



Special Report Into Kazakhstan

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www.swfinstitute.org
questions: support@swfinstitute.org

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Sovereign Wealth Fund Institute
2300 West Sahara Avenue, Suite 800
Las Vegas, NV 89102, United States
Email: support@swfinstitute.org
Events: events@swfinstitute.org
Phone: +1 (415) 717-6912 | Fax: +1 (866) 292-3897
Web: www.swfinstitute.org

LEAD DESIGN

Kara Mayernik, kmayernik@swfinstitute.org

CUSTOM CONTENT SOLUTIONS

Vince Berretta, vberretta@swfinstitute.org

COPIES

Aaron Abrahamson, aabrahamson@swfinstitute.org

CHIEF EDITOR

Michael Maduell, mmaduell@swfinstitute.org

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We provide specialized services such as research and consulting to various corporations, funds and governments. Our flagship publication, the Sovereign Wealth Quarterly, is the premier publication on public sector asset ownership and management globally.

In addition, SWFI facilitates sovereign fund, pension, endowment and central bank events around the world. We have molded the public investor market and have defined concepts and terms like the Linaburg-Maduell Transparency Index (LMTI) and Sovereign Wealth Enterprise (SWE).

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Samruk-Kazyna

Sovereign Wealth Fund Samruk-Kazyna Joint Stock Company is the Fund, where the sole shareholder is the Government of the Republic of Kazakhstan.

Following the Presidential Decree in 2008, the Fund was established as a business corporation – an investment holding, whose Mission is to improve the national welfare of the Republic of Kazakhstan and to support the modernization of the national economy.

Learn more: <http://sk.kz/en>

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CONTACT

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Brief Overview

Kazakhstan's economy remains resilient, gradually adapting to the "new normal" global environment. Taking a cue from the economic recovery in 2017, the country's GDP growth expanded 4.1% in 2018, mainly attributed to (1) higher oil production driven by Kashagan, (2) commodity markets rebalance on the back of growing global demand and stockpiles drawdown, (3) continued infrastructure development, producing a multiplier effect on the economy, and (4) positive growth among Kazakhstan's key trading partners, facilitating trade and investment flows.

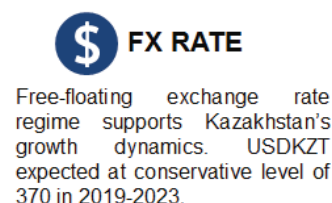
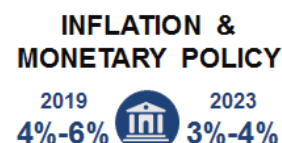
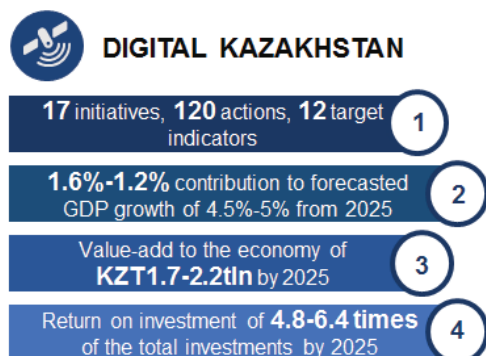
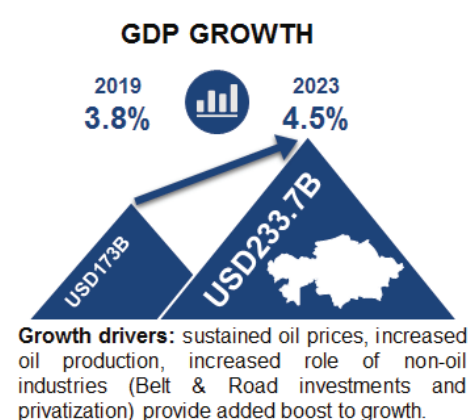
In the medium-term, GDP growth is forecasted to average at 4.1% per annum between 2019 and 2023. As traditional sectors of Kazakhstan's economy reach their full growth potential, alternative sectors such as transportation, logistics, construction and manufacturing will emerge as drivers of future growth.

Reflecting Kazakhstan's relatively robust economic activity anticipated over the period 2019-2020 as well as strong government and external balance sheets, Standard & Poor's reaffirmed Kazakhstan's sovereign ratings at BBB- in September 2018, with a stable outlook.

Government policy has been encouraging in creating a robust investment and business climate. Measures and incentives such as reduction and in some cases waiver of taxes, state subsidies, partial or total exemption from duties and taxes on equipment and other materials have been put in place for the attraction of foreign investment.

