

Kazakhstan edition of the 19th Annual Global CEO Survey 2016

Survival Game



1 461 CEOs from
84 countries

52 CEOs from
Kazakhstan

Foreword

We are pleased to present the Kazakhstan edition of the 19th Annual Global CEO Survey prepared by PwC. This time, almost 1,500 CEOs from 84 countries, including 52 CEOs of Kazakhstani companies, have shared their expectations and plans.

As in previous years, the Survey shows how corporate leaders feel, what worries them, and, importantly, it helps CEOs to get on the same page with business executives in Kazakhstan and abroad.

In addition to the questions posed as part of the Global CEO Survey, we asked corporate executives to tell us about significant events of 2015, including the currency devaluation, completion of negotiations on the WTO accession, the kick off of the second wave of privatisation – and we got plenty of food for thought.

Of special interest this year are the Survey results regarding the relationship between the private sector and the government, considering the dominant role of the latter in the Kazakhstani economy. The Survey revealed that businesses in Kazakhstan are struggling and that the private sector has a number of serious questions for the government. According to the CEOs, the government's priorities should include: ensuring macroeconomic predictability, improving Kazakhstan's investment attractiveness, and eradication of corruption. The private sector was rather conservative in assessing the government's achievements in these key areas.

In fairness, it should be noted that a certain number among Kazakhstan's business community have historically been in a close relationship with the government, receiving occasional support in the form of government off-take, state budget funding and targeted regulatory support. In return, the private sector was more tolerant to excessive regulation, red tape and other hurdles. The private sector had a very sensitive reaction to the reduced support from the state in the current challenging economic environment and intensified its criticism of the government.



Business leaders understand that criticism alone will not resolve the situation, and declare an unprecedented willingness to cooperate. The private sector needs the government's help in overcoming economic difficulties, no less than the government needs the private sector's support in addressing social challenges, including maintaining employment and social stability.

We believe that a constructive dialogue between businesses and the authorities – which critics consider insufficient – will be established so that the parties can progress to practical and mutually beneficial cooperation to address the pressing issues. We hope that our Survey will be useful in identifying problems and understanding the expectations of stakeholders and will serve as a starting point for better cooperation.

We called this Survey “Survival Game” to highlight the sportsmanship and even warrior spirit of a vast majority of Kazakhstani CEOs who are content to remain in the game despite the weight of economic challenges. We believe our businesses will ultimately come out as winners in this game.

We would like to express our gratitude to all CEOs who took part in the Survey and who dedicated their valuable time to answer our questions, and to all those who understand the significance of this project in facilitating a deep analysis of the current economic situation in Kazakhstan and the search for solutions to important issues.

A handwritten signature in black ink, appearing to read 'Dana Inkarebekova'.

Dana Inkarebekova
Managing Partner,
PwC Kazakhstan





Table of contents

FORECASTS AND PLANS	6
Development of the world economy	6
Business partnership	14
Human capital	16
NEW CHALLENGES	18
Factors of influence	18
Threats and opportunities	22
ACTIONS OF THE GOVERNMENT	25
Government priorities	25
Cooperation and expectations	27
SIGNIFICANT EVENTS	30
Exchange rate volatility	30
Kazakhstan's WTO accession	34
Privatisation programme	36
BEST in 2015	37
MEET THE CEOs	40
RESEARCH METHODOLOGY	42
WORKING GROUP AND KEY CONTACTS	43

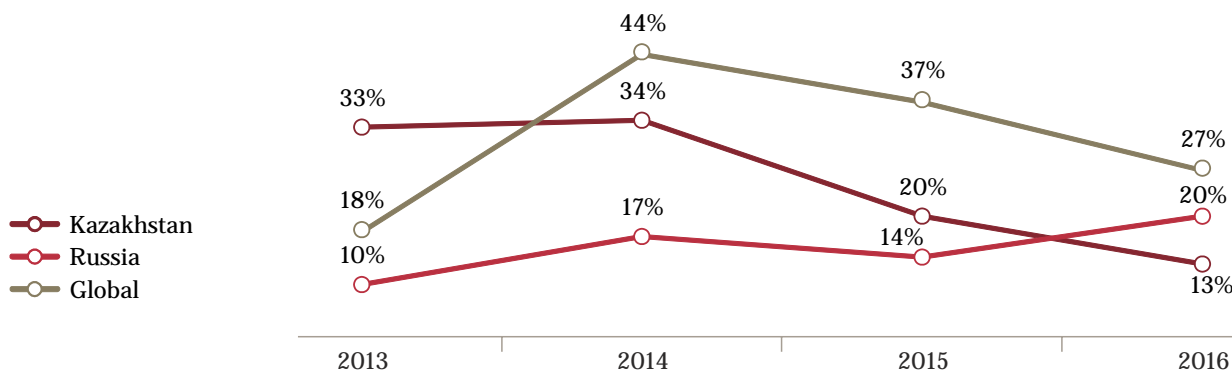
Forecasts and plans

CEOs in Kazakhstan are skeptical about growth prospects of the world economy. The vast majority strongly believe that a slowdown or stagnation is imminent. Moreover, even though more optimistic business leaders expect that their companies will increase revenues, the crisis remains a factor one can't ignore. Nearly one out of two CEOs plan staff reductions, which is one of our most disturbing findings.

Development of the world economy

Global economic growth prospects over the next 12 months

In 2016, CEOs in Kazakhstan showed flagging optimism about the growth rate of the global economy: only 13 % of the business leaders forecast a rise in the global economic growth over the next 12 months, down from 20% last year. In fact, optimism around the world has sagged: for example, in the span of one year the percentage of optimistic CEOs has dropped from 37% to 27%. Major concerns include a significant drop in oil prices, problems in emerging markets, slowing growth of the Chinese economy and geopolitical tensions in some regions.



"The economy isn't going to become more predictable. Unpredictable combinations of ups and downs in the world's economic sectors will remain. A series of economic, political and military crises will be painful for many countries, yet new opportunities for growth will open up for other countries. This creates a dialectic, where changes on the world's economic map will cause changes in the financial and political maps."

Kairat Mazhibayev
RESMI Group

"Naturally, there is going to be a decline in global economic growth. There is no doubt that the crisis in South-East Asia, Europe and Latin America will have implications for the global economy."

Ualikhan Akhmetov
Karlskrona LC AB



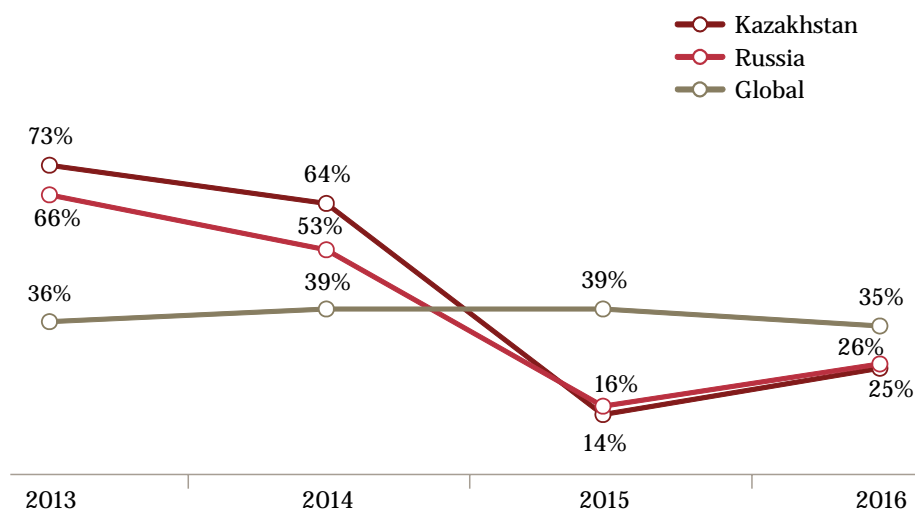
"My reasoning is based on the fundamental changes that have been taking place in our industry. In 2015, speculation brought precious metal prices down to the bottom. How was that possible? It is no secret that the value of paper gold is much higher than the value of physical gold, so higher prices would be contrary to the interests of financial giants, such as the big funds and banks. From the point of view of economic development as a whole, I have reasons to be pessimistic, because in 2015 we saw how the world economy slumped. Obviously, there are political factors at play that affect the economic situation, driving down metal prices, e.g. gold prices. In 2015, we expected that one ounce would cost \$1,150, but unfortunately, \$1,090 is what we had to live with. In fact, price forecasting for metals has become pointless. Here's a story. There are about 40 specialised organisations trying to predict gold prices. Less than 1% of forecasts are accurate, which means that 10-year forecasts are completely irrelevant in this industry. Based on the analysis of the data from 2015, one can conclude that metal prices will not increase even if the global economy starts to recover."

Stanislav Ryaskov
Central Asia Gold Corporation

"We expect no changes in the global economic growth rate, although there is no visibility yet of the basis for global growth. We can't really see a clear distinction between the economies of developing and developed countries. For example, looking at the impact of changes in China's stock market on the economies of many countries, I can't say that developing economies are slumping and global economies are recovering."

Dmitry Zabello
Bank VTB Kazakhstan

Revenue prospects for the next 12 months



Only 25 % of respondents are optimistic in assessing the chances for growing their business in the next 12 months; this, however, is still higher than the record low of last year at 14 %. CEOs of Kazakhstan and their Russian peers have surprisingly similar outlooks for the short-term growth perspectives of their companies. This dilution of self-confidence of the businesses in Kazakhstan in 2015 was partially due to the shocking crash of energy supplies and the temporary decrease of competitiveness of Kazakhstan manufacturers due to the delayed Tenge devaluation, compared to the devaluation of the Russian Ruble.

