27 November, 2014

An Open Letter to Shareholders of Kazakhstan Kagazy PLC
and the Chairman of the Board, Sir Tony Baldry, and Independent Director, Martin Quirke

Dear Fellow Shareholders,

I am writing as a shareholder in Kazakhstan Kagazy PLC ("Kagazy" or "the Company") to draw attention to a range of corporate governance matters and reporting discrepancies by the Board of Kagazy, which I believe are unacceptable for a Company which has a GDR listing on the Main Market of the London Stock Exchange. The recent publication of the Company's Annual Report for the year ended 31 December 2013 (the 'Annual Report'), itself published six months late on 30 October 2014, has highlighted a number of these issues.

In particular, I would draw attention to the following matters of concern, which I detail further below:

- Kagazy's purchase of Director John Khabbaz's 28.7% shareholding and his father-in-law's 4.38% shareholding for $7.9million, at a significant premium to the then market value. It is understood that the money for this transaction was transferred to the vendors on 10 January 2014
- The non-disclosure of this transaction to the market at the time it was agreed and the lack of clearance from the Takeover Panel to dispense with the requirement to make a mandatory offer to other shareholders
- The numerous conflicts of interest amongst Non-Executive Directors, a number of whom are related to parties receiving substantial payment for the provision of services to Kagazy
- The significant increase in remuneration of key management and the Board in spite of Kagazy's poor performance and significant losses
- The prolonged suspension of the listing of Kagazy's shares since April 2014, leaving shareholders without the ability to trade their shares and with no prospect of being able to do so in the near future.

From Kagazy's announcement of 12 November 2014, I note with disappointment that the Company has withdrawn its request to the UK Listing Authority ('UKLA') to return to trading its shares on the London Stock Exchange, because it has yet to receive a dispensation to make a mandatory offer from the Takeover Panel related to the buyback transaction with John Khabbaz over 11 months after he was paid for his shares.

Buying out of Director John Khabbaz's shareholding at a significant premium to market value

Kagazy details in the recent Annual Report (p.16) a $7.9 million transaction between the Company and a shareholder, John Khabbaz, who was Chairman and is still a Director of Kagazy, through his Phoenician Capital LLC ("Phoenician") vehicle. Negotiations regarding the transaction began in

March 2013 and the Company entered into share purchase deeds in November 2013, with the $7.9 million payment being made on 10 January 2014. However, the transaction was only announced on 1 October 2014, some 11 months after the Company entered into the share purchase deeds.

Kagazy agreed to purchase Phoenician's shares in Kagazy at a price of $0.30 per share, at a premium of over 50% to the highest price the shares traded at during 2013, which was $0.19, and a 100% premium to the lowest price the shares traded at during 2013, which was $0.15. The share price was as low as $0.10 when the payment was made on 10 January 2014. John Khabbaz's father and father-in-law's shares were also purchased by Kagazy for $0.30 per share but no other shareholders have been offered this.

In addition Phoenician was reimbursed for "directly attributable" transaction costs of $480,000. Similarly, this was not earlier announced to the market, represents an additional cost to shareholders, and it is not at all clear to what these costs specifically relate. I very much doubt that any other shareholder would have their transaction costs covered by Kagazy and I see no reason for the Company to cover Phoenician's costs.

I believe it to be unacceptable that the Company made an offer to one group of shareholders only, and particularly a Director and his connected parties, at a significant premium to the market price of the shares.

In addition, as Kagazy announced unaudited results for the year to 31 December 2013 on 23 January 2014, this would place the transaction in a close period and therefore be a breach of the Model Code, with which the Company stated in its Listing Prospectus it intended, so far as able, to comply.

Subsequent failure to notify the market of the transaction

Furthermore, Kagazy failed to notify the market of such a significant agreement for some 11 months, which, at a value of $7.9 million, was roughly equal to the then entire market capitalisation of the Company.

Kagazy states that "[o]n 10 January 2014 the Company released USD 7,933 thousand from the escrow account to the Vendors" (Annual Report p. 17).

Given "the Vendors" have been paid for their shares, I see no reasonable basis for Kagazy asserting in its Annual Report that the transaction has not completed. From the delay in publication of details of the transaction it would seem that Kagazy and Mr Khabbaz are in breach of the disclosure obligations relating to several of the FCA's Disclosure and Transparency Rules.

