Exchange would like to accumulate sufficient resources to purchase its own building, where the Exchange members and other organizations involved into the financial market will rent office spaces.

The Exchange premises complex will also include the "hot" reserve center, location of which will be determined based on the legislation requirements.

For establishment of its "cold" reserve center the Exchange plans to accept the proposal of the National Bank of the Republic of Kazakhstan to use Bank's reserved premises in Astana.

All issues related to the location of the Exchange will be solved by the Exchange considering interests of the Central Depository on its location and the Exchange technological connection with it.

⁷ For the purpose of this Strategy estimated price of one m² is USD 5,000 (including finishing, furniture, equipment and telecommunications costs).

Section 14. ORGANIZATIONAL STRUCTURE AND PERSONNEL POLICY

The Exchange intends to preserve its existing organizational structure introducing additional divisions creation of which or extracting them from the existing divisions is necessary for implementation of measures introduced in this Strategy.

Thus, the Exchange will create the following **new divisions**:

- Projects Development Department designed to research market demand for new financial instruments and prepare for launching the markets of such instruments;
- Translation Service designed to translate the Exchange internal documents as well as other documents and information into English;
- Human Resources Service designed to satisfy the needs of the Exchange in human resources, training and professional development of its employees, organization and maintenance of the internal corporate culture;
- International Relations Department designed to ensure contacts and communication of the Exchange with international and foreign organizations;
- Exchange Members Affairs Department designed to ensure interaction and cooperation with consumers of the Exchange trading and settlement services, to handle conflicts or unusual situations and improve the overall quality of services;
- Editing and Proofreading Service designed to ensure high quality of grammar and legal aspects of internal documents of the Exchange, as well as its outgoing correspondence and information.

As the stock market develops and individuals become massively involved in it, the Exchange will examine the need for creation of a **call-center**. The employees of such center will respond over the phone to the most frequently asked questions about the Exchange and the financial market of Kazakhstan.

It is possible that in the future it will be necessary to extract **marketing** subdivision of the Exchange from its PR department. The main task of the marketing subdivision will be to attract new issuers to the stock market.

The specifics of the Exchange activities and the unique character of its work and services influence the problem of its **staffing**. It requires 2–3 years to train each newly hired employee in specialized subdivisions of the Exchange such as Trades Department, Listing Department or Information and Analysis Department. At the same time the employees of the Exchange easily adapt to the work specifics of other financial institutions, which creates the threat of personnel turnover.

Since career development opportunity at the Exchange is quite limited due to its small size, virtually the only way to retain its staff (not taking into account such psychological factors as "patriotism to the Exchange", "life employment" or "comfortable, friendly, conflict free environment") is the constant maintenance of a competitive level of employees' **salaries** (at least 20–30 per cent higher than average level of salaries of comparable positions at other financial institutions).

To maintain and further develop professional level of its employees, the Exchange will provide them with additional regular **training** opportunities. This includes overseas training sessions as well as professional exchange programs with foreign stock exchanges. Similar study tours will be also used to motivate the employees of the Exchange to constantly develop their professional skills.

In the nearest future the Exchange will require considerable **increase** in staff of its key divisions: IT Department (this includes documenting of the trading system), Trades Department, Listing Department, and Information and Analysis Department.

Section 15. FINANCIAL ACTIVITY OF THE EXCHANGE. CAPITALIZATION OF THE EXCHANGE

The policy of the Exchange concerning its financial activity is built upon insurance of a breakeven, self-sufficient and self-financing operation. In addition to the existing policy, commercialization of the Exchange will entail the new task of gaining profits in volumes sufficient for both funding of further Exchange development as well as payment of significant dividends to its shareholders.

