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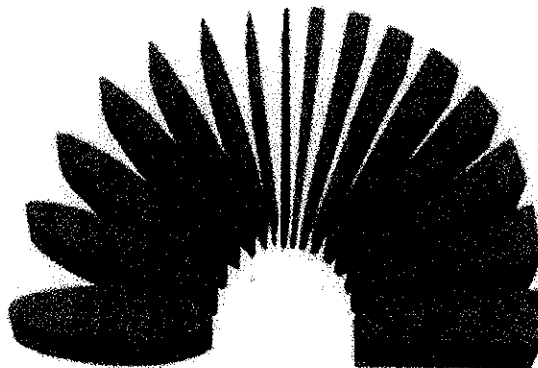
**KAZAKHSTAN STOCK EXCHANGE
TRADING IMPLEMENTATION,
PHASE III**

Monthly Report
December, 1995

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KAZAKHSTAN STOCK EXCHANGE TRADING IMPLEMENTATION

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**Monthly Report
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EXECUTIVE SUMMARY

CASE made further progress in cash privatizations when the State share packets in one case-by-case company (Kazcrom) and two banks were divested through the Exchange, generating an additional Tenge 314 million for the State budget. Kazcrom traded at Tenge 10 above the nominal price and generated Tenge 244 million of the total amount, while Nefte Bank traded at 1.2 times nominal and Tzelinenergobank traded at 1.25 times nominal, generating Tenge 65 and 5 million respectively. These three transactions brought the total value of cash privatizations through CASE since early August to Tenge 800 million. The brokers involved in the successful bids were different from those involved in the previous cash auction transactions, and wider participation from among the CASE membership was evident during the bidding process.

Intrados signed a memorandum of understanding with Overseas Strategic Consultants (OSC), the USAID public education contractors, to facilitate the necessary public education support for the activities conducted by Intrados under Phase III of the project. OSC will assist Intrados with the design and implementation of a communications strategy for CASE. This will include the publication and nation-wide dissemination of regular news releases on CASE activity; design, production, and placement of advertisements in the oblast media on behalf of CASE; providing advertising and logistical support for the regional business seminars; design and production of marketing materials; training of CASE and listed company personnel in the conduct of public relations activities; and support for Intrados activities related to primary market financing and underwriter development.

To facilitate the Intrados Group's efforts to develop primary and secondary market activity in Kazakhstan, Intrados finalized a list of companies to receive accounting support from the USAID accounting contractor, KPMG Barents Group. Under the primary market activity component, KPMG will assist in transforming the accounting and financial reporting systems of selected companies with which Intrados is working in preparation for conducting an initial public offering. These companies include the Almaty Beer Factory, Munaispap, Zhiger Dairy Factory, Tsesna Bank, JSC Plastic, Lead Battery Plant, and Kamsnabstroj, the supply and repair company based in Almaty. Under the secondary market activity component, KPMG will provide support for transforming the accounting systems of selected companies into the Kazakh accounting standards, which will assist them in moving from the supplementary board to the main board at CASE. The companies selected for such assistance include Kyzzhibek Sewing Co., Rahat Confectionery Co., Merei Furniture Co., Iggilik Bank, and Kramds Bank.



I. IMPLEMENTATION

Stock Exchange Development

- Trading at the Exchange during the month resulted in eight transactions involving 311,863 shares, with a total turnover of Tenge 315,149,964. This activity was composed of 49 shares of Merei furniture company on the supplementary board, with a turnover of Tenge 334,000, and 311,863 shares of three cash privatization companies on the pre-listing board, with a turnover of Tenge 314,815,964.
- Three more cash privatizations were conducted at CASE, generating an additional Tenge 314 million for the State budget and bringing the total amount generated by cash privatizations since August to Tenge 800 million. It is also notable that the brokers involved in the successful bids were different from those involved in the previous cash auction transactions, and there was wider participation on the part of CASE members during the bidding process.
- Two more companies, Shymkent Beer and Altindan Bank, were quoted on the pre-listing board during December, increasing the number of companies quoted on this board to 41. Shymkent Beer's stay on the pre-listing board is expected to be relatively short, as it meets all the requirements for a listing on the supplementary board. The document collecting process has already begun, and the company is likely to move on to the supplementary board before the end of January.
- Intrados completed work on the systems configuration for the third-party registrar in the first half of the month, and the defective UPS was replaced by the vendors. The UNIX training resumed in the last week of December and is scheduled to end in the first week of January; this will be followed by the Grants software training. Meanwhile, Intrados initiated discussions with two Almaty-based companies to obtain their share registers in order to launch a pilot project, running parallel to their existing systems, so that the registrar software can be tested and debugged.
- The secondary trading of T-Bills at the CASE floor suffered a potential set back during the month when the Inter Bank Currency Exchange (KICE)--the other entity licensed by the National Commission of Securities (NCS) to function as a venue for the secondary trading of government securities--issued a circular calling all primary dealers, who had previously signed a memorandum to the NCS requesting a license for KICE, to use KICE exclusively for the secondary trading of T-Bills. No transactions were executed at CASE since the circular was issued. However, the primary dealers have also refrained from trading at the KICE, possibly due to the exorbitant fees charged by the KICE and the lack of an efficient system to conduct transactions. December is usually considered a lean month for secondary T-Bill transactions, due to the preoccupation of the primary dealers with the year-end functions. As a result, the full implications of the KICE circular are not likely to be known for another two months.
- The issue of CASE corporate governance remains unresolved. The NCS, which agreed in principle to formulate a model charter with all the provisions required for open and democratic participation of the broker/dealers in the activities of CASE, has yet to adopt such a charter, which would make it mandatory for the Exchange to do the same. In the



meantime, C.A. Securities, one of the founders of CASE and successor to the former Almaty Stock Exchange, appears to be impressing upon its members (most of which are banks) and a group of broker/dealers that there is a need to register a second exchange in light of the negative approach adopted by CASE regarding broad-based ownership and management of the Exchange.

