MOG Project

Establishment of the special sector for subsoil use companies' securities in KASE official list

Almaty

2015

KASE
KAZAKHSTAN STOCK EXCHANGE

MOG Project

Project related information

MOG Project Goals

- Establishing separate sector for the subsoil use companies in the KASE official list
- Developing specialized listing rules for subsoil use companies, that will take into account specifics of such companies activities
- Recognizing geological reporting prepared based on CRIRSCO standards
- Increasing KASE stock market liquidity by attracting subsoil use companies – issuers and investors
- Working with stakeholders to take into account their interests and requirements
- Enhancing Kazakhstan legislation by participating in various working groups to increase attractiveness of the subsoil use sector of Kazakhstan for investors

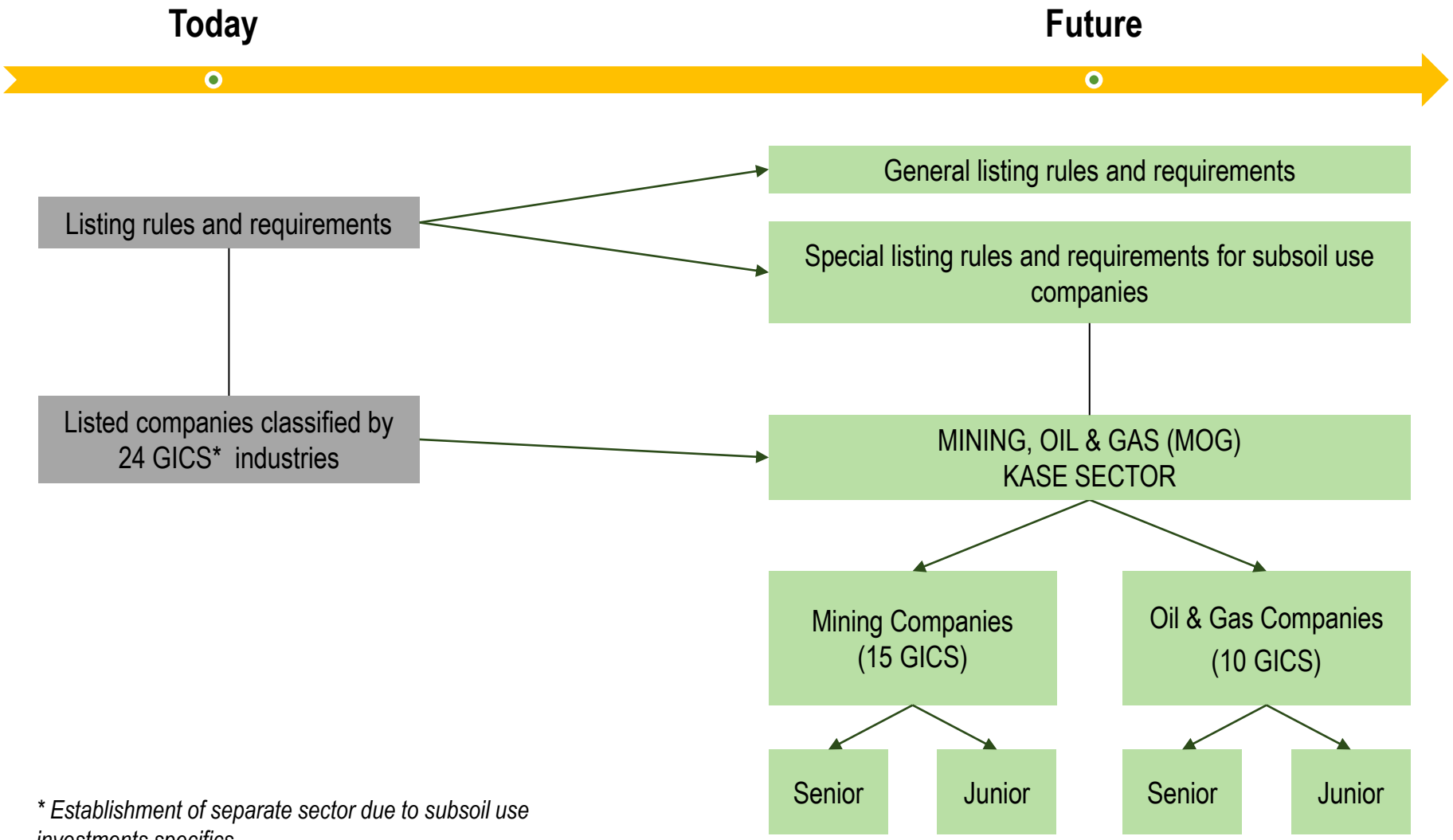
Project MOG Key Elements

- Segmenting MOG sector by industry (oil & gas and mining companies) and company's stage of development (juniors – exploration and seniors – extraction)
- Establishing KASE Expert Counsel that will include geologists, consultants, KASE members, who will participate in evaluation of issuers geological reports
- Replacing financial reporting requirements to junior companies with requirements to top management experience and availability of sponsor
- Availability of sponsor, who will be responsible for junior issuer meeting the listing requirements