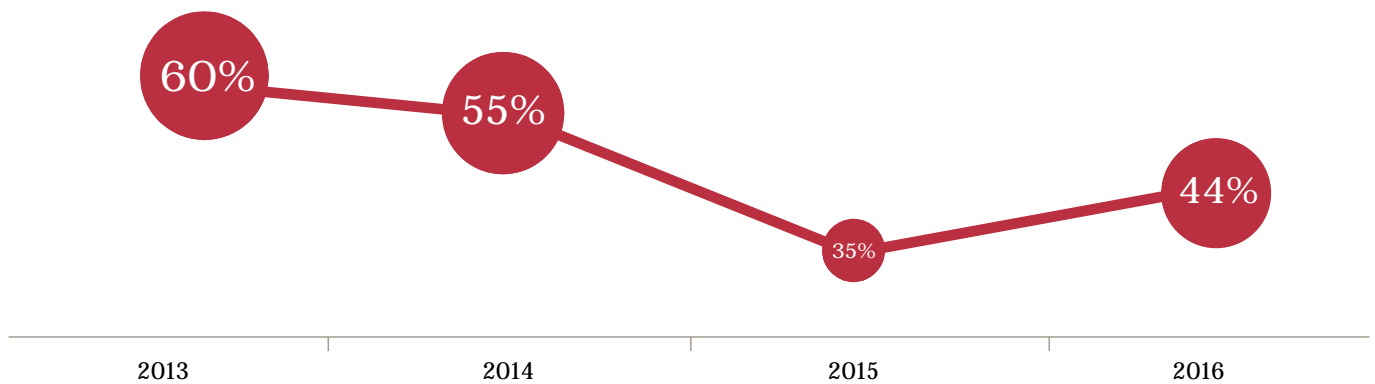
"Revenues are unlikely to grow and should remain at previous levels. We will grow in terms of our locations. Over the next two years (by 2018), we plan to open 13 new restaurants. It's not going to be easy, since many of our partners are going out of business. Imports hit our bottom line as all prices have doubled."

Askar Baitasov
AB Restaurants

"Our holding continuously interacts with national and state-owned companies. Our production volumes depend on government funding. We expect the Kazakhstan economic growth rate to decline by 20-30% over the next 12 months, which will directly affect the company's top line, but we are going to offset this by expanding into new export markets in countries such as Iran, Turkmenistan and Mongolia."

Erkebulan Ilyasov
Alageum Electric

Revenue prospects for the next 3 years



This year, 44% of CEOs expect their companies to grow revenues over the next 3 years. This rise in optimism, compared to the historical minimum (35%), registered last year, is due to a number of factors, including getting used to a new economic reality and a newfound confidence in their ability to survive hard times, anticipation of a commodity price rebound, etc.

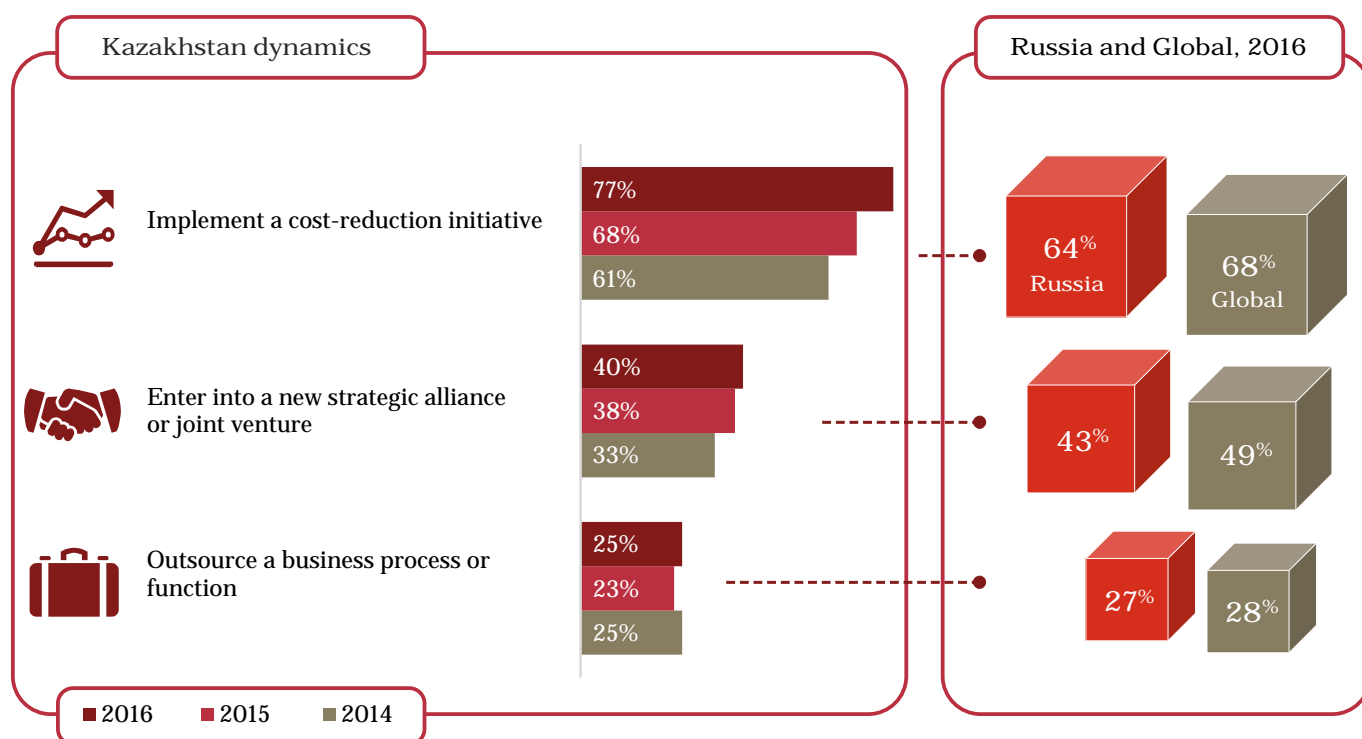
"There's been a devaluation, which is usually balanced by more aggressive inflation. Speaking of the impact of inflation for the next three-year period, we may well see revenue growth in Tenge terms. As for return on invested shareholder capital, given the 100% currency devaluation, three years will not be enough to reach the return rates seen previously. This crisis is expected to last longer for Kazakhstan than all previous crises."

Askar Kanafin
Ordabassy Group

"Solid growth – that's our expectation for the next three years. The economy always rebounds, it can't slump indefinitely, as any decline is not infinite and is followed by growth. Today, both the public and private sectors – including large companies and SMEs – are cutting unnecessary costs. This is one of those critical times, which bring innovative ideas, approaches, products and services."

Dmitry Zabello
Bank VTB Kazakhstan

Major restructuring plans for the next 12 months



The crisis is forcing Kazakhstan companies to adapt: 77% of CEOs plan to cut costs, up from only 61% two years earlier. Cautious spending, delaying some investment projects, downsizing, and other significant measures are the catchphrases of CEOs. To put things in perspective, only 64% of CEOs in Russia plan to reduce costs, because many companies have already been forced to restructure their business models rapidly, responding to falling commodity prices, the devaluation of the Ruble, and the Western sanctions against Russia.

In Kazakhstan, only 40% of the CEOs interviewed are contemplating entering into a new strategic alliance or joint venture, but no details were provided for confidentiality reasons or for lack of any concrete plans. Meanwhile, joining forces with other companies is on the agenda of 43% of Russian CEOs versus 49% of CEOs globally.

And just as last year, the third most popular item among plans to restructure is outsourcing certain processes and functions. For three years in a row now, outsourcing has been contemplated by one out of every four CEOs in Kazakhstan.

"We have a tactical plan to reduce costs. But we are approaching this issue with an eye to the future. For example, one of the most popular cost cutting measures is downsizing, which in the long term is not the right thing to do, as it fuels the economic downturn. We do not cut jobs, but rather delay adjusting salaries to offset currency devaluation. However, I should add that salary adjustments are considered in our budgets for the next six months."

"We also focus on import substitution. For example, our drinks menu only includes imported products. We are currently looking for local producers, because we want to switch to products made in Kazakhstan. We will rely on new corporate governance measures with a focus on certain trademarks to improve efficiency in current conditions. Soon we will initiate structural changes to enhance efficiency, develop a motivation programmes, develop our compensation policy, revise our stock option arrangements and more."

Askar Baitasov
AB Restaurants

"Business efficiency is our top priority. Therefore, we have suspended many investment initiatives that are tied to foreign currencies, such as modernization programmes, entry into new businesses. Cash generated by our business is the most important criterion ensuring long-term business sustainability and the ability to return to our initial strategy."

Askar Kanafin
Ordabassy Group

"We are implementing a cost-reduction initiative. This year we cut our marketing budget significantly. We want to be as conservative as we can on our price increase assumptions and while a lot of our expenses increase, we prefer not to increase prices too much because we believe our consumers will be sensitive to this and therefore we are cutting other costs."