In addition, as Kagazy is an Isle of Man company and therefore cannot hold its own shares, I believe this buyback transaction places Tomas Werner, formerly Chairman and currently CEO of Kagazy with a declared 29.99% shareholding, over the 30% threshold when the buyback shares are cancelled. Under Rule 9 of the City Code on Takeovers and Mergers, this would trigger the launch of a mandatory cash offer for the Company from Tomas Werner at the same price of $0.30 per share paid to Mr Khabbaz.

Directors benefiting financially from the provision of services to Kagazy

There are a number of worrying potential conflicts of interests amongst the Non-Executive Directors of Kagazy, who seem to be benefiting from the Company rather more than its shareholders.

- **Sarosh Zaiwalla, Non-Executive Director**
  Joined the Board in May 2013 shortly before litigation commenced on behalf of Kagazy which has earned the law firm Zaiwalla & Co, in which he is Senior Partner, $2.3 million in fees in 2013 (Annual Report p. 76, 77)
- **Denise Valentine, Non-Executive Director**
  Joined the Board on 10 June 2014, and owns Terranova Capital Ltd, which provided $718,000 of 'consultancy services' to Kagazy (Annual Report p. 88)
- **Sir Tony Baldry, Chairman**
  In a further instance of poor disclosure, Sir Tony Baldry's biography in the Annual Report and on Kagazy's website omits to mention that he is an Associate Director of Werner Capital, for which he appears to be paid £5,000 a month. Tomas Werner, is a Partner of Werner Capital (Annual Report p. 20). Sir Tony Baldry receives £120,000 per year for his role as Chairman of Kagazy which is a huge amount in the context of a company which had a market capitalisation of just over USD 7.9 million before its shares were suspended.

The scale of payments being made to parties related to Non-Executive Directors is scandalous. Kagazy lists only one Non-Executive Director as being independent (Annual Report p. 19), although Kagazy's website also lists both Sarosh Zaiwalla and Denise Valentine as being Independent Directors, which is questionable given the scale of payments they receive.

Sir Tony Baldry's comment in his Chairman's Statement that, *"I am confident that we are becoming one of the strongest and most transparent Kazakh companies to be quoted on the London Stock Exchange"* seems particularly inappropriate in light of the directors' conflicts of interest, the fact that the company's listing is suspended, the six month delay in publication of its accounts, and the 11 month delay in announcing the buyback transaction, all of which have happened since he became Chairman.

Inappropriate and unjustifiable levels of Director remuneration

While Kagazy made a "total comprehensive loss" of $112.6 million in 2013, and the Company concedes that "Significant legal and financial challenges remain for the company to create value for shareholders", there seem to be no such difficulties in creating value for the management and Board.

Remuneration of the management increased by $729,000 year on year, this includes bonuses, which grew from $34,000 to $1.1 million year on year, despite the dire state of the Company's operations and finances.

Kagazy writes that:

- “As of the date of this report, **Directors' fees total USD 37,000 per month** and total USD 376,850 during the year ended 31 December 2013” (Annual Report p. 21)
- “The compensation of the Group's key management, including the Chairman of the Board and CEO, comprises contract salaries and bonuses. This amount is included as part of administrative expenses in the consolidated statement of comprehensive income **and totals USD 2,050 thousand, including bonuses of USD 1,131 thousand in 2013** (2012: USD 1,321 thousand, including bonuses of USD 34 thousand)” (Annual Report p. 53)

When I first became acquainted with the Company around nine years ago, I strongly believed that Kagazy had great potential to perform well in the Kazakh market and subsequently became a shareholder. I have, however, recently become deeply disillusioned with the actions of the Board, which are in clear violation of the UK Corporate Governance Code on a number of counts, and are certainly not in the best interests of shareholders.

For the purpose of transparency, fellow shareholders should be aware that I am a former employee and left the Company on 11 November 2013 having handed in my resignation on 11 October 2013.

I believe it is important to bring these worrying apparent violations of the Disclosure and Transparency Rules and Takeover Code to the attention of other shareholders, the Chairman of the Board, Sir Tony Baldry and Non-Executive Director, Martin Quirke. Other shareholders may want to join me in voting against all resolutions at the forthcoming Annual General Meeting, to be held on the 19th of December 2014.

I have already raised these matters separately with the UKLA and the Takeover Panel.

Sincerely,

Jos Van Lent
Shareholder in Kazakhstan Kagazy

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