- Transition mechanism for junior companies to move to listing requirements for senior companies upon transition to extraction stage
- Geological report of the issuer is prepared by competent person
- Geological report should be not less than feasibility study and should comply with CRIRSCO codes standards

Project MOG SWOT Analysis

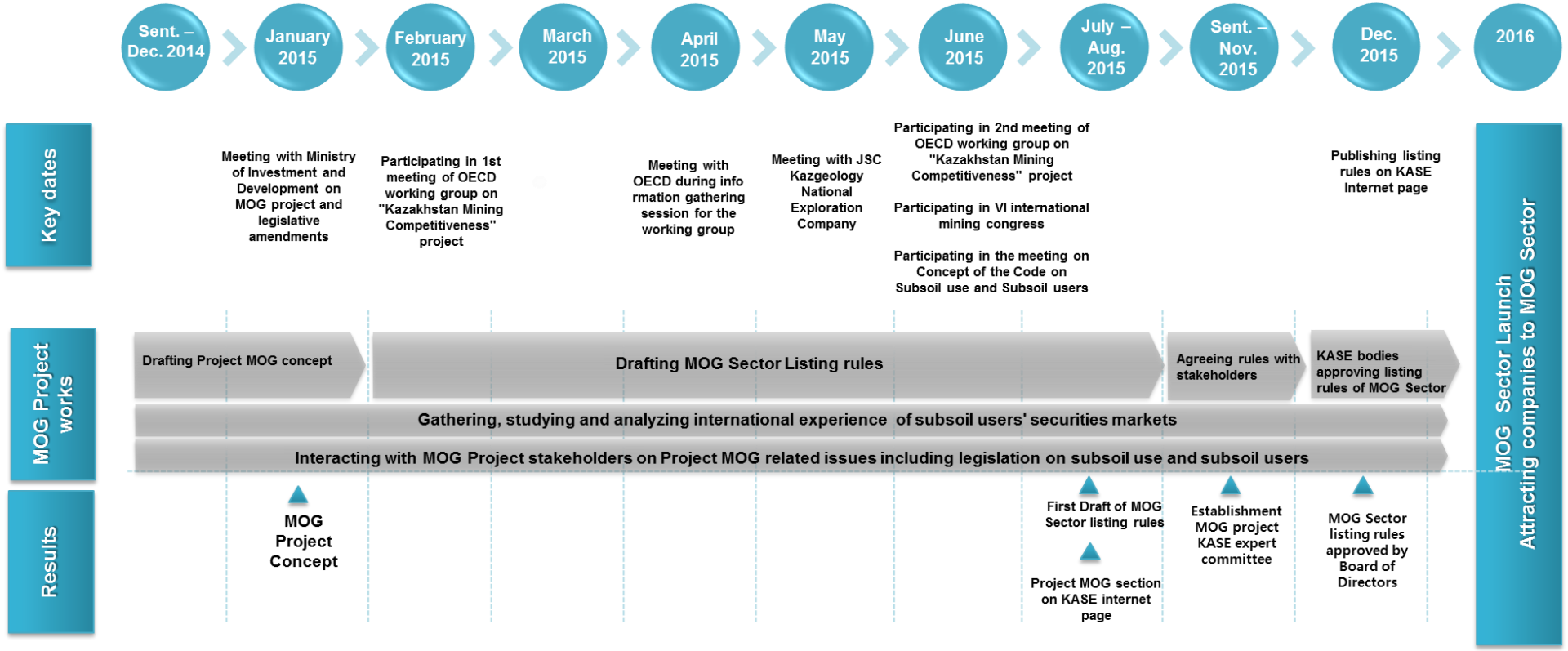
Strength	Weaknesses
1. Experience with HiTech sector establishment. 2. Access to Kazakhstan and international investors. 3. Broad base of professional participants of securities market. 4. Issuers' information disclosure. 4. Access to bonds and shares financing. 6. Experience of successful IPOs.	1. Relatively low liquidity of the current subsoil issuers securities. 2. Absence of institutional investors.
Opportunities	**Threats**
1. Legislation development, including development of the Code in subsoil use and subsoil users and participating in the OECD project on Kazakhstan mining competitiveness. 2. State programs: AIFC, 100 steps. 3. Availability of investors base that includes more than 100 000 accounts. 4. Subsoil use sector substantiated by rich mineral base that includes more than 400 potential issuers. 5. Access to Customs Union and Eurasian Economic Union. 6. Investors capital gains income on KASE official list securities trading is tax free.	1. Competition from other exchanges with liquid subsoil use sector markets. 2. Legal limitations, including state regulation of subsoil users via state balance. 3. Falling commodities prices.