Renaud Chamonal
Danone Kazakhstan

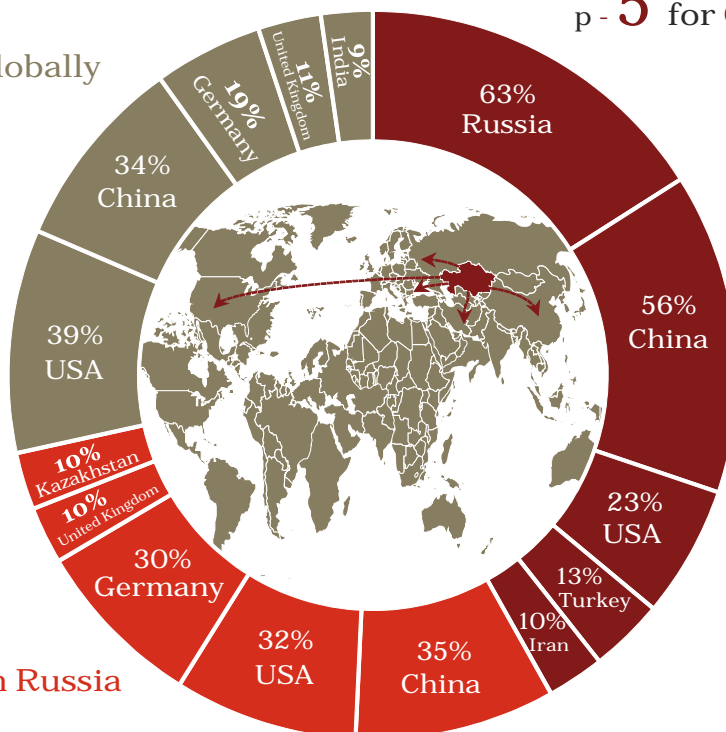


Most important countries for business development for the next 12 months

Top - 5 for CEOs globally

Top - 5 for CEOs in Kazakhstan

Top - 5 for CEOs in Russia



Russia, China and the United States were again named the most important countries by Kazakhstani CEOs. In 2015, businesses in Kazakhstan have been fully exposed to the impact of political and economic events in Russia: the devaluation of the Russian Ruble was especially detrimental to Kazakhstan's business, as it gave a competitive edge to Russian companies. The expected subsequent devaluation of the Tenge was a breath of fresh air for producers in Kazakhstan. Perhaps the events of 2015 pushed businesses in Kazakhstan to look for new partners in other countries, leading to the decrease in the perceived importance of Russia.

China has been climbing in the charts for three years now, albeit slowly. In the light of the New Silk Road and other large-scale Chinese programmes to promote economic ties with a number of countries, including Kazakhstan, China's importance for Kazakhstani businesses should grow considerably in the foreseeable future.

The United States ranking has also seen changes. Last year, the USA got an

unusually small share of votes (12%). This year, there is greater understanding of the United States' influence on Kazakhstan's economy. Naturally, Turkey is in the top five, given the long-established economic and cultural ties between the two countries.

In 2016, for the first time in the history of the Kazakhstan CEO Survey, Iran made the top five list. The interest in our Caspian neighbor, already strong, has been further strengthened by the lifting of sanctions against Iran.



"The model we use, regardless of the sector, involves working in competitive markets, i.e. markets with less government regulation and more competition. Therefore, we are not as active in countries such as Turkmenistan and Uzbekistan, because their markets are more regulated. However, the markets of Kazakhstan, Russia, Kyrgyzstan and Tajikistan offer better opportunities for competition: you can invest and repatriate your investments, make foreign exchange transactions, manage employee productivity, waste less time on red tape and invest more in intangible assets, the core of our business."

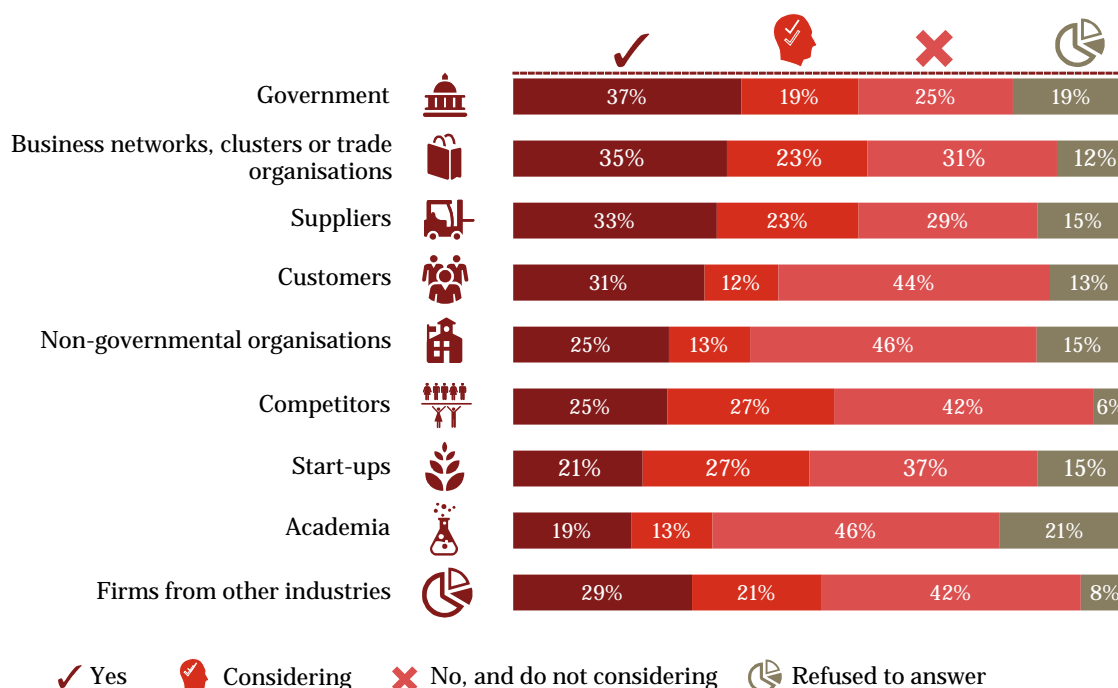
Kairat Mazhibayev
RESMI Group

"Today, China is the main investor in the commodity sector of Kazakhstan. Investors from Europe and the United States are losing interest in Kazakhstan. Capital flow to Kazakhstan will depend on the direction the Chinese economy will take and on the expansion plans of the Chinese government. We currently do not envisage any other sources of foreign capital. Russia is an important large market and a supplier of machinery and equipment. Of course, there are quality issues with this trade partner, but western equipment has become more expensive after the devaluation."

Marat Seitkulov
Caravan Resources Ltd

Business partnership

Partnership through joint ventures, strategic alliances and informal associations



Joining efforts through alliances is a proven survival tactic in challenging times. This year, CEOs favored this form of cooperation with the government and with specialised industry associations, suppliers and customers. Engagement with customers and suppliers increased significantly compared to the prior year. This year, competitors and start-ups are among the most popular potential partnership candidates. CEOs' interest in potentially partnering with start-ups has doubled this year.

Regretfully, potential cooperation with the academia remains of little interest for the private sector.

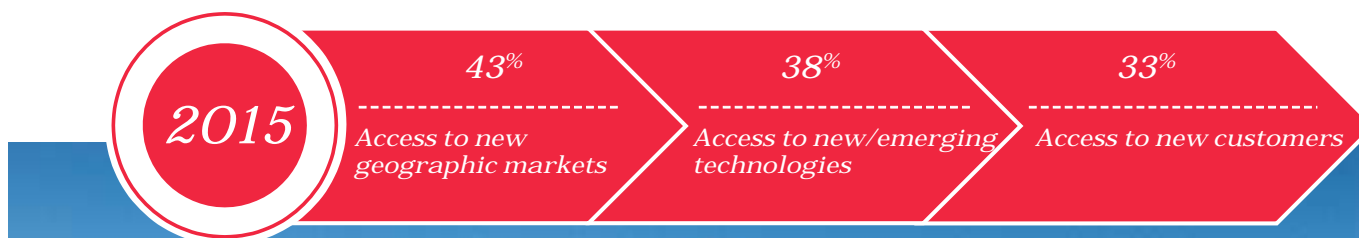
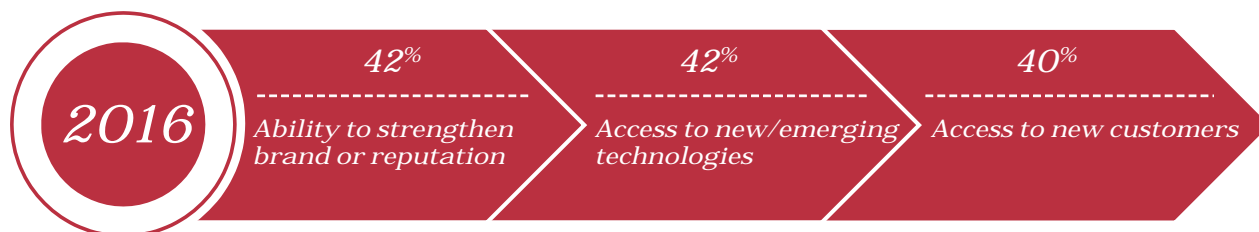
"We are always open to cooperation with our competitors. The self-regulation legislation introduced this year enables delegating regulatory functions to industry unions. Therefore, we are now considering various forms of cooperation, both with our competitors and partners, with a view to establishing a strategic industrial alliance."