Merchandise for CASE

- CASE listed the twelfth corporate security on the Exchange when Creditsozbank was quoted for trading on the supplementary board. However, there was a general slow-down in activity connected with merchandise during the month of December, as many enterprises were preoccupied with the preparation of documents to comply with the changes mandated by various Presidential decrees, including the re-registration of enterprises.
- Intrados, together with the CASE listings task force, visited three more joint stock companies (JSCs)--Karagai, Bakai, and Almatyklem--to discuss listing on the Exchange. JSC Karagai, located in Almaty, is the largest wood processing plant in Kazakhstan. Although it currently operates at reduced capacity, it has remained profitable. The company also had a business plan prepared for the manufacture of a new line of wood parquet and appears to be a potential candidate for a primary financing opportunity. JSC Bakai, which is presently a pre-listed company, is in the warehousing and supply business, while Almatyklem is the only mass producer of carpets in Kazakhstan.
- In the last week of December, Intrados and CASE visited Taldy Korgan oblast, 300 km. north of Almaty, for a successful one-day meeting at the invitation of a group of individuals interested in working with CASE. The meeting was organized jointly by Intrados, potential CASE representatives in the region, and the oblast administration; approximately twenty people attended, representing eight enterprises and the oblast administration. Topics discussed included the role of capital markets, developments at CASE, and the listing process; presentations by Intrados and CASE were followed by a very successful question and answer session. Intrados and CASE also visited the Taldykorgan Zinc Battery Works, one of two battery plants in the former Soviet Union, to discuss the possibilities of obtaining a listing at CASE. Other areas of potential merchandise from the region include a yeast plant and several sugar refineries. Future Intrados activity in Taldy Korgan is likely to center on further defining the nature and role of the CASE representatives and attracting as many companies as possible for a listing at the Exchange.
- Intrados made arrangements with Overseas Strategic Consultants to hold the second business seminar on January 31 in Pavlodar. The one-day, supply-side business seminar will be followed by company visits and a two-day demand side workshop for potential institutional investors from the region.

Primary Market Financing

- Intrados held a follow-up meeting with the president and the working group of Merei to discuss the company's response to the conclusions and recommendations of the legal and financial due diligence reports presented to Merei last month. The company indicated its willingness to amend the charter and to appoint a lead manager from among the



broker/dealers to assist the company with the proposed primary financing exercise. Based on this commitment, Intrados began work on a tender procedure to select the lead manager.

- Intrados, together with the members of the Mass Privatization team, met with the GKI to further pursue the approval of the companies earmarked for the project's pilot primary financing exercise. The GKI management committee clarified that five of the six enterprises submitted by Intrados have been approved by the GKI. A decision on Munaispap, which is closely linked to the energy sector, is still pending. Intrados will continue to work closely with the GKI management committee to determine the dates and venues for the privatization of the five approved companies in order to expedite the primary financing activities contemplated under Phase III of this project.

II. ACHIEVEMENTS

- Three more cash privatizations were conducted at CASE, generating an additional Tenge 314 million for the State budget and bringing the total amount generated by cash privatizations since August to Tenge 800 million.
- Two more companies were quoted on the pre-listing board, bringing the total to 41. One of these companies already meets the requirements for listing on the supplementary board, and is expected move onto that board in January.
- Intrados completed work on the systems configuration for the third-party registrar, and the hardware training program resumed.
- An additional corporate security was listed for trading on the supplementary board, bringing the total to 12.
- Intrados and CASE conducted a successful one-day meeting in Taldy Korgan oblast for potential listing companies and the oblast administration.
- Merei agreed to accept the conclusions and recommendations of the legal and financial due diligence reports and to proceed with preparations for the proposed primary financing exercise. Accordingly, Intrados began work on a tender procedure to select the lead manager.
- The GKI approved five of the six enterprises submitted by Intrados for the project's pilot primary financing exercise. A decision on the sixth enterprise, which is closely linked to the energy sector, is still pending.
- Intrados signed a memorandum of understanding with Overseas Strategic Consultants (OSC), the USAID public education contractors, to facilitate the necessary public education support for the activities conducted by Intrados under Phase III of the project.
- Intrados finalized a list of companies to receive accounting support from the USAID accounting contractor, KPMG Barents Group. This assistance will facilitate the Intrados Group's efforts to develop primary and secondary market activity in Kazakhstan.

III. PROPOSED CHANGES OR REFINEMENTS TO WORK PLAN

None.