MOG Project Vision



** Establishment of separate sector due to subsoil use investments specifics*

MOG Project Key Stages



Public vs Private

	+	-
Private Market for Junior Companies	• Absence of periodic reporting requirements and supporting public company status • Participation is limited to qualified investors • Ability to place LLP shares of participation • Investor acquires shares of the company that was assessed using criteria applicable to public companies • Reduction of risks related to investments from unqualified investors	• Absence of tax exemptions on securities income (capital gains and dividends) • Absence of secondary market • Limited number of investors • Unregulated market • In case additional financing is required issuer has to either get bank loans (that is limited) or again undergo through full listing process • Absence of public information on company's activities
Public Market for Junior Companies	• Tax exemptions on capital gains and dividends • Existence of secondary market • Issuer's access to additional financing • Availability of public regular reporting and corporate governance requirements to the issuer	• Public company status maintenance costs • Risks related to investments of unqualified investors

- KASE selects public market, as:
  - It is necessary to maintain trade and issuance activity on stock market
  - It is necessary to keep tax exemptions for investors that are only available on stocks included in KASE official list
  - It is necessary to apply best international practice that envisions availability of stock exchange platform
- To account for specifics of companies' activities at various stages of development KASE will introduce separate requirements for exploration stage companies (simplified) and extraction stage companies (full)