In this, Samruk Kazyna plays a pivotal role in Kazakhstan's economic development, acting as a vehicle in attracting investments, introducing and implementing advanced technologies and knowledge in driving operational efficiency of its portfolio companies.

Kazakhstan's Macroeconomic Dynamics 2019-2023



Source: Ministry of National Economy as at 26 November 2018 for 2019-2023 forecasts, Samruk Kazyna

Extensive Review with Akhmetzhan Yessimov

Sovereign Wealth Fund Institute (SWFI): Thank you Akhmetzhan Yessimov for the opportunity to learn more about Kazakhstan and the current developments within Samruk-Kazyna. Please share with the SWF investing community about Samruk Kazyna's New Strategy 2018-2028.

Akhmetzhan Yessimov, Chief Executive Officer and Chairman of Management Board of Samruk Kazyna: Samruk Kazyna aims to become an investment holding company, and we are working towards achieving this. The Fund's New Strategy 2018-2028 was approved by the Fund Management Council in April 2018 and by the Decree of the Government of the Republic of Kazakhstan in August 2018. Within the framework of the New Development Strategy, the Fund has identified 3 strategic goals:

1. Company performance (efficiency of companies);
2. Portfolio management; and
3. Sustainable development.

Against this backdrop, 4 strategic initiatives have been put in place to meet the 3 strategic goals. Samruk Kazyna aims to do the following:

1. Increase the profitability of companies;
2. Streamline portfolio structure;
3. Diversify income;
4. Continue to drive corporate governance and sustainable development.



In the short-term, the Fund focuses on improving the efficiency of operational, financial, and investment performance of portfolio companies. The priority areas for the Fund will be financial stability of large companies, revision of the list of investment projects throughout the entire group of companies of the Fund, with special attention paid to growing companies, attraction of strategic partners, improvement of operating efficiency of companies up to the level of the best companies in the industry, exit from non-strategic assets, and revision of Transformation Program approaches.

In the medium and long-term, the Fund will focus on reinvesting funds from sale of non-strategic assets and building an effective and diversified portfolio of investments, with exposure to new economic sectors within Kazakhstan (in accordance with key state programs), and to investments outside of Kazakhstan (for long-term financial stability and generating high financial returns from international investments).

SWFI: What is Samruk Kazyna's investment strategy moving forward? Do you have plans to go abroad? What is the Fund's criteria on investments and/or business partners?

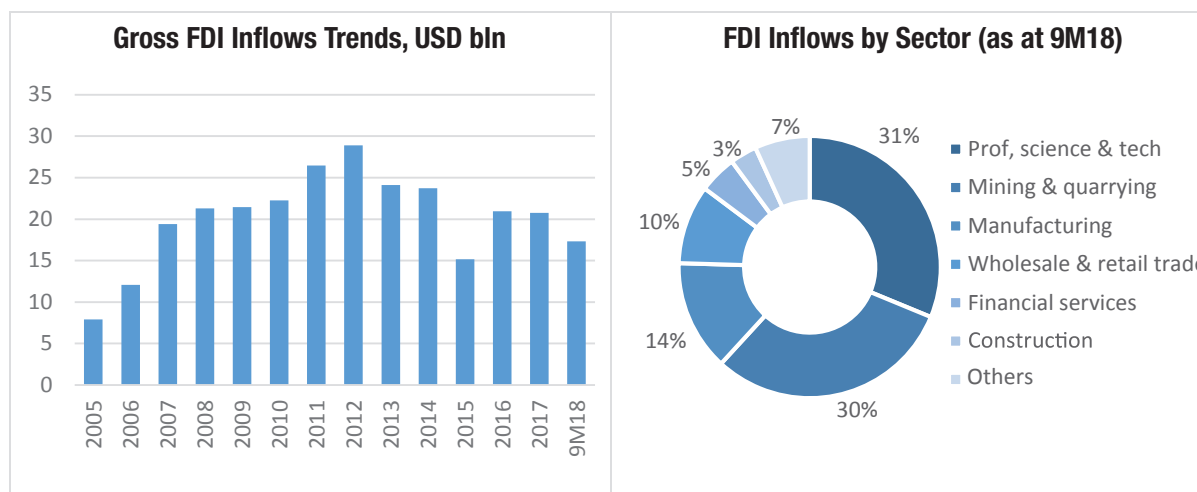
Yessimov: Our revised investment policy provides reference that shapes the investment principles, goals, and direction of the Fund in the long-term. It does not limit the Fund's investment activities in terms of geography or sector. Samruk is free to invest in any commercial and viable projects, either independently - or preferably - with strategic partners.

