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Kazakhstan

Moving in fast-forward

THANKS TO OIL WINDFALL, KAZAKHSTAN IS GROWING BY LEAPS AND BOUNDS. ALREADY A LEADER IN THE CENTRAL ASIAN REGION, IT COULD WELL BECOME ONE OF THE WORLD'S 50 MOST COMPETITIVE ECONOMIES BY SPREADING THE WEALTH TO ITS SMES THROUGH STRUCTURAL REFORMS.

At 15.2 million, the population of Kazakhstan is relatively small. But if you add 1.05 million square miles of territory and at least 9 billion barrels of proven oil reserves to the equation, the Central Asian nation becomes hard to miss. Interest in Kazakhstan has been building since the 1990s, when oil companies first probed the massive plates under the Caspian Sea. The real changes in investor perception, however, have been evident since 2004.

"When the oil started to flow, that's when things really started to happen," says Dejan Djordjevic, the General Manager of the Hyatt Almaty. Petrodollars set off a property boom in the financial center of Kazakhstan. The volume of domestic construction was already worth \$1.43 billion in the first half of 2005 alone. The structures appearing in the capital, Astana, are also made of reinforced glass and steel. High profile residential and commercial complexes are going up in both cities, which boast supermarkets that stay open 24/7 and are better stocked than many in the US or Europe.

"When I talk to former colleagues who were ambassadors here 7 or 10 years ago, they are surprised by the positive changes," says John Ordway, the US Ambassador. In the 1990s, the country was in the throes of a difficult transition. GDP plummeted as factories, mills and mines closed down. Nowadays, per capita income has climbed back to its 1989 levels and terms like 'comparative advantage' are part of the new vocabulary.

Value-added and corporate income taxes have been dropping at a pace of 1% per year, according to Raimbek Batalov, head of the Forum of Entrepreneurs. President Nursultan Nazarbayev's government has also tackled the excessive bureaucracy to break administrative barriers for SMEs. The next goal is to let US investors know that Kazakhstan is the operational center for a market of more than 200 million in Central Asia. "This is one of our best partners in the region," Ordway points out.

KAZAKHSTAN **Moving in fast forward**

So far, the economy is a major success story. Standard & Poors (S&P), the credit rating agency, revised its outlook for Kazakhstan from 'stable' to 'positive' in June. Prices for Kazakh commodities (oil, gas, copper, and gold) are at an all-time high at mercantile exchanges and world growth bodes well in the medium-term. According to the IMF, Central Asia's GDP figures have exceeded 7% in the past six years, with Kazakhstan growing in excess of 9% in 2005. Meanwhile, export earnings have filled the coffers of National Fund of the Republic of Kazakhstan (NFRK). High growth and the government's net asset position could trigger a further upgrade. It might be the perfect time window to deepen structural reforms and meet the requirements of WTO membership.

"The rapid growth is driven by oil prices, there is no denying that. There's a very high level of FDI, around 10% of GDP," says Grigoriy Marchenko, Chairman and CEO of Halyk Bank and a former governor of the National Bank of Kazakhstan. Financial institutions like his have profited from the \$40 billion injection of investment in the past few years. Credit growth has picked up 75% per annum as local banks borrow externally. The *tenge*, Kazakhstan's currency, has appreciated on the high oil prices. As head of a major bank, Marchenko thinks the inflows should be allocated to infrastructure, education and health in order to lock in Kazakhstan's future potential. Fiscal policy needs to address these key social indicators before oil prices go south. But it is difficult to convince policymakers of the necessity for structural reforms with property markets in full swing and wages on the rise. "People are enjoying the good times," says Marchenko.