MOG Sector Potential Issuers

ХАН-ТЕНГРИ ГОЛДБЕРГ

ВАРВАРИНСКОЕ

МАЙКАИНЗОЛОТО

КОРПОРАЦИЯ ФОСТИС

КОРПОРАЦИЯ ДУНИЕ

НЕФТЯНАЯ КОМПАНИЯ КОР

АЙНУР ТАС

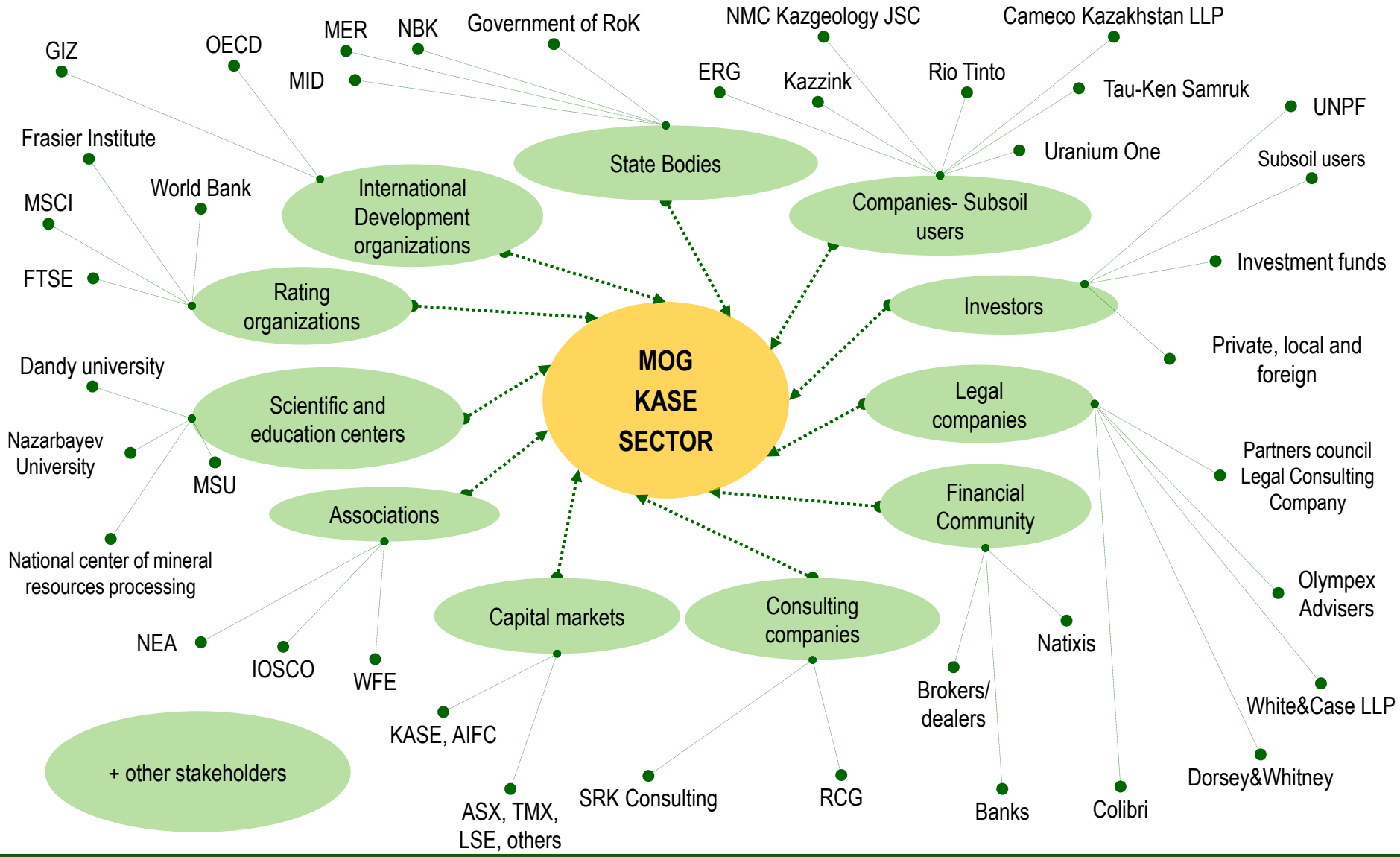
ВАСИЛЬКОВСКИЙ ГОК

АТЫРАУМУНАЙГАЗ

АКБАКАЙСКИЙ ГОК

and 200+ LLP companies

Mining Project Stakeholders



Who is potential investor?

Investor

Institutional investor

or

Venture fund

or

Rich family

or

Rich individual

or

Individual with average income

Who is potential issuer?

Issuer

Subsoil use company, that signed one of the following contracts / obtained subsoil use license for exploration, for development. for exploration and development and completing exploration stage

and

Value of the company's share in probable reserves of the field(s) is not less than USD 20 million

and

Majority shareholders of the company are Kazakhstan citizens

and

Company, working on the project without involvement of large international investor

or

Small international exploration company that expressed the interest

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Reference Information

Listed subsoil users (stock issuers)