Samruk Kazyna's current investment portfolio consists of equity shares in portfolio companies, financial instruments nominated in foreign currency, and loans and financial aid

provided to portfolio companies. The Fund manages its portfolio by receiving dividends from portfolio companies and reinvesting them into new industries aimed to support the development of the national economy – and this is domestically-oriented.

Yes, Samruk Kazyna has plans to invest abroad moving forward. I want to highlight one important element of the Fund's New Development Strategy is the creation of the Future Generations Fund (FGF), which is designed to accumulate and generate income for future generations through financial investments into instruments as well as foreign direct investments. This means that 2019 will see the Fund taking an important step in its development path to have exposure in international markets. Our aims for international investments are (i) to ensure diversification of oil revenues for long-term financial stability, (ii) to avoid the concentration risk of investments in one economy and in one sector, (iii) to enhance portfolio yield in general, and (iv) to achieve high financial returns from investments. As this will be the Fund's first venture into the international arena, we will implement a phased transition in regards to international investments. For a start, we will work very closely with external asset managers, leveraging on their international expertise and resources. Over time as we climb the learning curve, we will gradually evolve into co-investments with private companies, corporations, including within the framework of G2G intergovernmental agreements, as well as with other sovereign funds. Ultimately, our aim is to be able to carry out direct investments in various industries and countries, either independently and/or with partners.

As part of our investment mandate, both domestic and international, the Fund collaborates closely with external partners. We welcome all potential investors and partners,



Source: National Bank of Kazakhstan, Samruk Kazyna Research

and value their experience, competitive edge in know-how and technology, best practice, and performance-oriented culture.

SWFI: Is Samruk Kazyna's Privatization Program on track? Please share with us the progress year-to-date.

Yessimov: The privatization program was approved by the Decree of the Government of the Republic of Kazakhstan on December 30, 2015. The program aims to reduce the share of the state in the economy of Kazakhstan. The program's implementation range is from 2016 to 2020.

The comprehensive privatization plan covers 190 Fund assets:

- 9 of which are candidates for IPO / SPO or strategic sale;
- 181 assets are those companies that are subject to withdrawal from the group of the Fund by other methods.

As of February 28, 2019, 134 (or 74%) of the 181 assets was successfully privatized and were dropped from the Fund's group. Including the following:

- 85 assets worth 174.3 billion tenge were sold,
- 49 assets were liquidated/reorganized.

Particular attention is paid to the privatization of the 6 major national companies that are candidates for an IPO/SPO, as well as 3 companies that are planned for sale to a strategic investor.

Current preparatory work of companies for possible IPO/SPO transactions looks as follows:

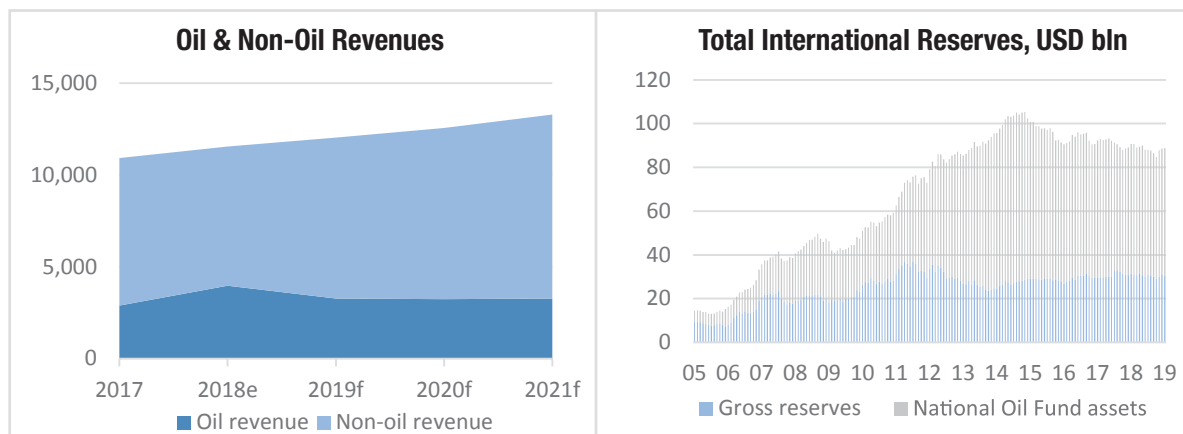
- 1) 15% of shares of Kazatomprom were successfully

- placed on the London Stock Exchange and Astana Stock Exchange (AIX) on November 13, 2018. Total proceeds raised from the IPO reached USD 451 million;
- 2) Despite the high degree of preparedness for Kazakhtelecom's and Air Astana's possible stock offerings expected in 2019, the final decision will be made with consideration of the macroeconomic climate, realistic demand, and available liquidity;
- 3) KazMunayGas formed a team of consultants and global coordinators;
- 4) A diagnostics report on Kazpost's readiness for an IPO and recommendations have been provided by independent advisors. Internal discussions are underway;
- 5) With respect to KTZh, internal work is underway to determine the optimal perimeter of privatization, improve the operations of the business, and update the strategy and business plan.