ENERGY POTENTIAL HAS RARELY DRAWN SO MUCH

ATTENTION: the country's combined onshore and offshore hydrocarbon reserves in the Caspian Sea could be revised upward to 29 billion barrels, comparable to those of Qatar. Largely definitional, oil reserves tend to be hotly debated, but Kazakhstan is no longer a minor exporter of crude. Its combination of low domestic consumption and high production means net exports are above 1 million barrels per day. Karachaganak, an oil and gas condensates structure, contains 16 trillion cubic feet of recoverable natural gas. For now, good relations with state-owned KazMunaiGaz will be increasingly important for international oil companies (IOCs), which are having a field day. US-based IOCs like Chevron, ExxonMobil and ConocoPhillips are the largest non-CIS investors. They have ushered in new technology and management standards, as well as cash transfers. While crude deposits have been shrinking elsewhere,

including Russia's West Siberia, massive oilfield structures in Kazakhstan will continue to grow for another 15 years. At Tengiz, output has risen to 13.5 million tons per year. And according to seismic studies, Kashagan is the 5th largest oil field in the world in terms of reserves.

"Chevron and other US firms are doing an excellent job. By 2008 we expect output at Tengiz to grow to 20 million tons per year," says Bahtykozha Izmuhambetov, Minister of Energy and



A view of the capital, Astana.

Mineral Resources. One of the challenges has been transportation. Bottlenecks in the Caspian Pipeline Consortium (CPC) have forced companies like TengizChevrOil to ship oil by rail to Odessa, in Ukraine. But since Kazakh production is set to rise by 10 million tons annually, Izmuhambetov is working on alternate plans. Recently, the government of Kazakhstan opted for participating in the \$4 billion Baku-Tbilisi-Ceyhan (BTC) pipeline. The 1,776km pipeline opened for test filling in May 2006. Just two months later, it had already delivered 12 million barrels of Caspian crude.

A second round of structural reforms will take Kazakhstan another large step forward. "The country must be interesting to the world not only for its commodities, but also for its transformed products," says Azamat Joldasbekov, President of the Kazakhstan Stock Exchange (KASE). Launched in 1993, KASE already has 2.5 times the number of corporate bonds issued in Russia. Among its 100 listed companies are mid-sized IT firms, innovative construction outfits and start-ups in the agribusiness. By 2020, their multiplier effect may have reshuffled the economy altogether.

EXPERIENCE THE PLEASURE OF PRIVILEGE

The Rixos President Hotel Astana presents numerous luxurious facilities for the business world, such as free wireless internet and a well equipped business center. Other than restaurants and bars, you can enjoy a Turkish bath, massage or sauna at the exclusive spa.

With a total of 700 m² of meeting rooms, the hotel is also the choice venue for international seminars and private meals.

R I X O S
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**Rixos Hotel:
windows on Astana**

Inaugurated a year ago, the Rixos Hotel is the second five-star hotel in Astana. Just a stone's throw from all the major ministries, the 168-room hotel includes 12 presidential suites with spectacular views of Kazakhstan's vibrant new capital. About 85% of hotel customers are foreigners, most of them in Astana for business.

"Astana is growing at a furious pace and I think it will turn into a second Dubai within 10 years," says Mehmet Nafiz Ünal, General Manager of the hotel. The population has swollen to 700,000 and shopping malls have sprouted downtown. For the Hilton-trained hotel manager, the bottom line is growth. With an educated workforce, channeling Kazakhstan's traditional hospitality will not be difficult. But training is critical to maximize profits. "We'd like to set up tourism training schools. We've already contacted the Minister of Tourism about this matter," he says.

At the Rixos Hotel, stress is on needs as opposed to luxury. After ensuring security, efficiency and friendly service, Ünal caters to full business functionality. It offers 2,300 square feet of conference space and wireless Internet access. A toll-free reservation line will soon be available. "We build hotels for needs. That's our vision," says Ünal.

FOCUS: OIL & GAS

Big Sky: ambitions in the Pre-Caspian basin



The balance sheets are positive at Big Sky Energy, a newcomer to Kazakhstan's oil & gas sector. Servet Resim, President and CEO, thinks the time is right and the place is here. All it takes is a little homework—and some digitized seismic data.

Why was Kazakhstan a good choice for Big Sky?

It was decided that the next thing the Chinese needed would be energy. For petroleum engineers and electrical engineers, this was the right place. I looked at some analysis of the region: Azerbaijan, Uzbekistan, Turkmenistan and Russia. But when it came down to local politics, Kazakhstan came first. It was the natural default. It's the place to come for business because of the size of the reserves base, the business framework and the location.