Ualikhan Akhmetov
Karlskrona LC AB

Key reasons to participate in joint ventures, strategic alliances and informal associations

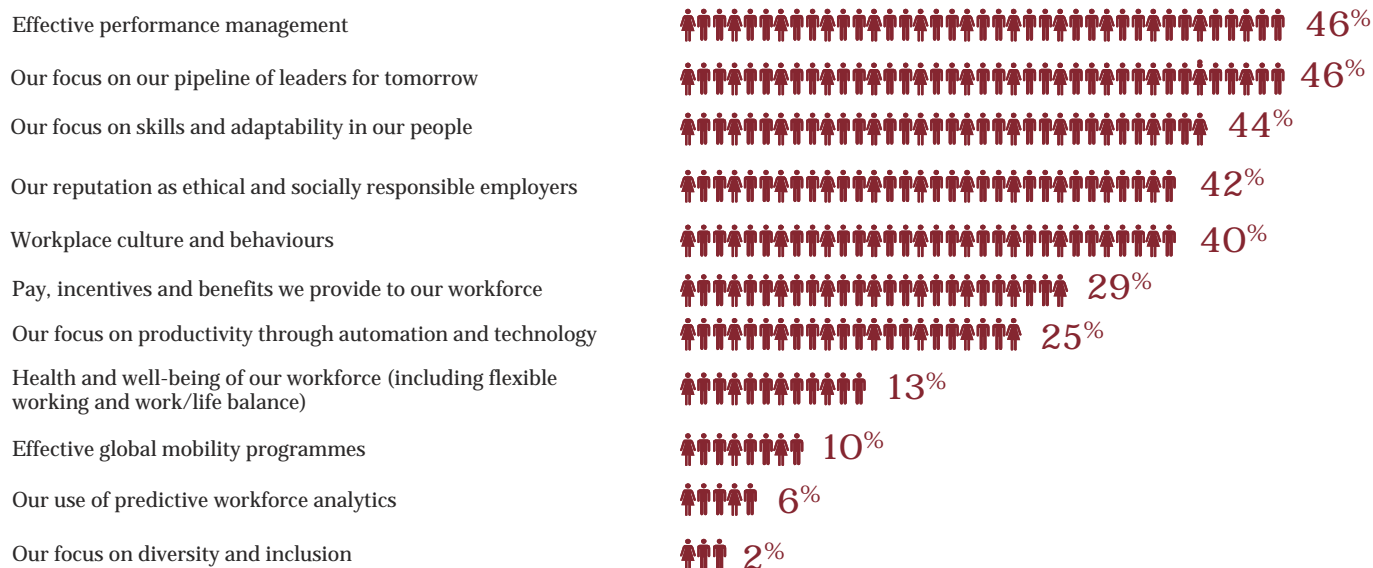
This year, just like the year before, joining forces with external players is seen by Kazakhstani CEOs as a way to access the new/emerging technologies and new customers.

Also this year, business leaders focused more on promoting their brand and improving their business reputation by leveraging the resources offered by alliances and associations, whereas previously such partnerships were mainly seen as enablers of geographic expansion. We think the shift from geographic expansion to building stronger positions and reputation in existing markets is a positive trend, suggesting greater importance of engagement with customers.



Human capital

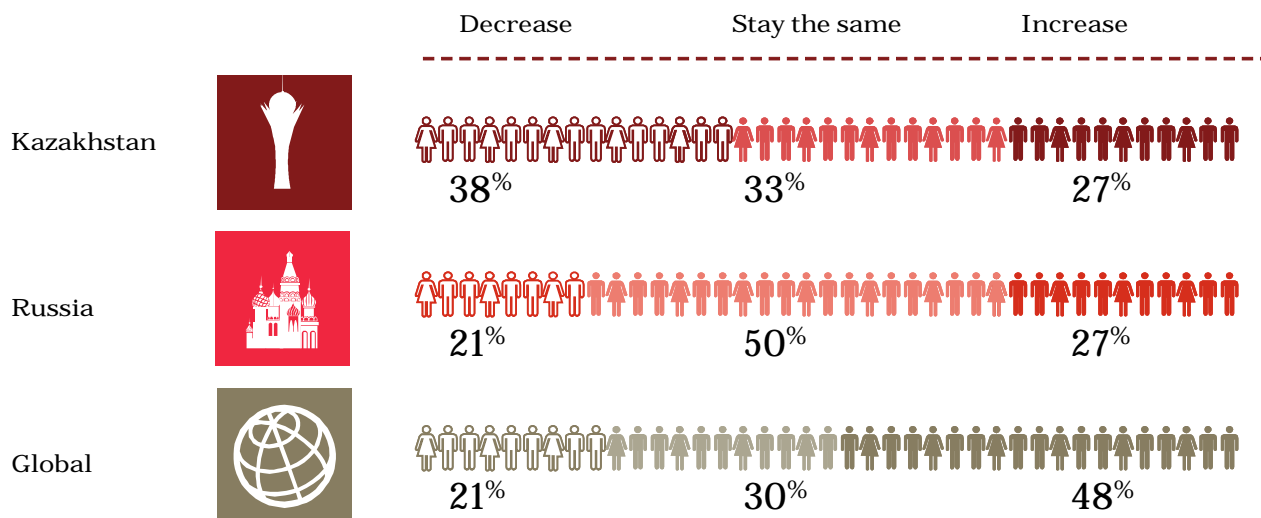
Changes in human resources strategy



The economic crisis is forcing business executives in Kazakhstan to rethink their human capital strategies. Nearly half of the respondents intend to pay more attention to effective performance management. The same percentage of CEOs in Kazakhstan will focus more on selection and training of future executives capable of steering their companies in the new reality. Forty-four percent of CEOs plan to make employee training and development a priority. At least 40% of top executives said they would focus on maintaining their business' solid reputation as an employer and on their internal corporate culture.

Traditional motivation techniques, such as a salary, bonuses and benefits have become less popular this year, probably due to crisis-caused budget constraints.

Headcount plans for 2016



CEOs headcount plans perhaps indicate most clearly the difficulties that businesses are going through. Nearly 40% of respondents plan staff reductions, almost double the result in Russia and the rest of the world. Last year, downsizing was on the agenda of only 16% of Kazakhstan's CEOs. More than 25% of the respondents in Kazakhstan and Russia plan to hire more people, while nearly half of CEOs globally expect to increase headcount over the next 12 months.

New challenges

For Kazakhstan executives, the government traditionally remains a major factor affecting their business. The economic crisis, which resulted in reduced consumption and fiercer competition, reminded corporate leaders about the extent of their dependence on customers and competitors. Naturally, the private sector in Kazakhstan is most concerned about the volatility of commodity prices, perhaps the single most important factor for Kazakhstan's economic well-being.

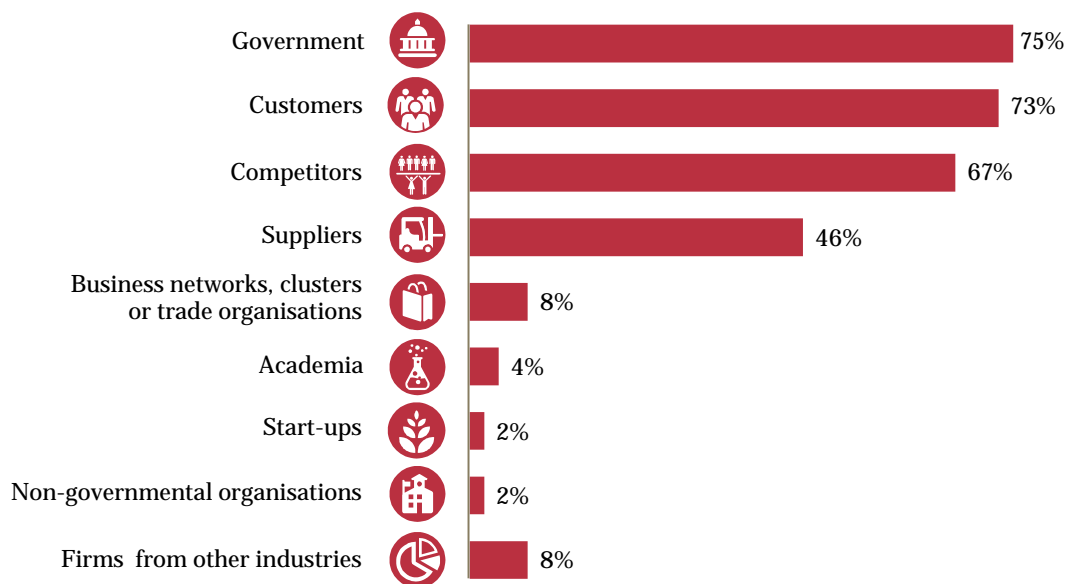
For CEOs, the main threats to growth are the government's response to fiscal

deficits and debt burdens, as well as the unresolved issue of corruption.

Most of the CEOs highlighted technological advances as the most important global trend, noting the growing importance of information technology in their business.

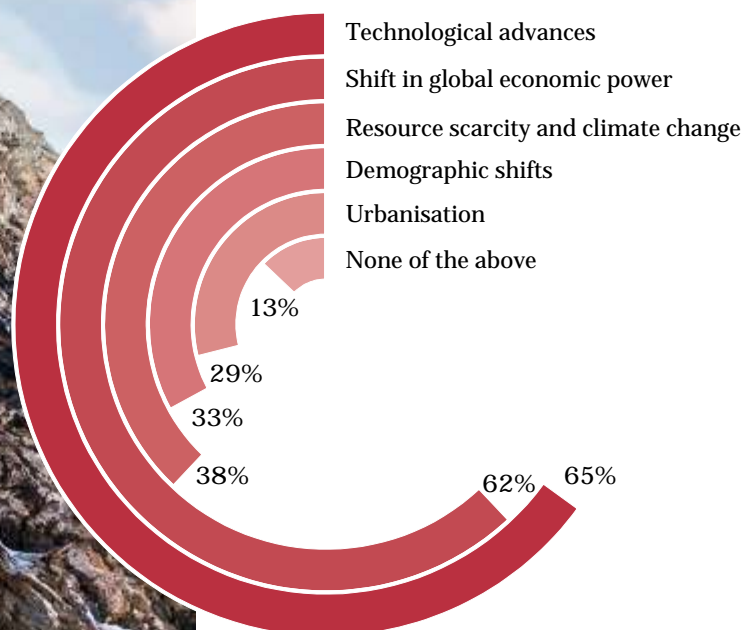
Factors of influence

Factors influencing the business



The government is a major factor influencing their business, according to 75% of CEOs. Seventy-three percent of CEOs acknowledged that customers also play an important role in their business. This is somewhat below the world's average of 90% for customer importance in business. Regretfully, CEOs believe that groups such as trade organisations and unions, the academia, start-ups, NGOs, etc. do not have any significant impact on their business. Nevertheless, the private sector is open to active cooperation with some of these groups.