SWFI: Let's come back to KazMunayGas. As the company eyes an initial public offering in 2020, if oil prices continue to remain at current level (slightly above USD60pb), how will this affect valuation?

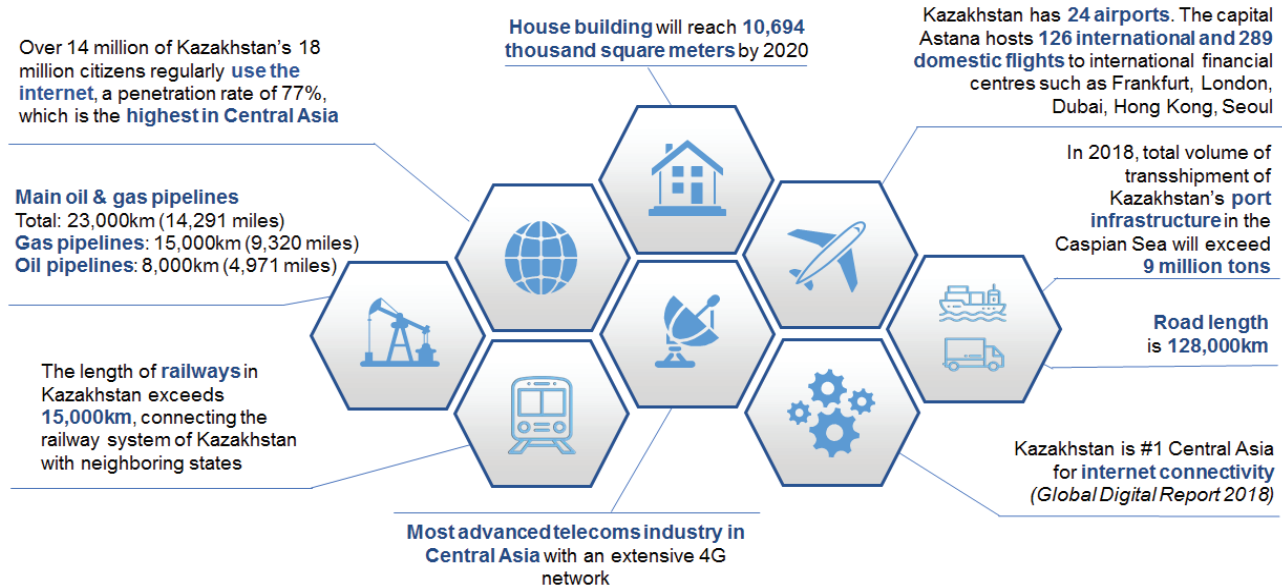
Yessimov: Certainly, the oil price is one of the main factors that will influence the value of the company in the light of an upcoming IPO. Nevertheless, there are plenty of other factors that also affect the value of the company, such as the structure of the company, the IPO perimeter, the financial performance of the company, the macroeconomic situation in the region, and the current situation in the capital markets.

Consolidated Budget Position, KZT bln



Source: Ministry of National Economy projections as at 26 November 2018 for 2019-2021 forecasts, National Bank of Kazakhstan, Samruk Kazyna

Kazakhstan's Robust Infrastructure



Source: Kazakh Invest

SWFI: No doubt Asian emerging markets have had challenges in recent months. Which industries can possibly benefit from a global reset in trade and money flows? How is Kazakhstan expected to benefit from these?

Yessimov: The recent challenges in Asian emerging markets no doubt will influence, directly or indirectly, Kazakhstan as well. The Fund's portfolio companies operate in a number of industries – oil and gas, transport and logistics, chemical and nuclear, mining and smelting, energy, mechanical engineering, and real estate. From a business perspective, we try to search for beneficial opportunities and minimize possible risks.

SWFI: We keep hearing about the Belt & Road Initiative (BRI). What can you share with us on exciting developments?

Yessimov: Belt & Road Initiative is a global project aimed at deepening economic cooperation between the countries of the Eurasian continent by improving existing and creating new transport, energy and trade corridors. BRI unites the land "Economic Belt of the Silk Road" and "Sea Silk Road of the 21st Century".

