

Strategic-led investment

INTERVIEW WITH SIR RICHARD EVANS CBE

DIRECTOR, SAMRUK-KAZYNA – SOVEREIGN WEALTH FUND



SIR RICHARD EVANS joined the Ministry of Transport and Civil Aviation in 1960. In 1969, he joined the Military Aircraft Division of British Aircraft Corporation (BAC) and continued his career within BAE SYSTEMS in various roles, becoming Chief Executive in 1990 and Chairman in 1998. In 1997 he joined the Board of United Utilities plc as a Non-Executive Director, and was subsequently Chairman from 2001 until July 2008. In 2006 he was appointed Chairman of Samruk Holdings, a Joint Stock Company, owned by the Government of Kazakhstan and having relinquished that appointment he is currently an Independent Director of SWF Samruk-Kazyna JSC.

A drilling rig at Kazakhstan's Inkai uranium mine. The country has the 2nd largest uranium reserves in the world.

What is the economic and political context within which Samruk-Kazyna operates?

Samruk-Kazyna is Kazakhstan's State-owned holding company designed to establish 'locomotives' of growth in the Kazakh economy. To understand Samruk-Kazyna one really needs to understand the significant potential of Kazakhstan as a country. Kazakhstan has the world's ninth largest territory. Is located in the centre of the Eurasian Continent with vast natural resource reserves (9th largest proven oil reserves, 2nd largest reserves of uranium, lead, zinc and chromium, 5th largest reserves of copper, 6th largest reserves of iron, 7th in gold and 8th in coal). The country borders Russia, China, Kyrgyzstan, Uzbekistan and Turkmenistan and enjoys close trading relations with its neighbours. Kazakhstan's GDP stands at US\$146.9 billion with real growth of 7 per cent and accumulated Foreign Direct Investment totals US\$141 billion with a Government budget of US\$30.3 billion.

Against this positive economic and political background there exists Samruk-Kazyna SWF which is Kazakhstan's largest State-owned holding

company, managing the State's assets in oil and gas, energy transportation, telecommunications, financial and innovation sectors. There are currently 404 subsidiaries and companies with consolidated assets of US\$77.8 billion and the company concluded US\$ 13.5 billion of procurement contracts in 2010.

When was Samruk-Kazyna established and what are its aims and objectives?

Samruk-Kazyna was established in 2008 at the height of the global economic crisis via the merger of two State-owned holding companies – Samruk (State asset management holding company) and Kazyna (the sustainable development fund). The overall objective is to sustain the development of the Kazakhstan economy and to maintain stability in the financial system.

The company defines the overall strategy for the State-owned companies and is the key instrument for implementing government policies. Samruk-Kazyna also takes a leading role in the Government's industrial and development programme and promotes large scale investment projects aimed at diversifying

the economy away from a dependence on the oil and gas sector. The company has also acted as an efficient tool in the implementation of the anti-crisis programme to avert any difficulties caused by the global financial crisis.

I have been especially involved in implementing the Corporate Governance programme designed to bring corporate and management and financial control systems up to established international practices. This involves changing the culture from old Soviet-style procedures and ensuring the adoption of the code of corporate governance



which the Government has signed off on. Managers now realise that internal audits and the corporate governance code are designed as management tools to enable the component companies to be managed even more efficiently.

One has to realise that Samruk-Kazyna is a vast business with over US\$57 billion in assets under management in the industrial sector and also benefits from additional liquidity that allows investment of over US\$22 billion in the industrial and innovation development programme. The organisation also has significant representation in the financial sector with over US\$27 billion in assets in development institutions and commercial banking. The efficient management of these assets requires significant accountability and management processes which are now in place.

What major projects are currently in the process of being implemented?

There are significant projects underway in upgrading the oil infrastructure at Pavlodar, Atyrau and Shymkent as well as construction of the coal-fired Balkhash thermal power plant. There are important projects in Railways with the electrification of the Almaty-Aktogai, Aktogai-Moiynty and Aktogai-Dostyk railways. There is also major railway construction connecting the Almaty region with the Chinese border and the construction of the Beineu-Zhezkazgan railway.

Much of this work involves major procurement requirements – for example General Electric has the mandate to modernise the locomotive fleet including installing new engines which involves both procurement and licensing so that a progressively larger part of the building process is carried out in Kazakhstan. It also provides an opportunity for General Electric to win contracts to re-engineer other former Soviet railway fleets.

What are the key strategic plans for Samruk-Kazyna?

There are a number of strategic imperatives including the concept of highlighting portfolio companies as ‘national champions’ in the Kazakh economy. There will also be the challenge of opening up the operation to the investment market – via the launch of ‘people’s IPOs’ of selected portfolio companies which

will provide a stimulus to the Kazakh Stock Market as well as offering domestic investors with investment opportunities. In the United Kingdom we have the expertise to assist in this process. There is also the strategic importance of increasing the management efficiency of portfolio companies and enhancing decision-making procedures and assessment criteria.

How do you see the overall economic outlook in the medium term for Kazakhstan?

Kazakhstan’s immediate economic prospects are, to a great extent, governed by the performance of the world economy and particularly countries such as China. But policy makers must not be deflected by short term effects – Kazakhstan’s economic planning must be directed towards the 2020 target date set by the President. In the medium term I think the outlook for the economy and people of Kazakhstan is very bright with all the key indicators moving in the right direction. It is of great benefit that the Government of Kazakhstan is so focused on its strategic objectives. It is also clear that most external organisations including the IMF and EBRD recognise the inherent wealth of Kazakhstan and are encouraging the sustainable development of the country. Kazakhstan’s economic advantage lies in its political stability, the quality of key ministers, its people and inherent natural resource wealth. President Nazarbayev has led Kazakhstan with great distinction and has been fundamental to the success of the country.

One has to realise that Samruk-Kazyna is a vast business with over US\$57 billion in assets

The London Stock Exchange welcoming a delegation from Samruk-Kazyna in 2011