Global trends that will change the world over the next five years



Technological advances and the shift in global economic power are the dominant choices among Kazakhstani CEOs, receiving 65% and 62% of the votes respectively. The perceived importance of technological advances in Kazakhstan is somewhat below the world average (77%). Moreover, Kazakhstan business has contrastingly different views on the impact of demographic shifts: the factor is perceived to be half as important compared to the rest of the world.

What is the role of information technology in your business?

90%

of polled executives in Kazakhstani companies believe that the role of new information technologies in their business is significant.

"In fact, direct marketing, direct financing and direct services allow businesses to be closer to the end customer and better understand his or her needs."

"IT ensures optimisation of business processes, accounting automation and obtaining of operational data."

"For example, we used to have 20 people working in one shop, in accordance with construction regulations, but now we are ordering automated equipment, where only 3 persons are required."



The overwhelming majority of Kazakhstani business executives highlighted the critical importance of new information technology in business. CEOs in all sectors rely on new technology to drive efficiencies in their businesses, help develop communication with their customers, manage customer preferences, and optimise business processes. Businesses are keen to develop new technologically advanced promotion and sales channels.

“Information technology plays an increasingly important role in our business. For example, in Beeline we are introducing a smart system that allows independent analyses of consumer behaviour and makes behaviour-based product offerings. Banks are moving to digital services; for example, ForteBank has a growing number of services offered through online banking and associated digital customer service. We also use multimedia platforms, that is to say, in routine operations, we try to maximise the use of technologies to satisfy professional needs, streamline operations and save time.”

Yerlan Ospanov
Verny Capital

“In today’s world, new technologies are a factor one has to consider in all areas of business. In our case, their role is significant. We communicate with tens of thousands of customers and business partners throughout the country. It all happens in real time and in digital format. Many of our services are now online: placing orders for cosmetics (90%), electronic payments (90%), staff training programmes, digital documentation and enhanced use of online resources such as human resources management system, marketing and information security.”

Konstantin Kulinich
Mary Kay Kazakhstan

“We use new IT solutions in our operations, which makes them more effective. For example, we have a project aimed at creating an online solution, automating front-office sales of our distributors. Once this project is completed, we will have up-to-date and reliable marketing and sales data from all the territories where we operate, made available on line to our employees depending on their job functions and responsibilities. One of the project’s goals is adapting to best sales management practices.”

Raimbek Batalov
Raimbek Group

“A fundamental role. For example, we have introduced a digital outpatient card. There are 25 large medical centers in Kazakhstan. We have introduced this system for greater customer comfort: now they can receive treatment from multiple hospitals. Any doctor would know patient’s data by looking at their card using a device with Internet access; for example, a mobile phone, a tablet, a laptop or a desktop computer. We are also working to make it possible to issue insurance contracts online. Unfortunately, there are a number of regulatory constraints, but we are expecting certain positive changes by 2017. Our goal is to let our customers sign digital contracts using their digital signatures. If these amendments come into force, it will make things much simpler for our business.”

Saule Dzhundubayeva
Inter teach

“A central role. For example, we are thinking about trying the Uber model for food delivery. Today, we only sell food, but if Uber were to come to Kazakhstan, this could disrupt our business, because Uber would be able to sell products and deliver them too. We also plan to improve our logistics and delivery time.”

Ramil Mukhoryapov
Chocofamily holding

“Going into the future is tough if you have baggage. Electronic commerce is becoming an increasingly important segment for us. We have implemented IP-telephony, a CRM system and modified our website to respond to market changes.”

Bulat Mukushev
TSSP

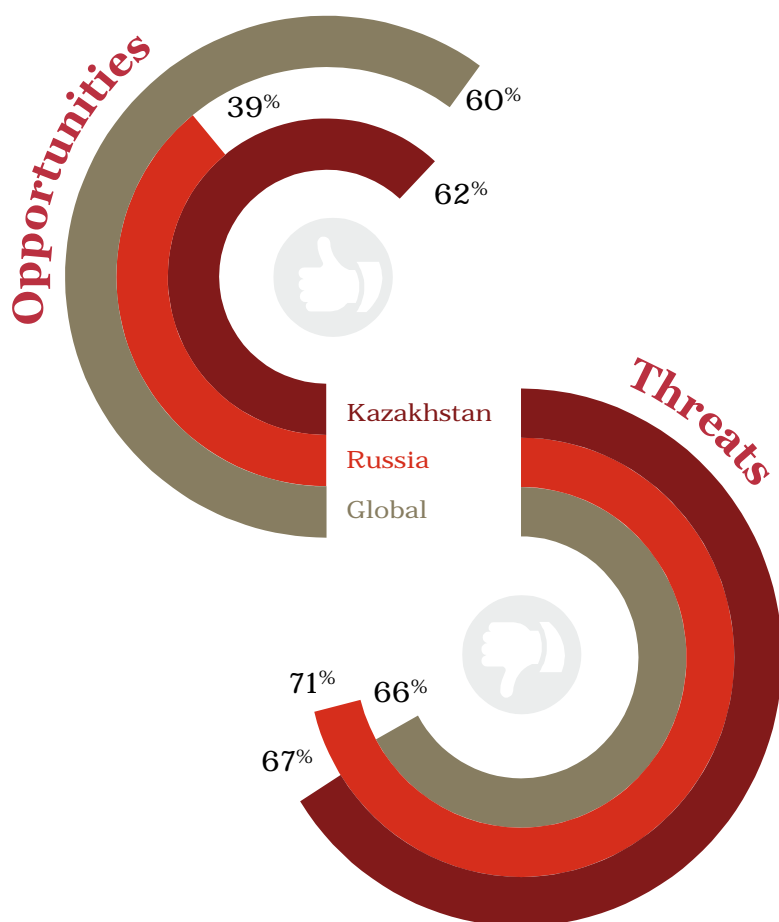
“Information technology plays a very significant part as we are an industry which deals with people and IT allows us to reach them electronically but also where many of our services are digital: advertising, booking process, on line check in, etc.

Furthermore, we actively use social media, online services and platforms to advertise and promote our services and hotel, and we use IT for effective joint projects.”

Philippe Mahuas
Astana Marriott Hotel

Threats and opportunities

Ratio of threats to opportunities, today vs. three years ago



Two out of three CEOs in Kazakhstan see more threats to their businesses today than 3 years ago, while a slightly smaller percentage of CEOs see more opportunities. Kazakhstani executives are more optimistic in this matter than their Russian counterparts (39%).

"Our economy is of the extensive type rather than intensive. Growth is often driven by mergers and acquisitions. Local companies grow in size with little attention paid to, say, labour productivity. This is linked to the industrial focus of our economy. For us, this extensive-type growth is simpler and easier to understand."

Marat Seitkulov
Caravan Resources Ltd

Potential threats for growth

CEOs in Kazakhstan showed greater concern about threats compared to most CEOs throughout the world in all areas except excessive government regulation. Still, in their detailed answers, company heads often expressed hopes for less regulation in their industries, so this is an important topic for CEOs in Kazakhstan.

The private sector is particularly concerned with the government's response to fiscal deficits and debt

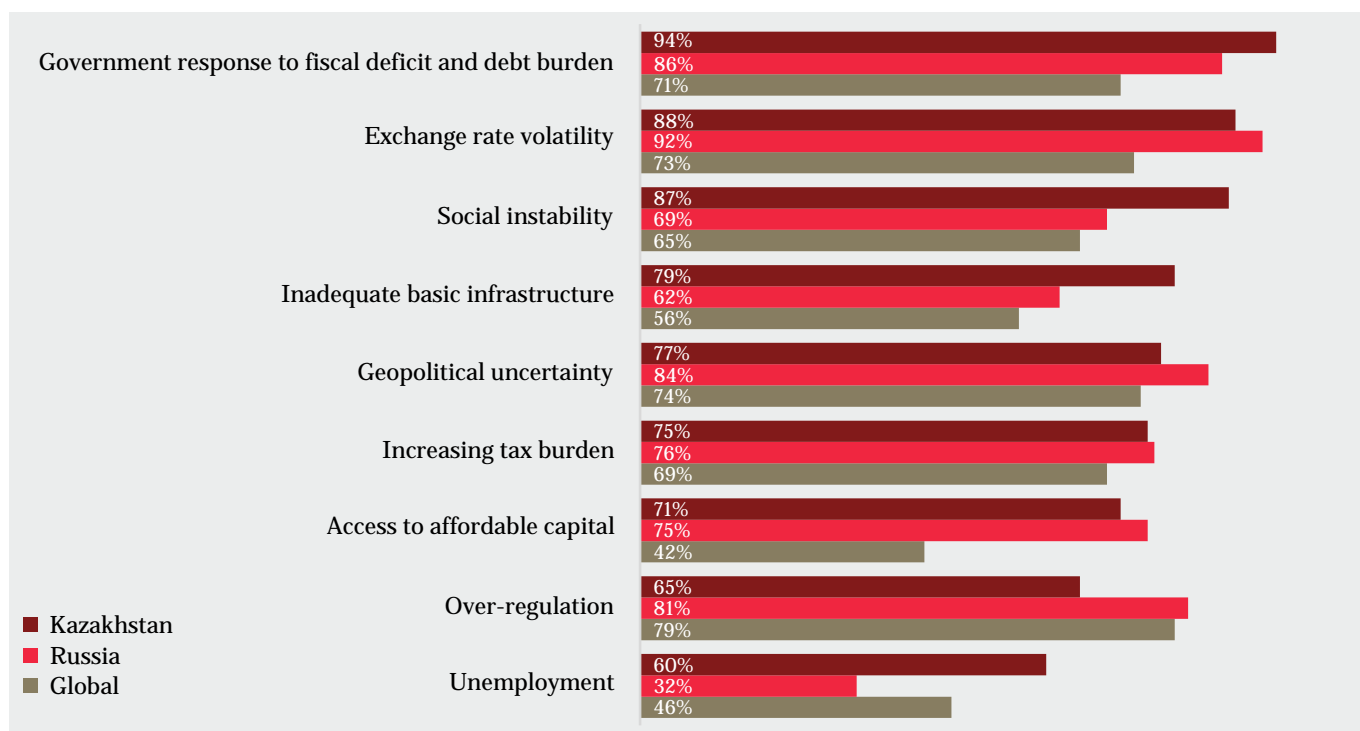
burdens, as well as exchange-rate volatility of the Tenge, and social instability.