As part of the implementation of the Silk Road Economic Belt project, in 2016, the Chinese Government adopted a five-year plan for the development of railway corridors to Europe, in accordance with which it is planned to organize the transportation of up to 5,000 container trains in 2020

to China-Europe. At the same time, the development of the existing 23 railway routes (of which 14 passes through Kazakhstan) and the launch of 20 new ones (including 16 through Kazakhstan) is envisaged. Kazakhstan is the largest country located on the transcontinental route of the Silk Road Economic Belt.

Internationally competitive speed and cost parameters of transportation are provided now thanks to timely measures to develop the transport and logistics infrastructure of transcontinental corridors passing through Kazakhstan, improve the logistics climate, reduce administrative barriers, create favorable tariff conditions, and build partnerships and alliances with transit routes.

In the period since 2008, more than USD30 billion was invested in large-scale modernization of the transport infrastructure: 2,500 new railway lines were built, 6,300 km of roads were built and reconstructed, rolling stock was updated, the capacity of border railway stations was increased, and the Khorgos - Eastern Gate FEZ is currently under developing.

A railway ferry terminal with a capacity of 4 million tons and an automobile crossing with a capacity of 2 million tons were commissioned in the port of Kuryk, which ensured the expansion of the capacities of the Caspian Sea from 16 to 25 million tons per year.

As a result, today four key Trans-Eurasian corridors pass through Kazakhstan:

- from China to Europe through the territory of Kazakhstan, Russia, and Belarus;
- from China via the Caspian Sea, Azerbaijan, Georgia, and Turkey further to the countries of Southern Europe (Trans-Caspian international transport route);
- from China to Central Asia and the Gulf countries;
- The North-South corridor linking the southern regions of Eurasia and countries such as India with Northern Europe.

In order to facilitate border crossing, large-scale work was carried out to reduce the transit time of trains at the border, information exchange processes with customs and border authorities were improved, and modern IT solutions were introduced.

The effectiveness of the above factors is clearly reflected in the World Bank's Logistics Performance Logistics Performance Indicators - Logistics Performance Index, in which Kazakhstan ranks 71st among 160 countries (+6 positions compared to 2016), and is the best among the CIS countries. By 2021, Kazakhstan intends to enter the top 40 countries in the world with the best logistic climate.

Thanks to these measures, Kazakhstan is successfully integrating into global logistics supply chains: more than 70% of land transit between China and the EU passes through

Kazakhstan.

At the same time, in 2018, a more than 280-fold increase in the volume of transit traffic from China to Europe to the level of 2011 (from 1.1 thousand to 310 thousand containers) was achieved, and back loading is provided at a level of up to 50%. Sales are organized in 17 provinces of China, Vietnam, Korea, European countries and the Persian Gulf.

In order to coordinate measures for the development of routes, a Cooperation Plan was approved for the conjunction of the New Economic Policy "Nurly Zhol" and the construction of the "Silk Road Economic Belt".

The practical implementation of this cooperation was the entry of the largest international shipping company COSCO and the Lianyungang port into the development of the Sukhoy port on the territory of the Khorgos-Eastern Gate FEZ on the Kazakhstan-China border.

In order to maximize the effect of the implementation of the BRI, the policy of modernizing the domestic transport and logistics infrastructure, creating logistics centers and simplifying trade procedures will be continued. At the same time, it is planned to strengthen the work on the promotion of Kazakhstan transport services in foreign countries. Work will be continued to increase the return load for transit rail traffic by working with foreign shippers. In order to attract new customers, new routes and competitive services will be formed on transkazakhstan routes. Electronic commerce is