KASE

Mining | **Oil & Gas**

15 Materials | **10 Energy**

GICS

KASE official list: stock market

1st category

КазМунайГаз

2nd category

KAZZINC ZHAIREM

KAZ MINERALS

Maten Petroleum

KazBurGas

Max Petroleum

nostrum Oil & Gas

FRONTIER MINING LTD

Ай-Карааул ГОРНОРУДНАЯ КОМПАНИЯ

СЫРЫМБЕТ

JUPITER ENERGY LIMITED

Shalkiya ZINC

BAST

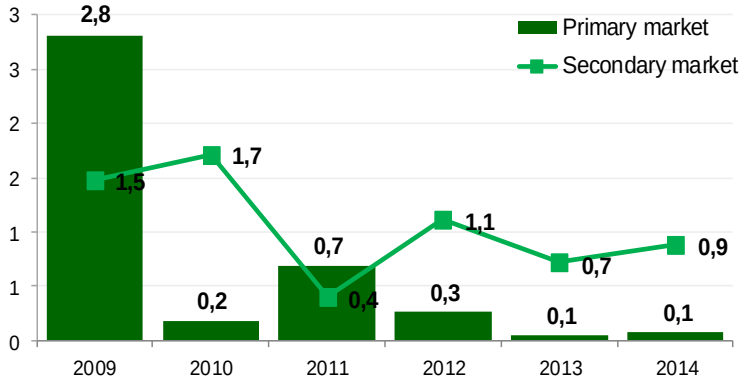
KMG MUNAI

CASPIY NEFT

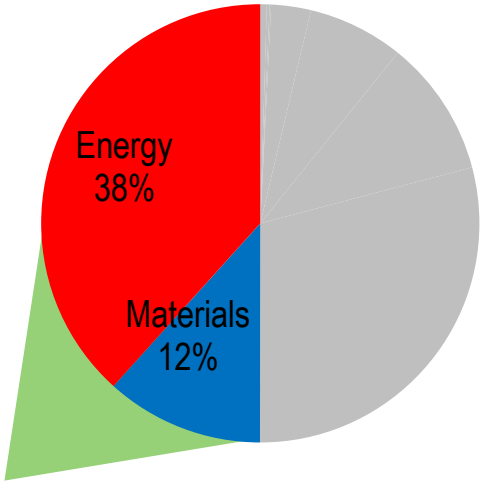
On this slide we provide only companies listed on KASE and included in Sectors 10 and 15 per GICS classification

KASE Statistics

Trade Volume, USD billion



Stock Market Capitalization (01.05.2015, total USD 22 billion)



$9,46 billion
(MOG capitalization)

19 of **82** listed companies – MOG companies

22 of **103** stocks – MOG stocks

~40% – share of MOG stock trades in total trading volume (2014)

Reforms: capital market, subsoil use sector

"100 specific steps" (N. Nazarbayev)	• Establishment of AIFC on Astana Expo 2017 infrastructure and using DIFC experience (step 70) • Increasing transparency and predictability of subsoil use sector by implementing CRIRSCO (step 74)
Astana International Financial Centre (AIFC) (Joint plan of the Government and National Bank of Kazakhstan)	• Establishment of the additional segment in KASE official list for stocks of subsoil use companies
"Mining" Code (Concept of the Draft Code of Kazakhstan on Subsoil use and Subsoil users)	• Introduction of the code should facilitate development of subsoil use sector of Kazakhstan capital market • Stimulating subsoil use companies to enter Kazakhstan capital market by simplifying permits process related to sale of such companies securities and introduction of other ways to increase attractiveness of subsoil use sector of Kazakhstan capital market for investors
Financial Sector 2030 (Concept of Kazakhstan financial sector development by 2030)	• Certain mandates to finance priority sectors of economy and list stable issuers on capital market are to be provided to the "group of larger banks" or systemic banks • State expects that financial sector will be able to provide sufficient amount of funding at acceptable costs to finance priority sectors of economy as part of economic development programs