Analysts speak of two kinds of international oil companies: those already operating here and those waiting in line. How does the business climate compare to other countries?

The working environment is very good, both for small and large businesses. All you need to do is take a look at the country's credit ratings. As far as I know, they are better than in Russia, the Middle East and even some European countries. Kazakhstan has the largest crude oil reserves in the Caspian Sea region and accounts for about two-thirds of production. Output is currently around 1 million barrels per day (mbd). The goal is to bring the number up to 3mbd.

What will be the role of the oil and gas industry in turning Kazakhstan into one of the top 50 most competitive economies in the world?

I think oil and gas will serve as a foundation stone. The president and the cabinet are busy promoting other alternative industries. They too will revolve around natural resources like minerals and metals. But keep in mind that despite the resource wealth, Kazakhstan lacks a petrochemical industry. It goes back to a Soviet decision to place that type of industry elsewhere. Companies like Shell will soon be looking to open petrochemical complexes here, leading to the production of plastics and other downstream goods.

Big Sky's experience has a very solid track record in Kazakhstan. What are some of the key factors for your success?

I'll offer you a small parable. Hunting turkeys is a lot of work. But if you are on a turkey farm it becomes very easy. Likewise, making an oil discovery in the Pre-Caspian basin is like sitting in middle of that turkey farm and shooting. That's not completely accurate, of course, because we too have hit on dry oil wells. But the odds are in our favor.

You announced three significant discoveries in the first half of 2006. What is your strategy to develop them?

By definition, an oil company needs to grow by increasing reserves initially. You explore, then you stockpile and then you develop. We're still in the exploration phase. Within the next fiscal year, as we move to develop some of these fields, we'll start booking the reserves. At deep wells like Oguy, we've only explored the shallowest accessible reserves at 600 meters. Next we'll go down to 3,000 meters. As I said, the success rate is better than in most other places in the world.

Big Sky Energy Corporation

www.bigskycanada.com



Expanding, evolving and developing Kazakhstan's Oil & Gas sector

Big Sky Energy Corporation is an international energy company and a growing participant in Kazakhstan's prolific oil and gas sector. The company is looking to rapidly grow significant oil and gas production and reserves at the most economical development cost.

Big Sky Energy Corporation seeks opportunities in the world's most prolific basins specifically in fields with proven reserves which also presents significant exploration upside.



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Big Sky



Dr. Boris Umanov, CEO of Eurasia, and his team are changing the landscape of the insurance industry in Kazakhstan

Undermining Risk at Eurasia Insurance

BORIS UMANOV HEADS A KAZAKH INSURANCE COMPANY THAT MANAGES RISK WITH BRAINY CREATIVITY. HIS REVIEW OF THE INDUSTRY'S AXIOMS HAS EARNED EURASIA INSURANCE TOP RATINGS FROM S&P.

"I believe in a free and transparent economy. We have nothing to hide and a lot of things to show," says Boris Umanov, CEO of Eurasia, the leading insurance company in Kazakhstan. Part of the strategy at his firm in Almaty is to change the mindset of the average Kazakh. In the meantime, government can play a key role by establishing a clear regulatory framework. As for the shift in mentality, there is nothing like a real-life situation. "If someone buys insurance today and gets the money back when his house burns down, that's the best way to win a customer," says Umanov.

Brainy creativity is the key. Umanov has earned a reputation as the *enfant terrible* of Kazakhstan's staid insurance industry: his unorthodox approach gives the company a cutting-edge. As a statistician, he constantly reviews axioms and tenets while the rest of

the playing field is idling in a humdrum Soviet-era mindset. Eurasia Insurance was just an ordinary provider of motor vehicle and employer liability when it was established in 1995. Six years later, the company moved into more complex industrial lines where profits were higher. "Right now, we are the first insurance company in Kazakhstan in terms of rating standards. And we are second in the CIS," says Umanov. Industrial insurance now generates 78% of revenue. Property, liability and cargo are Eurasia's strongest business lines. The firm uses sophisticated statistical tools to undermine risk for its clients, with a special emphasis on prompt payment of claims. It has also reorganized itself according to business type as opposed to region. As of July 1, 2006, shareholders' equity reached \$104,000,000.