Concerns about a possible spike in social tension have increased several fold. Last year, only 25% said they were seriously concerned about this risk. According to business leaders, potential social unrest could be sparked by economic factors.

Overly dependent on government funding, Kazakhstani businesses have

become acutely sensitive to any government actions limiting government support, including moratoria on public funding for investment projects, reduced government off-take, etc.

Further exchange-rate volatility of the Tenge, which lost more than 80% of its value between August and December 2015, is also understandably among their perceived potential threats to growth.



"The trend for more liberal regulation, which we witnessed in the early 1990's, has long since ended and recent years were marked by excessive regulation. This becomes particularly obvious if you look at the subsurface law. Overregulated as it is, the industry now has to deal with a greater number of reports, new procurement rules, fines for non-compliance, etc. For local

companies it is easier to adapt, but small foreign companies have a hard time trying to operate in this environment.

Understanding that entrepreneurs and the government have common goals, i.e. promoting business success which leads to the emergence of large employers and taxpayers, should be at

the core of the government's policy for the private sector. Looking from this angle, it would be appropriate to let businesses self-regulate in certain areas currently regulated by the government."

Marat Seitkulov
Caravan Resources Ltd

Concern about potential threats



	Kazakhstan	Russia	Global
Volatile commodity prices	81%	61%	57%
Bribery and corruption	77%	70%	55%
Shift in consumer spending and behaviours	76%	69%	60%
Availability of key skills	75%	79%	72%
Readiness to respond to a crisis	71%
High or volatile energy costs	68%	53%	52%
Supply chain disruption	60%	57%	50%
Lack of trust in business	56%	61%	55%
Speed of technological change	50%	52%	61%
Cyber threats	42%	43%	61%
Stock market volatility	42%	38%	44%
New market entrants	33%	46%	57%

In the current and previous years, businesses have been extremely concerned about the volatility of commodity prices (81% and 88% of respondents, respectively). Slightly behind were concerns over corruption and a shift in consumer spending and behaviours. Just like last year, bribery and corruption are of concern to three out of four executives. Last year, 85% of respondents were worried about the shift in consumer spending and behaviours; this year the number has dropped slightly.

Interestingly, CEOs in Kazakhstan are least concerned about new market entrants – far less than executives in Russia and the world in general.

Actions of the government

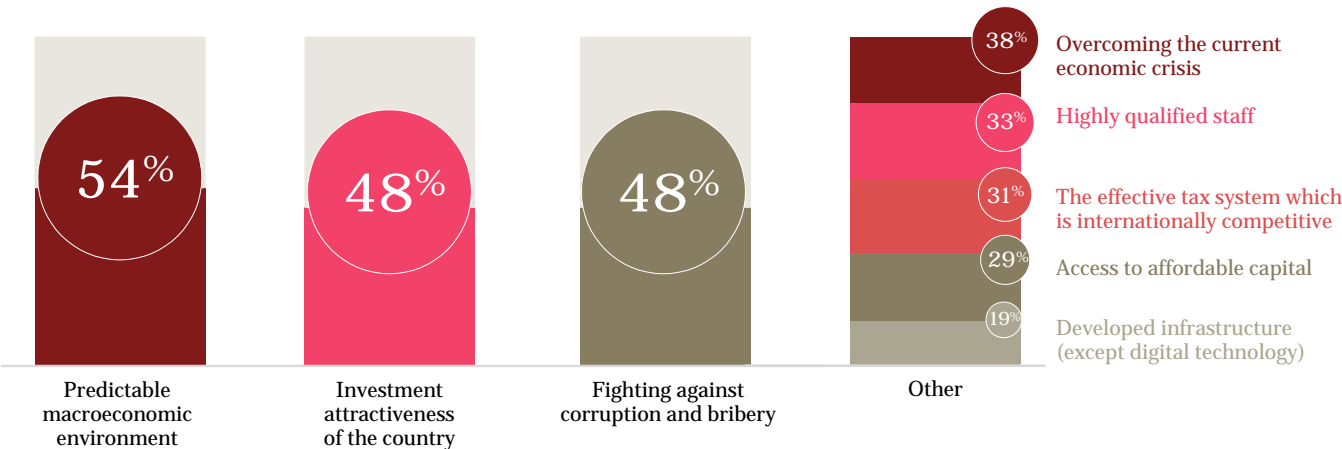
Over 50% of CEOs expect the government to reduce regulation and avoid state interference in the private sector. The following were noted among the government's priorities: a more predictable macroeconomic environment, investment attractiveness of Kazakhstan and the fight against corruption. The business community is rather critical of the achievements of the government in these important areas, but is nonetheless ready to cooperate with the government to improve the situation.

Government priorities

Expected priority areas for development

The private sector has high expectations that the government will create a predictable macroeconomic environment – 54% of CEOs think this should be the government's top priority. CEOs noted that the lack of predictability has undermined long-term business planning. The accuracy of economic forecasts strongly depends on whether the private sector has

confidence in the government's future actions. Almost half of the respondents agree that the government should focus on attracting investment to the national economy, especially given the reduced state budget financing. The same number of CEOs expect more structured measures to be taken to eliminate corruption.



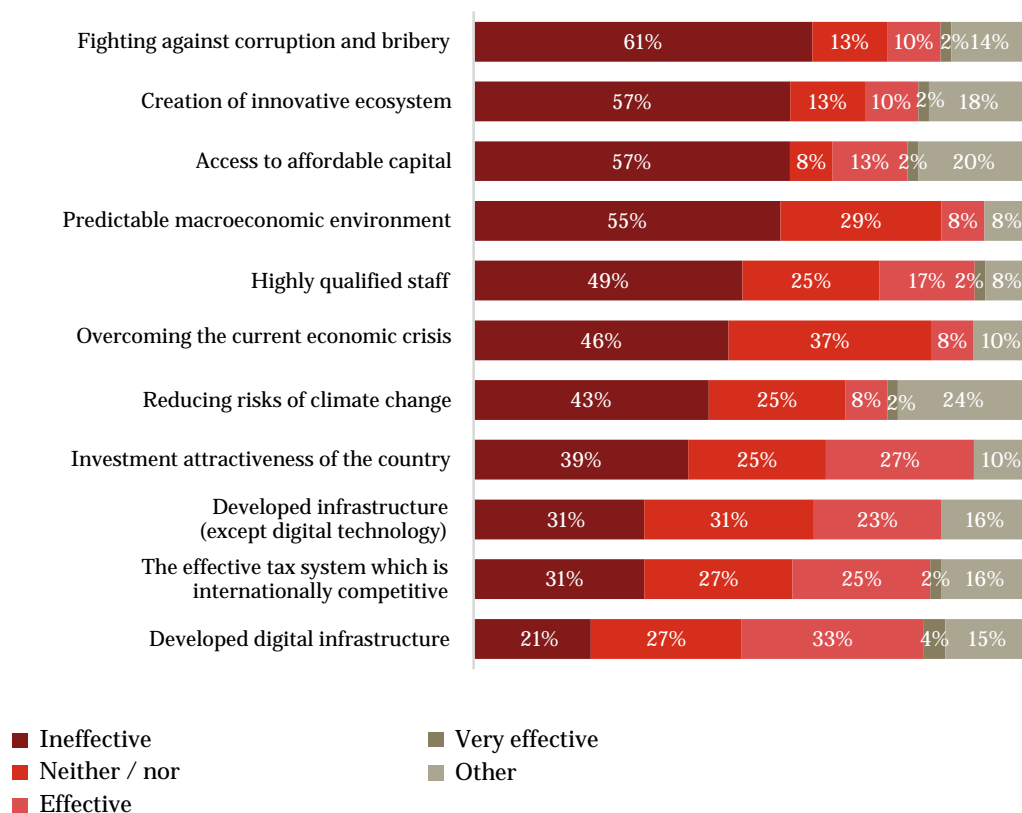
"I think it is not the government's job to provide access to cheap capital; rather it is to create the proper investment climate, in a very broad sense. In this case this could include personal security, protection of property, environmental protection and business-friendly tax policies. And once we have an attractive investment climate, we will have the foundation for access to capital."

Marat Seitkulov
Caravan Resources Ltd

"We need to cut government spending and reduce the government's presence in the market and in the economy as a whole. I think the current tax system is quite efficient and fair, and does not need revision. I'm a supportive of counter-cycles in the economy. In times of trouble, the government should loosen its grip on the economy until the economic recovery requires tightening it again."

Serik Tolukpayev
Aitas Group, UKPF

Efficiency of the government



61% of CEOs assess the government's efforts in the fight against corruption and bribery as ineffective. The respondents noted that the battle against corruption had been declared and initiated, but it was limited by a lack of consistency and a systemic approach. Other areas where the government's performance was assessed by business leaders as ineffective include the creation of an innovative ecosystem,

access to affordable capital and macroeconomic predictability.

