Kazakhmys chairman’s sale of shares highlights unanswered questions about the company

Kazakhmys plc Chairman Vladimir Kim’s decision to sell shares comprising 11% of the company to the Kazakh government underlines the unanswered questions raised by Global Witness earlier this year about who influences key decisions relating to this FTSE 100 mining company.

In July 2010, Global Witness published Risky Business, which documented allegations from a range of sources that Nursultan Nazarbayev, the autocratic president of Kazakhstan, is in a position to influence Kazakhmys plc through close ties to its key managers, including Vladimir Kim. In Global Witness’s opinion, neither the company nor Kim has adequately responded to these concerns.

“It needs to be further explained how and why Kim has chosen to sell his shares to the government at this point. Minority shareholders in Kazakhmys plc need to be sure that Kim is selling his shares for sound commercial reasons, and not at the behest of the Kazakh government or its president,” said Tom Mayne, a campaigner at Global Witness.

The questions raised in our report about Kim’s political ties in Kazakhstan need to be addressed because the fact that he is both Kazakhmys plc’s executive chairman and its largest shareholder means that he is in a position to exercise great influence over the company’s decision-making.

Kazakhmys plc announced the sale of shares by Kim to the Kazakh government on Tuesday, nearly five years to the day after it listed on the London Stock Exchange. The company said that this sale allowed Kim “to diversify his investment portfolio whilst retaining a significant long-term shareholding in Kazakhmys.” The sale takes his total shareholding down to 27.9% and the government’s up to 26%. The Kazakh government is thus now close to being the company’s largest shareholder. Kim is reported to have earned around £820 million in the transaction.

Kim took the decision to sell these shares without any consultation with minority shareholders. Kazakhmys plc told Global Witness that there is no obligation for any shareholder to consult with others in advance of a transaction, though it added that that the shares were sold at the full market price and, therefore, no advantage was given. However, Global Witness is concerned that the interests of minority shareholders and investors, including those in the UK who may be unwittingly investing in Kazakhmys via their pension funds, are not being given due regard.

Global Witness wrote to Kazakhmys before the publication of Risky Business, asking for its comment on our findings. The company responded that it has “always tried to maintain the highest standards of corporate reporting” and “set out all the information that investors needed to know” in order to make informed decisions about Kazakhmys plc. But it did not give specific answers to questions about the exact nature of the relationships between senior managers at the company and President Nazarbayev.

“In the interests of transparency, Kazakhmys should publish a full account of these relationships and any potential implications that they may have for the company’s business. The financial crisis emphasised the importance of transparency and effective oversight by regulators. The Financial Services Authority need to investigate the allegations against Kazakhmys in order to ascertain that it is not being unduly influenced by forces outside of the company,” said Tom Mayne of Global Witness.

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Global Witness investigates and campaigns to prevent natural resource-related conflict and corruption and associated environmental and human rights abuses