As any good salesman, Umanov knows how to play up the risk factors. Despite Kazakhstan's oil bonanza and GDP growth of 9.2%, unforeseeable dangers lurk on the horizon. Oil wealth does not come without a cost. Unlike Venezuela and Libya, Kazakhstan is positioning itself as a contented and balanced country which attracts foreign investment and foreign people from all over the world. Umanov thinks Dutch disease could stunt Kazakhstan's long-term development. The country cannot make a hallmark of political stability and simply sit on its laurels. It needs to assume new risks in order to maintain growth. Diversification into logistics, manufacturing, financial services and tourism is a good hedge.

"Our attitude as an insurance company is to be out there and take the risk for the corporation we are insuring. That's why we're respected," adds Julian Sharpe, an insurance expert advisor to Eurasia. Nevertheless, the market is in a relative infancy, with average per capita spending at \$36 per person. Compared to Canada, driver's insurance in Kazakhstan is one-twentieth as cheap. The gross premium average written by Kazakh insurers as of May 1st was \$256 million, representing an insurance penetration of 1%.

Umanov thinks the industry is currently worth \$500 million. In the 5-10 years to come, there will be new opportunities as people secure additional assets.

The most profitable line so far is cargo because it is a short-tail business and creates profit within 2 months. Besides logistics, the major clients are in mining, metallurgy, oil & gas, coal, petrochemicals, engineering, tourism and construction.

In segments like property, Umanov thinks turnover could soon double. As people invest in residential buildings, real estate will come to dominate the insurance portfolio. This market segment is located in Astana, the new administrative capital, as well as in the eastern oil-producing regions. Meanwhile, prices for a luxury apartment in Almaty have skyrocketed as the city transforms itself into a financial hub. In some neighborhoods, prices are at the level of southern California. The 8-floor building where Eurasia Insurance is based in Almaty was worth \$1.5 million in 2002. Today its market value is \$8 million. "As people get richer, there will be growth in the insurance sector because they will need to secure their assets," says Sharpe.

Despite the positive trends, Asian mentality continues to work against the insurance industry. For Umanov, the word *Inshallah*, or God-willing, is a sign that people here are more accepting of destiny here than in other places. As a result, they worry less about their health and future financial security. The melting pot nature of Kazakhstan may eventually do away with this anachronism. "In Kazakhstan, property is going to be increasingly protected and people are going to believe they can do it themselves," he says. On the other hand, because there are elements of different cultures in the Kazakh ethos, this can prove a powerful competitive tool. "We all speak the same language," he says.

So far, the macroeconomic outlook is stable and China is serving to anchor trade policy. The dragon has an unquenchable thirst

for raw materials like copper and steel. At Eurasia Insurance, most of the turnover is currently derived from cargo shipments. Despite its landlocked status, Kazakhstan is in a prime geographic position to exploit East-West trade. New seaports, railroads and airports have turned the country into a virtual conveyor belt of goods. Temir Zholy, the state-owned rail company, has restructured itself to serve the China-Europe route. A new standard-gauge railroad known as the Trans-Kazakhstan Trunk Railway (TKTR) will put the company at the center of European-bound traffic. Goods will travel seamlessly from the Pearl River Delta to the French port of Calais. That is good news for Umanov, who is looking to expand into other transit nations such as Ukraine.

High oil prices, meanwhile, have inflated the value of Kazakhstan's currency. Eurasia Insurance made the right choice four years ago by investing in the *tenge*. The company is now in a position to advise the private sector on improving safety standards and re-investing working capital.

Policyholders are protected against property damage, business interruption and machinery breakdown, as well as regular plant-related accidents. Defective equipment and operator error are often the root causes. "I'm talking about a chain of events in which people have died just because of poor safety standards at their enterprises," says Umanov.

Whether it is a steel mill in Temirtau or a large supermarket chain in Almaty, Eurasia Insurance examines the situation to determine the risk factors. The approach is client-based.