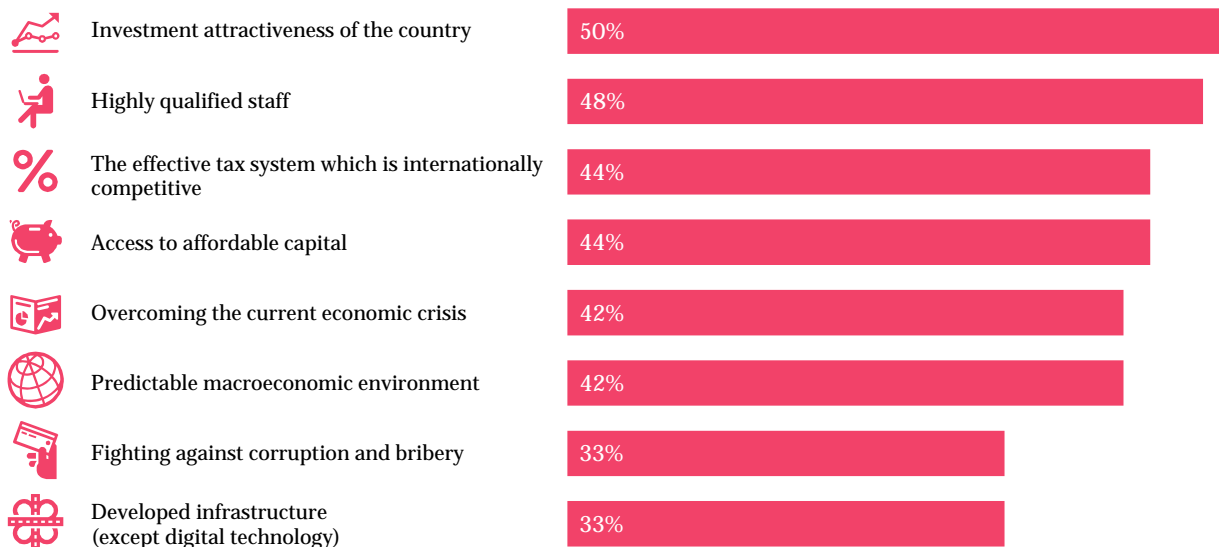
Almost 60% of the respondents believe that measures aimed at building an innovative ecosystem are ineffective, as are efforts to provide access to cheap capital. The private sector expects to see more active and productive steps by the government in these areas. It should be noted that the business community has

mostly been focused on problems, and often overlooked progress and achievements in these areas.

In a sizeable number of queries, the respondents were not able or willing to provide answers to a number of questions (up to a third of responses), which could possibly reflect their caution and political correctness.

Cooperation and expectations

Interest in cooperating with the government during the ensuing three years



Compared to the previous year, the private sector is showing higher interest in cooperating with the government. One out of two CEOs is ready to cooperate with the government to increase the country's investment attractiveness. The government can and should involve the private sector in anti-crisis initiatives and in creating a more investment-friendly environment, thus leveraging the support of those who really want things to improve. Obviously, the government has every reason to expect businesses to adopt international standards. As many as 48% of CEOs (up from only 18% last year) are interested in working with the government to train and develop highly qualified staff capable of adapting to quickly changing conditions. Moreover, 44% of executives express a readiness to join forces with the government in developing an effective tax system (up from 15% last year) and providing easier access to affordable capital (up from 16% last year). The private sector also pointed to new areas for co-operation, such as fighting corruption, macroeconomic predictability, recovery from the ongoing crisis and investment.

Overall, businesses show a willingness to cooperate with the government in all areas deemed important by the business community. Yet there was a lot of criticism and far fewer concrete suggestions about how things could be improved and offers to personally contribute to the improvement process. For example, 61% of the respondents described the government's anti-corruption programme as ineffective, while only 33% showed readiness to join this process.

"The authorities do not know how to have a constructive dialogue with the private sector. I think this is because officials do not listen. We have the National Chamber of Entrepreneurs, but we do not have a consensus..."

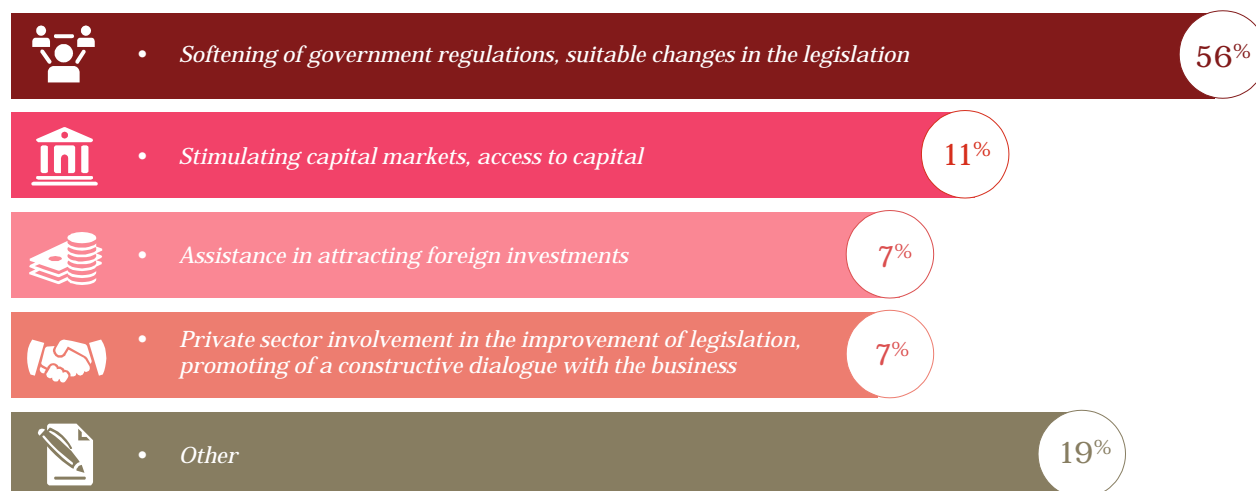
Pavel Beklemishev
Belkamit

Regulatory changes expected from the government

Most corporate leaders in Kazakhstan expect to see a softening of government regulations; for instance, in the field of taxation and state non-interference in the private sector. In this regard, some respondents referred to the Yellow Pages principle, according to which the government should stay away from sectors where private companies are

already present. Although the question narrowly focused on expected legislative changes, most CEOs considered the questions more broadly. Many business leaders believe that Kazakhstan should focus on promoting local consumer markets for the sake of helping local businesses. The private sector also expects concrete steps aimed at

improving access to capital. Only a small portion of respondents expressed readiness to contribute to the government's legislative improvement process, engage in dialogue, and utilize their experience in addressing key issues.



“The Yellow Pages rule is the best practice for the development of free market economy. In addition, government should be clear about which strategic industries it wants to stay in. It should be a very lucid announcement that the government wants to work with these strategic industries only. Also private sector companies into which the government enters should have a very clear exit strategy. What we see right now is that the government is privatizing. It is not yet clear - how and when the government can invest in the private sector, for it is important for businesses to know this straight-forward strategy. Ideally, within 10 years, you would have to privatize your business through an IPO or through a strategic sale. That would be an important message to the market, so you can invest without fear that the government will step into your sector one day.”

Siddique Khan
Globalink



"For us, renewables are quite an important business and we have even worked to enact climate change legislation. We have invested in large-scale renewable energy projects in Kazakhstan, particularly in solar and wind power, and we hope to support new projects in this area. Legislation concerning the Astana International Financial Center; this is the area we are actively engaged in and we think it's important to stimulate the capital market here in Kazakhstan."

Janet Heckman
EBRD

"I wouldn't be happy if taxes were raised, especially during such a difficult time. I also wish Kazakhstan returned to a fixed exchange rate: the fact that it doesn't remain stable for even two days is making business more complicated. All our investment calculations are based on current figures, but next day we may have different figures as prices are reviewed daily. From the point of view of business processes, this is bad for day-to-day operations and planning."

Askar Baitasov
AB Restaurants

"We expect the transition to a sales tax. Hopefully, government regulation of prices will become less severe, especially in the aviation industry. We need liberalisation in the construction sector, adoption of Eurocodes, more reasonable certification and state quality control procedures, etc."

Yerlan Ospanov
Verny Capital

"We hope that the Government of the Republic of Kazakhstan and the National Bank will postpone the full implementation of the Basel III recommendations for banks, considering today's difficult macroeconomic situation, thus allowing banks to do some internal work and gradually improve their equity structures."

Magzhan Auezov
Kazkommertsbank

"We hope that the government will continue to protect the interests of current foreign investors. We support simpler procedures to obtain work permits by workers from countries outside the EEU. The Kazakhstani market would thus become more attractive for qualified workers, transfer of knowledge to young people would be faster and the labour market would become more competitive. Today, any steps promoting consumerism and tourism would be very welcome, because consumer demand is one of the traditional drivers of GDP. Besides, with a weaker Tenge, investing in Kazakhstan is now more profitable."

Andrey Kurilin
Citibank Kazakhstan

"We look forward to less government regulation, less government interference in our industry, wider use of international practices and fewer obstacles, because in other countries it is easier for banks to work; banks get support so they can increase lending to entrepreneurs and corporations and thus play an important role in the development of the economy. Unfortunately, this is not the case in Kazakhstan."

Liquidity problems and reduced retail lending will continue until the National Bank decides how to provide liquidity to banks and make people start trusting the national currency more.»

Mikhail Lomtadze
Kaspi Bank

"I would be happy to see a transition, on the regulatory level, from state capitalism to a truly market-driven economy, which would be good for our business. The growth of personal and household incomes would be in our interest."

To make this growth happen, the government should initiate fundamental economic reforms. We need to engage everyone in the market – people, households, companies, SMEs, big business, state-owned companies – in the economic renewal of the nation. In the 1990s we all participated in large-scale housing privatisation programmes, mass privatisation of state property, a new monetary system, aq new market culture, etc., which caused irreversible changes during the transition from the established Soviet traditions in economy and culture."