Listing requirements of other stock exchanges

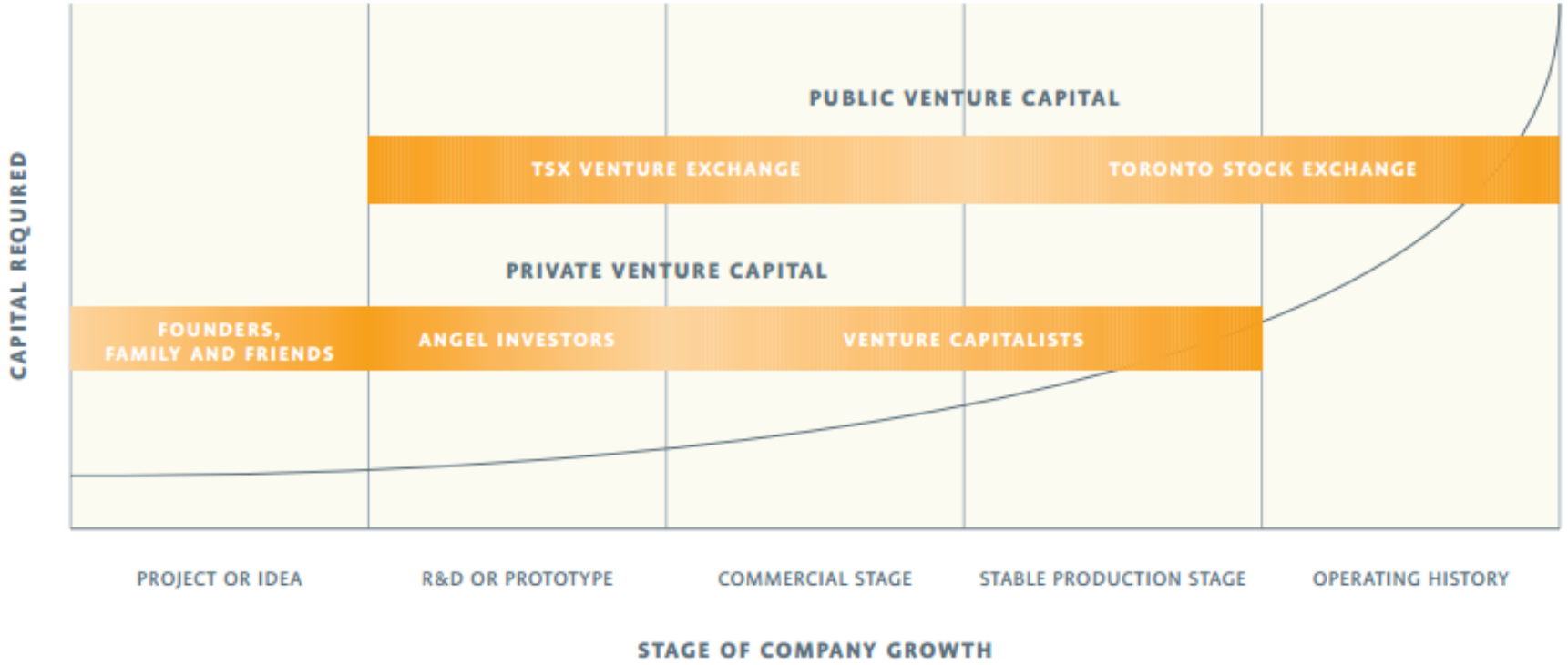
Listing criteria	Австралия (ASX)	Канада			Гонконг (HKEx)**	Англия (LSE)		
		TSX	TSXV			Main market		AIM
			Tier 1	Tier 2		Premium listing	Standard listing	
Sponsor availability								
Applicable financial criteria (revenue and/or assets tests)								
Technical / geological report by Competent /Qualified person	JORC	NI 43-101			JORC	JORC		
Audit history								
Applicable financial reporting standards 1. IFRS 2. US GAAP 3. Other standards	1,2,3	3	3	3	1,2,3	1,2,3	1,2,3	1,2,3
Requirements as to minimal number and share of stocks listed on exchange and to number of independent investors								
Top management experience and history in the company								
Periodic financial reporting								
Approval of key transactions by shareholders								

	Required
	Not required
	Exception / special conditions

** Prepared based on listing rules of ASX, TSX, HKEx, LSE and PwC report (2013)*

*** Scoping study can be accepted from company at exploration stage*

Obtaining investments in Subsoil use sector (Canada example)



