

Supporting the national economy

INTERVIEW WITH UMIRZAK SHUKEYEV

CHAIRMAN, NATIONAL WELFARE FUND "SAMRUK-KAZYNA", KAZAKHSTAN



UMIRZAK SHUKEYEV graduated from the Moscow Institute of Economy and Statistics in 1986 with a degree in Mathematical Economics. In 1992 he became a consultant of the Supreme Economic Council under the President of Kazakhstan. He was then appointed Minister of Economy and later of Economy and Trade (1995-1997). In 1998 he became Deputy Head of the President's Administration and then Governor of Kostanai Region (1998-2004) and Mayor of the City of Astana (2004-2006). He was Governor of South Kazakhstan Region (2006-2007) and became First Deputy Prime Minister of Kazakhstan in 2007. He was appointed Chairman of Samruk-Kazyna in December 2011.

Kazakhstan is a world leader in rare-earth and rare-metal products

What is the mission and scope of Samruk-Kazyna – Kazakhstan's sovereign wealth fund?

Samruk-Kazyna manages and oversees Kazakhstan's national companies and is a key investor in the domestic market. Samruk-Kazyna will continue to provide maximum support to the Government of the Republic of Kazakhstan by implementing programmes of diversification and modernisation to benefit the national economy. The basic mission of Samruk-Kazyna JSC is to generate funds for the state and increase the capital wealth of the nation.

The government of Kazakhstan aims to diversify and modernise the national economy. What are the key areas and sectors for investment?

Samruk-Kazyna's current total investment programme involves over two hundred initiatives with a value of some US\$300 billion – more than half of these initiatives are in an active stage of implementation. Projects associated with KazMunaiGas represent about 80 per cent of the total value and the balance consists of some 180 projects worth US\$50 billion of which 90 projects worth US\$37 billion are active.

Within the investment programmes of Samruk-Kazyna's subsidiary companies is a prime focus on the development and production of local content. With



this in mind, a special group within Samruk-Kazyna is implementing 71 projects worth US\$14.8 billion

Companies within Samruk-Kazyna are developing the production of import substituting products both independently and in cooperation with the private sector. KTZ JSC and Kazakhtelecom JSC are both leaders in collaborating with the private sector and are involved with joint ventures and long term purchasing contracts.

One of Samruk-Kazyna's objectives is to develop new economic sectors and acquire assets, both inside and outside the country. Which economic sectors will be the priority?

Samruk-Kazyna is currently developing four new divisions. These are energy, represented by Samruk-Energo, chemistry by UCC company, the mining sector with Tau-Ken Samruk and the real estate market with the Real Estate Fund Samruk-Kazyna. These four new companies representing key themes are designed to increase shareholder value and provide clarity of direction and focus to Samruk-Kazyna. The purpose of Samruk-Kazyna is to develop business links based on our established companies, thereby increasing business performance and reducing costs.

What will be the principal investment areas for Samruk-Kazyna Invest?

Currently, Samruk-Kazyna Invest has the potential to invest in 27 projects to the value of US\$250 million – ten of these projects are active and we plan to introduce five further projects this year in cooperation with the private sector and foreign partners.

Investments will be directed into new and existing businesses principally focused on value added competitive products and services which will enhance the long term value of Samruk-Kazyna's companies. Key areas will include raw material processing and advanced technology/equipment with the overriding objective of increasing the quality and volume of production.

How are you addressing the issue of corporate governance and social responsibility?

The quality of corporate management is one of the most important non-financial aspects in our quest to increase the value and competitiveness of

Samruk-Kazyna's companies. Corporate managers who follow the best global practices will certainly enhance corporate reputation in the eyes of investors and shareholders, reduce the cost of borrowing and increases long term value. Improving corporate governance is a key strategic priority of Samruk-Kazyna and is confirmed in a Government of Kazakhstan resolution of September 2012. We are promoting the best practices in corporate governance throughout our companies in terms of addressing structure, process and transparency. This involves ensuring a clear separation of responsibilities and competencies, improving the effectiveness of the boards of directors, planning and monitoring, risk management, internal and external auditing, corporate social responsibility, transparency and so on.

We are making great efforts to ensure that our boards of directors are formed into effective strategic bodies by recruiting professional directors and increasing the number of independent directors. Overall, Samruk-Kazyna's activities in this area are producing positive results. In 2009 we created a system to evaluate corporate management performance and by 2020 the average corporate management rating is planned to reach 75 per cent. Samruk-Kazyna also promotes the transfer of best management practices and processes in line with the latest global trends and developments.

A number of major companies operate under the aegis of Samruk-Kazyna. Is the plan to create a group of 'national champions'?

KazMunaiGas aims to become one of the top thirty oil and gas companies worldwide and as a member of Samruk-Kazyna aims to maximise shareholder value

and contribute to the modernisation and diversification of the national economy. Its mission is also to be a socially responsible business and to look after its suppliers, customers and staff.