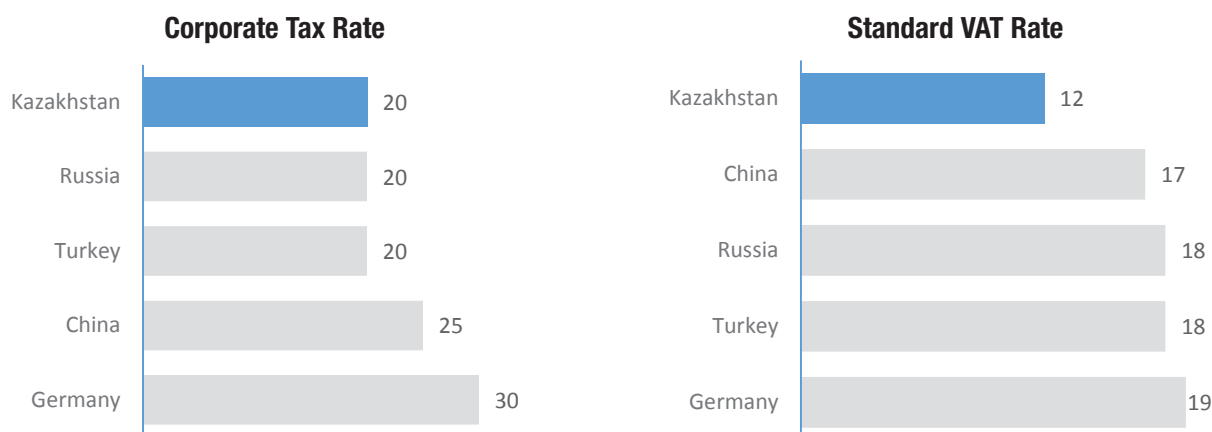
Kazakhstan is strategically located at the heart of the New Silk Road



Source: Kazakh Invest

Tax regime - one of the most favorable in the world

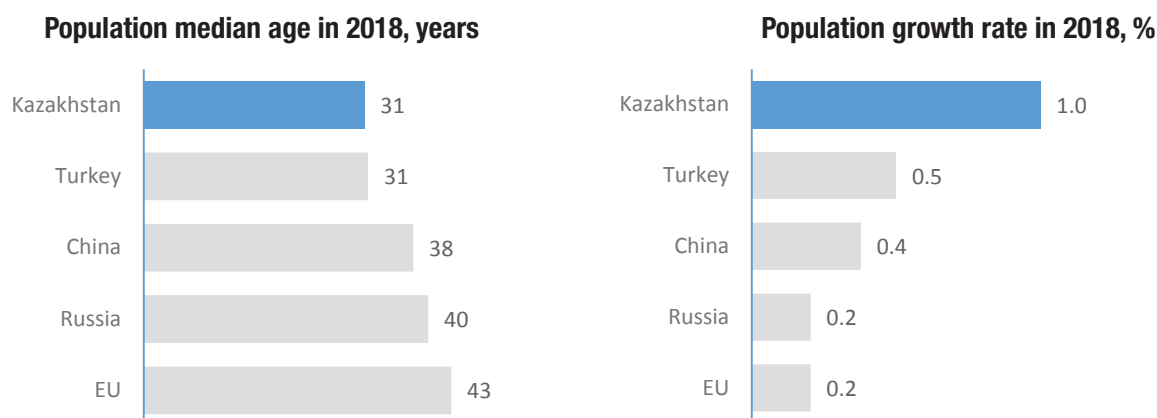
Kazakhstan's corporate tax rate is at 20%, while standard value-added tax (VAT) rate is at 12%, lower than neighboring peers.



Source: KPMG, VAT Live

Young demographics and fast growing population

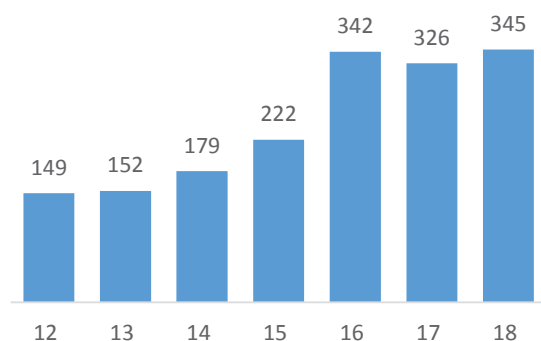
Kazakhstan ranks 31st on the Human Capital Development Index 2018 among the world's 157 countries.



Source: CIA Factbook, World Bank

1st in the "Cost Effectiveness" category according to the fdi Magazine's Top 10 Manufacturing Countries of the Future 2018/19.

Average annual USDKZT exchange rate



Source: National Bank of Kazakhstan

The 2015 devaluation made the cost of Kazakhstan's production even more competitive.

In the medium-term, the tenge exchange rate is expected at conservative level of 370 during 2019-2023.

Samruk Kazyna's Key Financial Indicators

Key metrics	2014	2015	2016	2017	2018*
Assets, USD bln	91.2	61.5	67.4	73.2	66.8
Return on equity, %	3.0	3.3	5.4	6.5	8.9
Return on assets, %	1.5	1.6	2.7	3.1	4.4

Source: Samruk Kazyna

*estimated indicators

one of the key drivers for the growth of transit multimodal transportation.

In general, in 2020 it is planned to transport up to 2 million containers along all trans-Kazakhstan routes.

SWFI: How is the Digital Strategy of Kazakhstan being adopted and implemented by Samruk Kazyna group of companies?