Umanov is not interested in sitting on money derived from premiums. He is especially concerned about employee safety. The goal is to protect a company's assets

and to teach people to avoid working with companies that do not comply. To illustrate the hazards involved with liability compensation, he cites the Sago Mine disaster in West Virginia last January. By hiring experts in mining, agriculture, retail and metallurgical plants, Eurasia Insurance has managed to import global SHE (Safety, Health & Environment) standards. "Sometimes we do it for free if the companies are likely to become clients," says Umanov.

In April 2007, Umanov will host an international investment conference to examine macroeconomic risk. This is the third annual conference sponsored by Eurasia Insurance. The point is to instill the importance of mitigating risk at industrial works in order to build competitiveness. Topping the agenda will be risk abatement at mining operations and industrial complexes. Analysts from the Russian Federation will also be present at the conference. One topic affecting transnational companies is foreign currency risk. "The US dollar used to be at 164.5 *tenge* in 2003. Now it's down to 119," says Umanov. The medium-term appreciation of Kazakhstan's *tenge* has both upsides and downsides. Domestic SMEs can now import technology at lower costs, which boosts their competitiveness. But in the export phase, they have a harder time placing products in the international market. Finding answers together for everyday business problems will be part of the fun.



Rich resources

KAZAKHSTAN IS DISCOVERING SIZABLE DEPOSITS OF IMPORTANT METALS AND MINERALS, AND CAN SUPPLY THE WORLD WITH COPPER FOR ANOTHER TWENTY YEARS.

“Get out the map and take a look at Kazakhstan. It’s got incredible oil wealth, mineral deposits, agriculture, a strong banking sector – and it’s open to new technologies. If you come here with the idea of a win-win situation, they’re likely to take you up on it,” says Brian Savage, Chairman and CEO of Frontier Mining. With twenty years’ experience in the mining industry, Savage should know.

Kazakh policymakers refer to their country as a bottomless well of the elements in the periodic chart: 29 types of non-ferrous metals, 3 ferrous metals, 2 precious metals and 84 industrial ones. And they all exist in bulk, according to Savage. It is just a matter of time before sizable deposits of silver, gold, copper, chromium, tungsten, iron ore and zinc are unearthed in the grassy knolls and desert plateaus. One should add uranium, titanium and beryllium to the list. Beryllium, with its applications in aerospace technology, is especially prized. What matters most, however, is the sector’s contribution to GDP. According to the national accounts of Kazakhstan, mining makes up 30% of export earnings and 19% of industrial production.

Savage came to Kazakhstan in 1996 to install remote sensing



technology for the minerals sector, a program sponsored by the US government. Having acquired the data from Earth Search Sciences Inc. (ESSI), he founded his own trailblazing company in 1998. The firm evaluates, explores and develops mineral properties in 430 square miles of the Kazakh steppe. Its largest prospects are at Baltemir and Naimanjal, where its contract with government agency CenterKazNedra and the Kazakh Ministry of Energy and Mineral Resources has been extended to December 2007.

At the open pit mine, company engineers have hit on near-surface gold deposits. The mine also contains silver and several precious metals that are being recovered with Merrill Crowe technology. Ideally, the near-surface oxides serve to generate cash-flow. In the long-run, though, Savage dreams of getting down to deeper deposits that require large capital investments. Initial output at Naimanjal will be at least 25,000 ounces of gold per year. “At 100,000 it starts getting reasonable,” says Savage.

Savage’s enthusiasm is contagious. “We’ve done it all from scratch,” he says. “To my knowledge, there aren’t too many foreign firms that have built a mine out of a grass field. We’ve brought in the equipment, processed the gold, shipped it outside the coun-



STATE-OF-THE-ART
EXPLORERS



Photos: courtesy of Kazakhmys

try, sold it at the market and repatriated the cash for new development.” As of June 2006, Frontier Mining is debt-free and in talks with international banks for project finance. It has been listed at the London Stock Exchange (LSE) since September 2004.