The National nuclear company, KazAtomProm, is the national operator responsible for the import and export of uranium, rare metals, nuclear fuel for power plants, specialist equipment, high technologies and double-use materials. Samruk-Kazyna owns 100 per cent of the shares on behalf of the state and KazAtomProm is today the largest uranium mining company in the world and aims to preserve this leading position in the global uranium market. Given the company's extensive international collaborations it wishes to become the leading vertically integrated multi-national company.

What are the priorities for developing Kazakhstan's infrastructure? What are the opportunities for foreign companies?

The government aims to create mutually beneficial conditions for foreign investors to encourage international economic cooperation. The benefits of direct inward investment for the development of Kazakhstan's economy include; promoting high-tech production, modernising the fixed asset base and introducing advanced technical know-how.

What are the future plans for modernising and expanding the communications system – including post, telecommunications and the internet?

Samruk-Kazyna is the operator of public programmes including GPFIR and thereby provides maximum support to the Government of Kazakhstan by

KazMunaiGas aims to become one of the top thirty oil and gas companies worldwide



Samruk-Kazyna owns KazAtomProm, the world's largest uranium mining company

efficiently managing the nation's telecommunications infrastructure through its group companies.

Kazakhtelecom is the leading telecommunications operator and is part of Samruk-Kazyna. It is planning a raft of initiatives to upgrade further the country's communications infrastructure. For example, in 2011 a project called 'Building FTTH (fibre to the house) Networks' was initiated. This fibre-optic network is deployed in Kazakhstan's regional centres, in both Astana and Almaty, and covers 40 per cent of the country's multi-family home sector and provides up to 100 Mbits of high-speed internet broadband access.

Another strategic initiative is the rollout of fourth generation (4G) LTE (long term evolution) which allows high speed data transfer (up to 100 Mbits) throughout the country and will expand the range of mobile services. This LTE network has been launched commercially in both Astana and Almaty.

Kazakhstan is also pursuing an important social programme to develop the rural network with WLL CDMA technology. The CDMA-450 network is deployed across the country and covers some 6,000 villages with rural internet access being provided by EVDO CDMA technology. Broadband internet access is available in all rural communities and by the end of 2015 there will be 100 per cent coverage with telephone services.

In order to manage these services, Kazakhtelecom is developing Internet Data Centres and will launch the largest data processing centre in the entire CIS region, to be based in Pavlodar, and developed in partnership with Hewlett-Packard. This advanced info-communications infrastructure is a key factor in the growth of the national economy and makes Kazakhstan a particularly attractive destination for investment.

Kazakhstan's postal system is operated by KazPost, one of Samruk-Kazyna's companies. Since 2012 postal activity has not been subject to licencing which indicates the level of liberalisation in Kazakhstan's postal market. Quality and efficiency of service are key priorities for KazPost and the theme of the company's 20th anniversary has been designated as the Year of Quality. New and innovative services will be launched including; the introduction of 24 hour post offices, payment of fees by POS terminals, internet banking for corporate clients, online applications for payment

cards, the online purchase of postage stamps and an updated mail tracking system.

Kazpost is rapidly becoming an innovative national mail operator providing a wide range of leading edge services delivered to the highest international standards.

What is the status of the 'National IPO' programme?

The 'National IPO' programme covers the period 2012-2015 and the plan is to float the shares of ten of the National Companies on Kazakhstan's stock market. To be selected for this process, companies must meet strict criteria on corporate management, transparency, asset quality and growth prospects. Four hundred of Samruk-Kazyna's companies participated in the selection process and KazTransOil JSC was the first to float on Kazakhstan's stock exchange (KASE) in December 2012. The share offer was promoted to Kazakhstan's citizens as well as pension funds registered in Kazakhstan – the offer was handled by brokerage companies listed on KASE (please see figure 1).

Figure 1: KazTransOil JSC Share Offer

Share price	725 Tenge
Available shares	38,463,559
Volume of placement (Tenge)	27,886,080,275

As of 31 December 2012 the total volume of accepted applications was 59.4 billion Tenge or 213 per cent of the total volume of the placement. Individuals accounted for 22.1 billion Tenge (79.3 per cent of the total) and pension funds/market makers accounted for 37.3 billion Tenge (133.7 per cent of the total). The demand therefore exceeded supply by more than two times and the average share price of KazTransOil JSC was 826 Tenge in December 2012. The result of this placement within the framework of the 'National IPO' was therefore a remarkable success (figure 2).

In 2013 KEGOC JSC, Samruk-Energo JSC and KazTransGas are also planning to offer shares on the Kazakhstan stock market and we are evaluating further offerings. All offers will be based on the strict adherence to the highest international standards as applied on the London Stock Exchange. This will reduce the level of risk for investors. 

Figure 2: KazTransOil JSC Placement Results

	Individual	Pension funds/ market makers	Total
Submitted applications	34,676	11	34,687
Requested shares	30,504,338	51,439,033	81,943,371
Total volume of orders (Tenge)	22,115,645,050	37,293,298,925	59,408,943,371

The 'National IPO' was therefore a remarkable success