Yessimov: The world is entering the era of digitalization, and Kazakhstan is setting its own agenda in the pursuit of modernization of the economy. Digital Kazakhstan, the national program launched by the President of our Republic, has also set its way into Samruk-Kazyna group of companies. Taking into account that our companies are national leaders in the following industries oil & gas, energy, transport and communications - we understand the importance of digital transformation. It was essential for us to define approaches and methods for selecting digital transformation projects that have largest economic impact on companies' industrial processes.

Our current digitalization project portfolio consists of 43 projects, with 14 of them included in the roadmap of the "Digital Kazakhstan" program. Our projects vary and range from implementing digital systems to increase meantime between failure in production, to systems that increase the efficiency of the national power system. At the same time, we pay attention to the quality of our services, build up the client base with big data and analysis of client analytics. For instance, in logistics, optimal path is determined with help of big data, drones are used to reduce delivery time for distant regions. Our national electricity grid operating company is implementing an advanced monitoring system, which will provide essential and trusted data for further control and application of complex algorithms aimed at improving efficiency of the power system.

SWFI: How important is local capital markets development for the privatization program and Kazakhstan?

Yessimov: Very important. Historical experience of privatization programs in OECD and developed countries showed the presence of robust and liquid capital markets as well as a diversified base of market players (i.e. critical mass). Combined with suitable regulatory and legislative framework, it will contribute to the success of IPO listings. But of course the profile of IPO candidates are equally important in attracting the investors e.g. companies with good growth stories and track record of performance, with significant importance in the domestic/regional/global market.

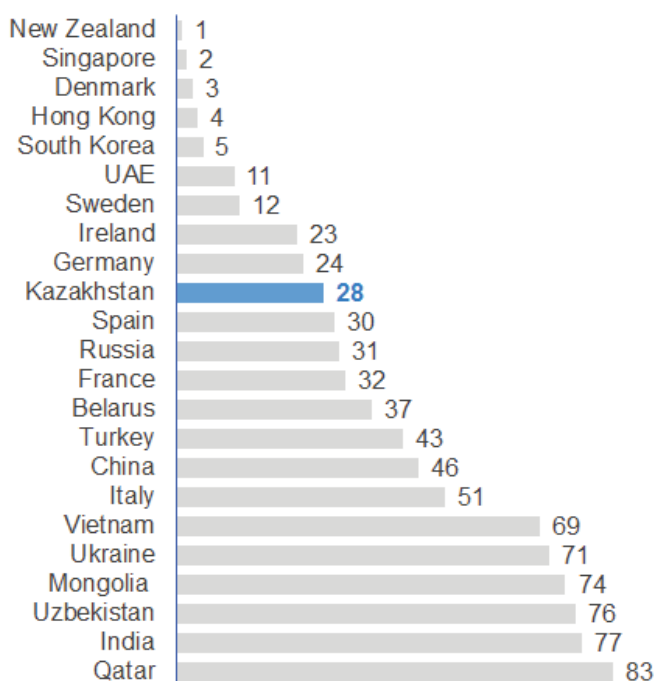
Liquid and efficient capital markets also increase financing opportunities for local companies to fund investments. Stock markets provide investors with a potential exit mechanism, offering liquidity to investors that encourages diversification and generates information about the quality of potential investments.

Likewise, privatization has a significant impact on the development of capital markets. Studies conducted by the World Bank and OECD showed that privatization of state-owned entities (again, combined with a suitable regulatory and legislative framework) can give stock markets the needed boost in size and quality.

Studies conducted by the OECD on the impact of privatization in 1990-1998:

- Total market value of privatized firms grew from <USD50bln in 1983 to almost USD2.5tln in 1999;
- Stock market capitalization as % of GDP rose from 52% to 82% during 1990 – 1998;
- Share trading volume increased from 29.0% of GDP to 79.3% during 1990 - 1998;
- Total market capitalization of developing country stock exchanges increased by 23 times between 1983 and 1998 to USD1.91tln in 1998;
- Privatized firms are the most valuable companies in 7 out of the 10 largest non-US stock markets;

**Kazakhstan ranks 28th in the World Bank's Ease of Doing Business 2019
(out of 190) and is among the most improving economies.**



#1 for minority investors' protection

#4 for enforcing contracts

#35 -100 days to receive all construction permits

#18 – 3 easy steps to register property in just 3 days

#36 – 5 easy steps to start a business in just 5 days

Source: World Bank's Doing Business 2019 Report

- Privatizations via IPO listings transformed international equity issuance and investment banking practices.