“The mining and metals sector has not been as quick to develop as the oil sector,” Savage points out. A first wave of investment swept Kazakhstan in 1995-96, when metal prices were robust. In 1997, a number of tax incentives and preferences provided the sector with a second wind. The government streamlined procedures to obtain exploration and production licenses. By 1998, virtually the whole sector was in private hands. Then came the downturn. In 2001, prices for copper and other non-ferrous metals started to soften. Capital markets decided that putting money in new mining projects was risky. Coal towns like Ekibastuz, in northern Kazakhstan, saw a second exodus of workers. As a result of the downturn, the number of foreign players also dwindled. Frontier Mining was one of a handful to stick it out in the lean times.

Savage cites the current legal framework as an additional lure for investors. Foreign managers, who had upgraded technology in the first wave of investment, are now back. They are also showing

a new concern about issues like environmental protection, corporate governance and strict auditing. The Ministry of Energy and Mineral Resources signed a memorandum on Kazakhstan’s adherence to the British-inspired Extractive Industries Transparency Initiative (EITI) in October 2005. At the time, according to local press, 24 oil and mining companies joined EITI. Another six joined last June, including KazChrome and concentrating plants like Vasilkovskii. EITI is important because it lends weight to a firm’s credibility when launching an IPO.

Meanwhile, China has become the major export market for Kazakh mineral resources. National borders do not seem to accentuate variation in relative prices, despite transportation costs. This may be the effect of dismantling inefficient linkages in Kazakhstan’s supply chain. The government has outlined a plan to turn Kazakhstan into a logistical node between China and Western Europe.

At Kazakhmys, copper sales to China have been growing above 10% annually since the late 1990s. Rapid urbanization next door has spiked demand for copper rods, wires and sheets used in China’s construction sector. Vladimir Kim, the Chairman of Kazakhmys, thinks organic growth will be the main driver in years to come. “We don’t know if China will still need copper in 10 years, but we do know that it will be among the biggest consumers of everything,” says Kim.



At Kazakhmys we are not only the largest producer of copper in Kazakhstan, but also the tenth largest refined copper and mined copper producer in the world.

As an international company with corporate headquarters in London and quoted in its stock exchange, we employ over 60,000 people worldwide, but are committed to our operations in Kazakhstan. Through our main company and subsidiaries, we are able to take advantage of the country’s rich energy resources, processing and refining zinc, gold and silver as well. The excellence of our product and our geographic position allows us to export to burgeoning markets both in the East and West.

Our success leads us constantly to new challenges and new opportunities, and we will continue to optimize our performance through improved efficiency and output expansion.

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KAZAKHSTAN **Moving in fast forward**

The interim financial highlights for the first six months of 2006 at Kazakhmys include \$2.28 billion of revenue, as opposed to the \$1.2 billion earned in the same period a year before. In 2006, the company's EBITDA was up 124%. Driven by Asian demand, production of zinc metals and concentrates has grown a whopping 234% year-on-year. Kazakhmys has size and several other comparative advantages on its side. A fully vertically integrated company and a low-cost producer, it runs its own in-house power plants, locally sourced coal and an exclusive railroad network. In terms of overall revenue, as compared to the previous year, copper accounts for 77%, zinc for 11%, silver for 8% and gold for another 2%. The basket of production means the firm can weather out any future fluctuations in metals prices.

"We are a solid mining company with a healthy balance sheet. We're not limited by production or by territory," assures Kim. The Chairman oversees a staff of 66,000 in Zhezkazgan, Balkhash and the East Region, as well as at satellite locations. At Zhezkazgan alone, Kazakhmys holds 36 million tons of copper reserves. The firm's assets include 3 captive power plants, 14 underground pits, 5 open pit mines, 9 concentrators and the railroad. In terms of smelters and refineries, Kazakhmys operates 2 copper smelters and 1 zinc plant, as well as a precious metals facility. Copper rods are the main source of revenue. Production takes place in Zhezkazgan and in Hettstedt, Germany. Kazakhmys acquired Hettstedt-based MKM in 2004 as part of an expansion strategy in Western Europe. "We know our niche. We want to produce 1 million tons of copper annually. But that won't be possible without expanding outside of Kazakhstan," says Kim. WTO membership means Kazakh output is suddenly more competitive abroad and the consolidation in the Kazakh mining sector will generate new opportunities. "There is no progress without competition. And the good thing about Kazakhstan is that with our deposits we can supply the world with copper for another 20 years," he adds.