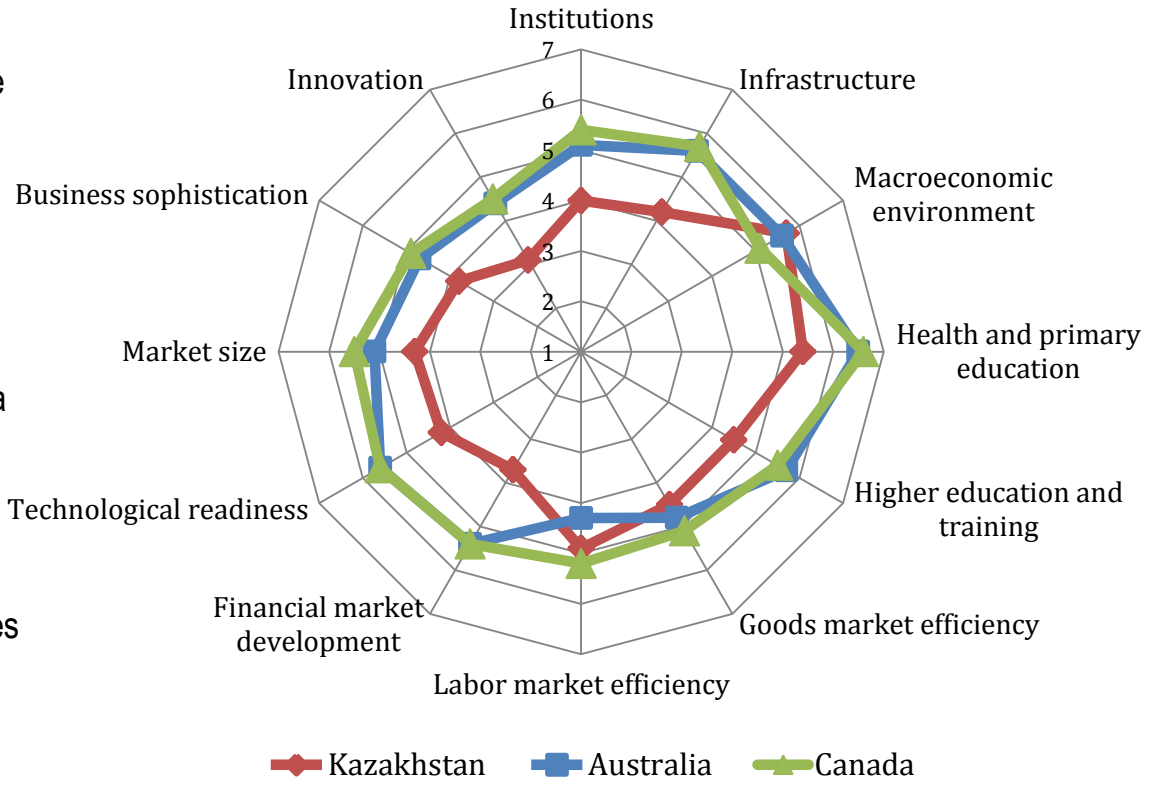
http://www.nbsc-cvmnb.ca/nbsc/docs/YourGuidetoPublicVentureCapital_EN.pdf

International Ratings and Positions

Capital market "depth" required by issuers is provided by investors, in particular international investors, who are using international ratings when taking investment decisions. Relatively low competiveness of Kazakhstan is reflected in the ratings (see below) and is especially visible if compared with subsoil use sector leaders as Australia and Canada (see to the right)