In recent years the annual growth of the trading volume made up about 80 percent. During the life of this Strategy the Exchange counts on maintaining same dynamics (and related to it dynamics of the Exchange's financial indexes), assuming that this period will coincide with the phase of overall economic and financial market growth of Kazakhstan. Thus, the Exchange expects **positive growth** on the following basic parameters that have direct impact on the financial status of the Exchange (numbers are approximated for easier perception):

- the trading volume of shares and corporate bonds: from the equivalent of USD 7 bln in 2006 to the equivalent of USD 50–70 bln in 2010;
- number of listed companies: from 120 issuers of securities in 2006 to 250–300 issuers in 2010;
- total trading volume of all financial instruments: from equivalent of USD 170 bln in 2006 to equivalent of one trln USD in 2010.

At the same time, the factor that has a significant impact on Exchange's financial activity is the loss of the priority status of the Exchange earlier granted by the legislation of the Republic of Kazakhstan (see also Section "**Marketing and PR Policy**" of this Strategy). This resulted in reduction of listing attractiveness for securities issuers interested in attracting capital. Therefore, the Exchange has a risk of **profit "depression"** in 2007–2008. The losses in profit may start getting compensated in 2009 as the mutual investment funds (assumed to be main investors at the Kazakhstan stock market) reach the volume of assets comparable to the size of pension assets.

Another factor that may negatively affect the Exchange profits is its intention to reduce commission and listing fees rates to intensify the stock market (see Section "**Tariff Policy**" of this Strategy).

Expected growth of the Exchange profit will be accompanied by the growth of its expenditures (at least one and a half times compared to the current level) due to implementation of activities described in this Strategy. First of all this includes:

- Increase in the number of the Exchange staff (necessary growth for the duration of this Strategy constitutes about 40–50 positions) (see Section "**Organizational Structure and Personnel Policy**" of this Strategy);
- balanced increase in the overall salary level of the Exchange employees: about 10 percent per year (see Section "**Organizational Structure and Personnel Policy**" of this Strategy);
- marketing and PR events, translation of the Exchange internal documents into English language (see Sections "**Marketing and PR policy**" and "**Information Support**" of this Strategy);
- transition to net-positions settlements of the participants of securities trades (see Section "**Settlements**" of this Strategy).

Nonetheless, the Exchange relies on the calculation that the abovementioned growth of its costs will be fully covered by the growth of its profits, even after taking into consideration the above restraining factors.

Apart from expenses on funding of current operations of the Exchange, it will need sources to cover **capital expenditures**, primarily to:

- purchase premises in the building of the Regional Financial Center of Almaty which is currently under construction (see Section "**Location of the Exchange**" of this Strategy) – equivalent of USD 25 mln;
- update server equipment – equivalent of USD 1–2 mln;

- possibly purchase "outside" software for creation of automated system for supervision of trades of the Exchange members in order to prevent price manipulations (see Section "Regulatory and Supervisory Functions of the Exchange" of this Strategy) – equivalent of USD 1–3 mln;
- capitalize Central Depository taking into account the necessity for its location similar to the conditions of the Exchange location (see Section "Location of the Exchange" of this Strategy), – equivalent of USD 10 mln.

Total capital costs of the Exchange during the life of this Strategy will sum up to the equivalent of approximately USD 40 mln. The Exchange plans to cover these costs from accumulated current income (expected magnitude of which is equivalent of USD 15 mln as of the end of 2010) and by placing its shares in order to attract additional capital (see Section "Commercialization. Corporate Structure" of this Strategy) for the amount equivalent of USD 25 mln (or Tenge 3 bln).

Main financial indicators of the Exchange for the duration of this Strategy are expected to be as follows (considering capitalization of the Exchange):

KZT mln

	2006 (fact)	2007*	2008*	2009*	2010*
Income	744	987	1.290	1.500	1.740
Expenditures	345	506	996	1.070	1.140
Total income	278	271	160	237	340
ROA, %	26,85	**	**	**	5,83
ROE, %	28,24	**	**	**	5,88

* Forecasted data.

** Is not calculated as the interim value.