Brian Savage, Chairman and CEO of Frontier Mining (above); and Vladimir Kim, Chairman of Kazakhmys (right).

Metals prices have remained strong in 2006 due, in part, to union strikes in northern Chile. "We can compare our copper with Chile's, in terms of quality. In terms of quantity, Chilean output is four times larger. But we aim to produce copper and value-added products that are demanded by the market," says Kim. The homework for Kazakhmys is to optimize performance and control costs. For now, the firm is completing its expansion projects at Aktogay, an open pit structure with ore reserves estimated at 1.6 billion tons



and average grades of 0.36% copper. Meanwhile, at new sites like the Zhaman-Aybat mine, a satellite of the Zhezkazgan Complex, Kim wants to begin mining the 75 million tons of ore deposits. At Balkhash, in the east, a new acid plant will be installed to leverage the firm's regional competitive position. Most of these initiatives will come online in the short and medium term.

Improving the company's international visibility will be key as it makes borrowing in capital markets cheaper. Kazakhmys raised 661 million pounds sterling

(approximately \$1.28 billion) when it decided to float 26% of its shares at the LSE in October 2005. It was the first company with major operations in Kazakhstan to do so. Today, Kim is proud to lead an international FTSE 100 company that also happens to be a pillar of the domestic economy. "The IPO was a big achievement, but really only the first step in the expansion of our company. And it was not only about capital raising, but also about improving our transparency and corporate governance standards," says Kim.

Since its IPO, Kim thinks the price performance has been attractive. In the end, the most important thing to keep in mind is that Kazakhmys delivers to the market what it has promised. "Through the company, we are raising awareness abroad and helping the country improve its transparency. Kazakhstan offers the best opportunity for organic growth in this region," says Kim.

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Frontier Mining is getting close to the tipping point.

As a mineral development company, Frontier Mining was established for the purpose of exploring gold and copper deposits in the Republic of Kazakhstan and other countries of the Commonwealth of Independent States.

Through its subsidiaries and affiliates, Frontier locates, evaluates, acquires, explores and develops mineral properties over a total area of around 700 km².

Frontier is currently producing gold at one of its three gold projects and working on two copper projects. The company is reviewing a number of exciting acquisition opportunities in other CIS countries to provide further external growth.

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Creating wealth at Bailyk

Bailyk is Kazakh for "wealth," and Bailyk Asset Management is a Kazakh specialist in maximizing wealth and prosperity for its clients, particularly in the pension funds sector.

Established in 1999 in Almaty, Kazakhstan, it enjoys a position of high financial strength and stability. As of March 2007, it manages over \$877 million in assets, and its institutional clients include pension funds and insurance companies. It also provides bespoke investment management services to private clients.

Bailyk has a full service approach to investment management and advice, and is committed to long term relationships with its institutional and private clients. High quality attention to clients is a core part of the culture of the company; according to its philosophy, excellence can only be achieved with a combination of strong investment performance, well controlled risk management, and the highest standards of customer service.

The ambition of Bailyk is to provide services which add value to its clients, by delivering a risk-controlled outperformance, within the context of each client's particular benchmarks and investment time scales. It is an active asset management firm, and looks to achieve a consistent level of financial returns within a well



monitored risk environment. Its primary aim is for the return on assets for its clients to be higher than the level of the domestic Consumer Price Index (CPI).

As a full service and active investment manager, Bailyk offers a full range of capabilities in all major asset classes, and it provides a very wide spectrum of investment products. The company specializes in the management of pension assets. Although there is currently a high variety of strategic opportunities in the global market, Bailyk is focused on its core area of expertise, which is structured financial products.

In recent years there has been a structural change in the asset management sector, with major net cash inflows into structured notes, and with the introduction of defined contribution pension plans, Bailyk expects this business to expand significantly.

Bailyk is an active investment manager, and it seeks out those businesses that it thinks have the potential to generate significant earnings growth in the long term and to maximize returns for its clients. Bailyk offers its clients a number of investment portfolios in all major asset classes, investing across a wide range of markets and securities. And as an active investment manager, the company aims to deliver market beating, risk-controlled returns for its clients.

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