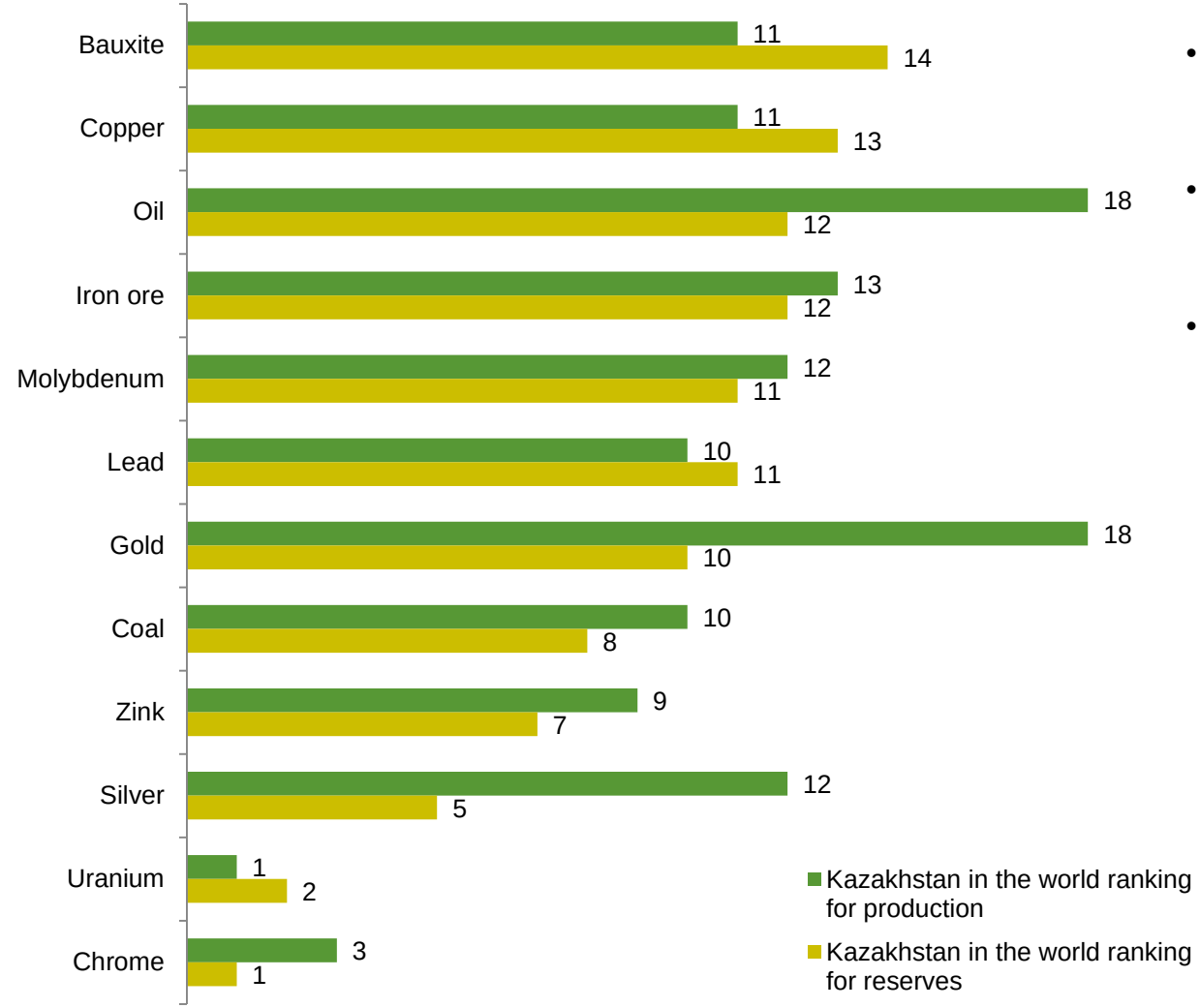
- 70 place in Investors Attractiveness Index (Fraser Institute)
- 98 place at Capital market development criteria (Global Competitiveness Index)
- Watch List (FTSE)
- Frontier (MSCI)
- Only 15% of Kazakhstan subsoil use companies are registered as Joint Stock Companies

Pillars of Global Competitiveness Index, 2014–2015, WEF



http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf

Kazakhstan in the world rankings for reserves and production



- Mineral resource base of Kazakhstan includes 5000+ of deposits, total forecasted value of those is estimated at $46 trillion.
- The subsoil of Kazakhstan contains 30% of global chrome reserve, 25% of magnesium, 10% of iron ore.
- Mineral reserves provide for: 11% of Kazakhstan GDP, 46% of exports, 58% of industrial products, 17% of tax and non-tax payments to budget

* www.invest.gov.kz

Thank you!

With all KASE MOG Project

related questions please refer to:

Project Management Division

of Business Development Department

project@kase.kz

Kazakhstan Stock Exchange Joint-Stock Company

8th floor, Northern tower of Multifunctional Complex Almaty Towers, 280 Baizakov Str., Almaty,

tel. + 7 (727) 237 53 00, fax + 7 (727) 296 64 02

www.kase.kz