SWFI: Are you confident that Kazakhstan will be able to attract international capital?

Yessimov: Yes of course. Kazakhstan is the largest country and market in Central Asia, accounting for 60%-70% of GDP/investments in the region, with strategic positioning between Russia, China and the Caspian region.

Kazakhstan views protecting minority investors as highly important in its agenda, the country ranks 1st in protecting investors in the World Bank's Doing Business 2019.

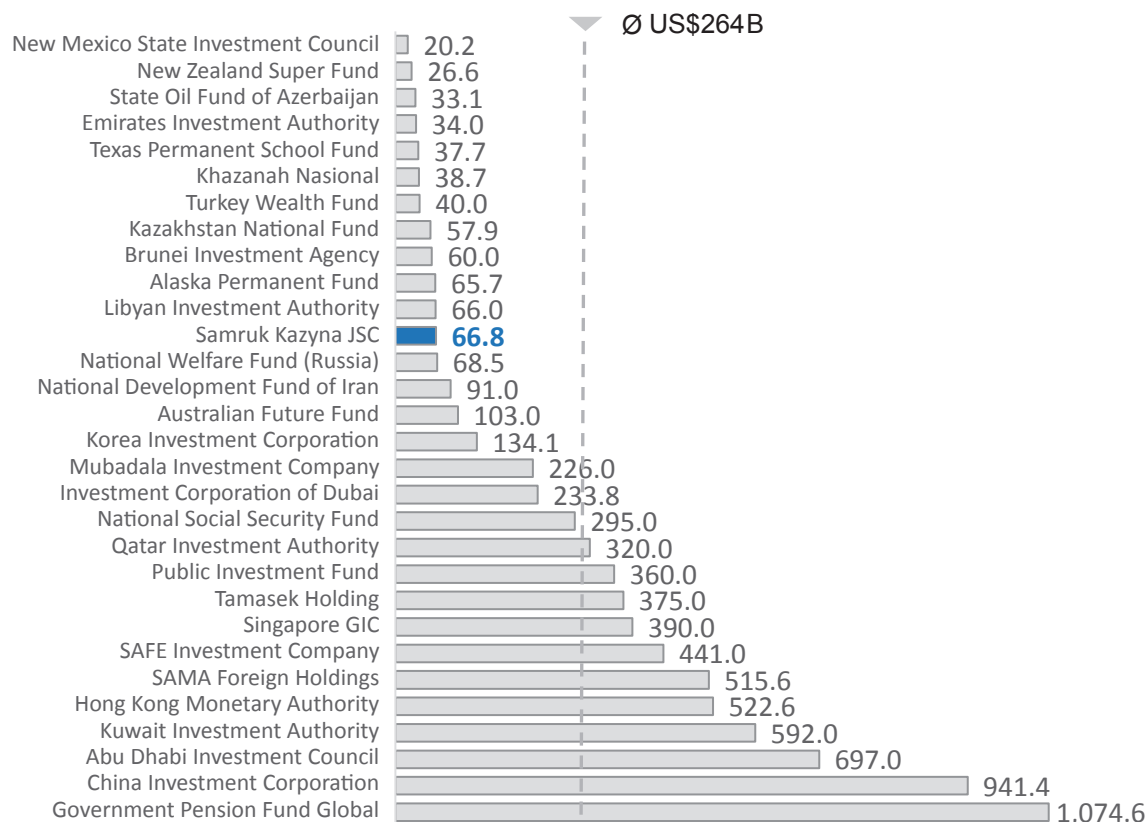
Strong commitment to reduce State involvement, with new legislation to support business climate improvement soon to be passed.

Kazakhstan possessed well established infrastructure. There are 6 international highways and 5 international railroads that cut through Kazakhstan.

Now is an opportune time for international investors to invest in Kazakhstan. The Fund is ready to share control/ownership over our corporate assets, we ensure (i) adherence to international standard of corporate governance, and (ii) guarantees equality and fairness to all investors.

SWFI: Thank you for your time and to learn more about Samruk-Kazyna, please visit, <http://sk.kz/en>

Top 30 SWFs by Assets (as at 15 March 2019)



Source: <http://www.swfinstitute.org/sovereign-wealth-fund-rankings>



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DATA SUBSCRIPTIONS

Aaron Abrahamson
Client Support Specialist
aabrahamson@swfinstitute.org
+1 (415) 717-6912

SALES & MEMBERSHIPS

Vince Berretta
Director
vberretta@swfinstitute.org
+ (702) 768-0703

EVENTS

Karen Maduell
Director
kmaduell@swfinstitute.org



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