Maximizing involvement of all the resources of society will ensure a more stable integration into global and regional markets and help create new human capital, update laws and regulations tailored to the needs of a growing private sector. Acting unilaterally, the government and its economic agent can only achieve tactical wins."

Kairat Mazhibayev
RESMI Group

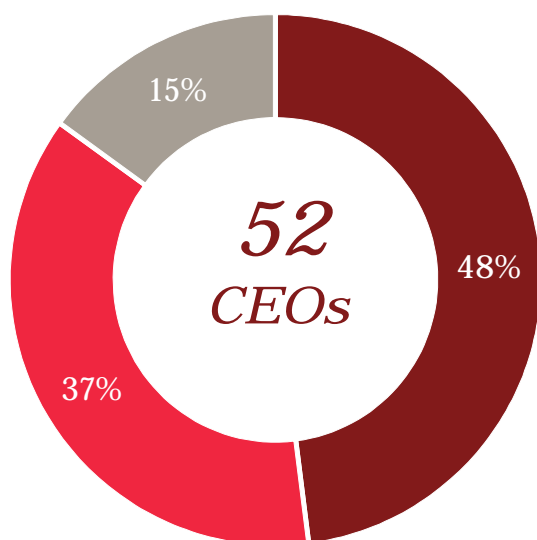
Significant events

Perhaps the most important event for the business community in 2015 was the transition to a floating exchange rate of the Tenge. The vast majority of CEOs in Kazakhstan dislike the consequences of the decision made in August 2015. At that time, CEOs had to adjust their business models and take radical measures to save their businesses. Other important events in 2015 discussed with the CEOs include Kazakhstan's long-awaited WTO accession and the launch

of a new wave of privatisations. According to the CEOs, the WTO accession has far less significance in the short term compared to the devaluation of the Tenge. Respondents were either positive or neutral to the WTO accession. Privatisation is also believed to be a positive change by CEOs, because of the expected reduction of the state's role in the economy. However, only a small proportion (10%) of respondents participated or (21%)

planned to participate in privatisation. For the private sector, the transition to a floating exchange rate was the most shocking decision by the government in 2015. However, the resulting devaluation gave business leaders a chance to showcase their adaptability skills: for example, one out of four CEOs in the financial services sector and one out of three CEOs in the real sector of the economy work on their de-dollarisation plans.

Exchange rate volatility



- Negative
- Extremely negative
- Other

What is the impact of exchange-rate volatility on your business?

Eighty-five percent of CEOs said that the Tenge's transition to a floating exchange rate and its subsequent plummeting were the main challenges for their businesses. This decision has had a devastating impact on importers and manufacturers whose businesses depend on imports, as well as on consumers, who are now faced with rising prices. Furthermore, the CEOs also noted that exchange-rate volatility seriously undermined their ability to forecast revenues and costs linked with foreign currencies and complicated concluding contracts. The devaluation was helpful though in restoring the status quo with Russian producers who had had a competitive advantage after the earlier devaluation of the Ruble in late 2014.



"The impact was negative. As an investment company, our job is capital management and management of our investment value. Unfortunately, due to the devaluation of market currencies, in 2015 the company's estimated stock value dropped, despite the fact that our financial performance has improved. The main reason is the regional economic recession."

Kairat Mazhibayev
RESMI Group

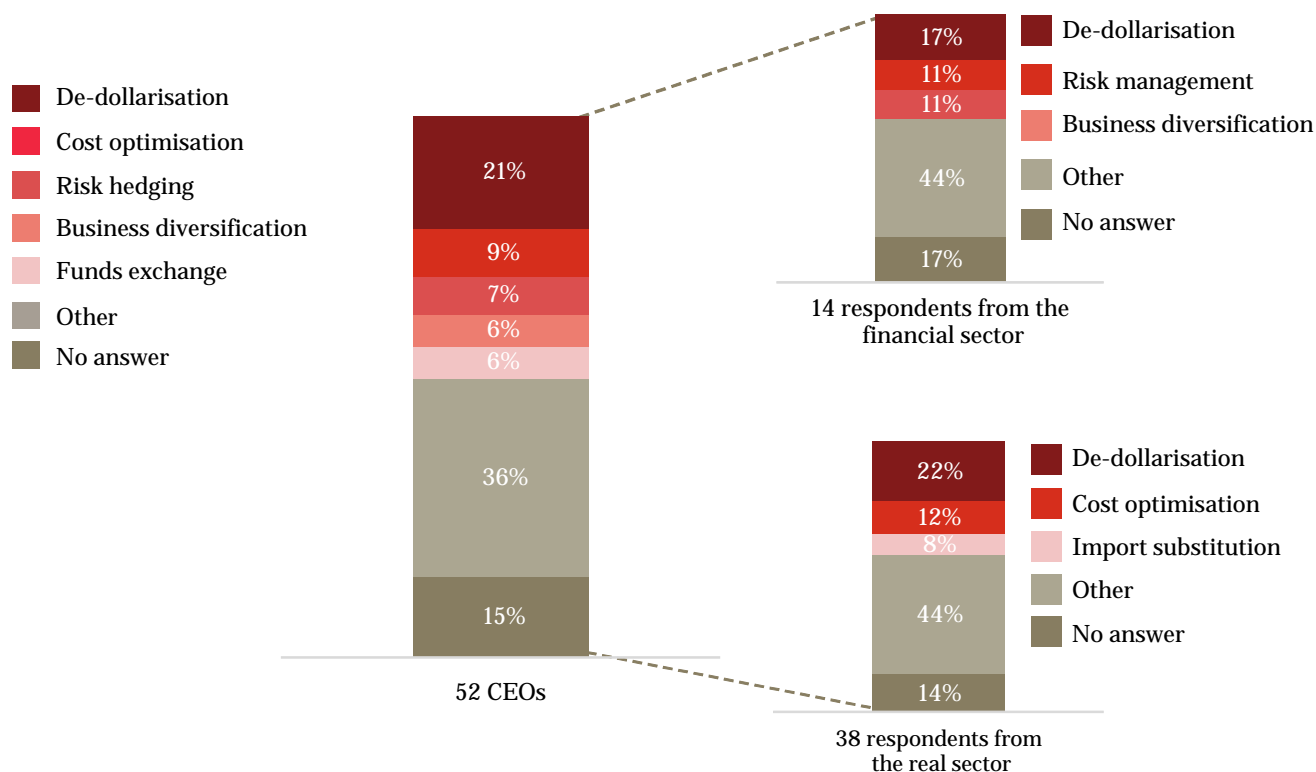
"Negative impact, because we import a lot of ingredients of the products that we produce here and we also import some finished goods like Actimel for instance. Even our local suppliers in some cases may import part of their processes, including imported raw products and packaging. There was yet one positive thing to mention: after the implementation of the new currency model and devaluation in August, we no longer suffer from parallel import from other countries."

Renaud Chamonal
Danone Kazakhstan

"For UKPF, devaluation was a good thing, because it allowed us to compete better with Russian companies. But on the whole, devaluation is bad for the future of the Holding and for the industry. The sector is no longer attractive to investors, because our industry is one of the most investment-intensive: it costs at least \$100 million to build one factory. Frankly, all this exchange-rate volatility creates chaos."

Serik Tolukpayev
Aitas Group, UKPF

How do you plan to change your company in response to the volatile exchange rate of Tenge?



With the volatile Tenge exchange rate, many companies in Kazakhstan are exploring options to replace imports with local alternatives that meet their expectations in terms of price and quality. De-dollarisation is part of plans of 17% of CEOs in the financial services

sector and 22% of CEOs in the real sector of the economy. The CEOs said that de-dollarisation, which they supported, is limited by insufficient local supply and suppliers' unwillingness to revise profitability targets, etc. Many respondents were

keen to de-dollarise costs and liabilities, but not necessarily revenues and assets.

Business leaders now have more transactions denominated in Tenge and prefer to borrow in the national currency.

“Firstly, the whole real estate market is tied to the dollar. We plan to convert all the rental rates to the national currency. Complete de-dollarisation of real estate is the principle that our company lives by. Secondly, replacing all imported products. Thirdly, in terms of the business environment in general, we need to develop our own products and services.”

Askar Baitasov
AB Restaurants

«We have changed our financial policies and have converted all currency-denominated liabilities and leasing obligations to Tenge, where possible. At the moment, it is safer to pay higher interest rates in Tenge than to borrow cheaply in a foreign currency, because the uncertainty seriously affects decision-making and business efficiency. We have cut funding for all projects except those with short payback periods.»

Askar Kanafin
Ordabassy Group

“At this moment we do not have an internal policy and strategy that could help us balance currency risks. Our market and our customers are in Kazakhstan, and our costs in the form of machinery and healthcare are denominated in foreign currency. We can say for now that we are going to be more flexible and rethink the situation faster.”

Eldar Abdrazakov
Centras Group

“We will continue to work with our deposit base to prevent deposit outflows and increase deposit account balances. We will continue to work with the National Bank to use all available tools to increase Tenge liquidity. The Bank remains the largest participant in government programmes aimed at providing Tenge liquidity.”

Magzhan Auezov
Kazkommertsbank

“We plan to continue to attract funds actively and increase the amount of transactions denominated in the national currency; for this we are going to develop new, attractive products and services and conduct additional advertising campaigns.”

Alexander Kamalov
Sberbank

“This is the best time to launch new products, because everyone is thinking about cost cutting and protecting their positions; competition is moderate, so a crisis is the best time to launch new products. I can say that exchange-rate volatility is caused by social and political factors, so it is hard to tell how long it is going to last.”

Mikhail Lomtadze
Kaspi Bank

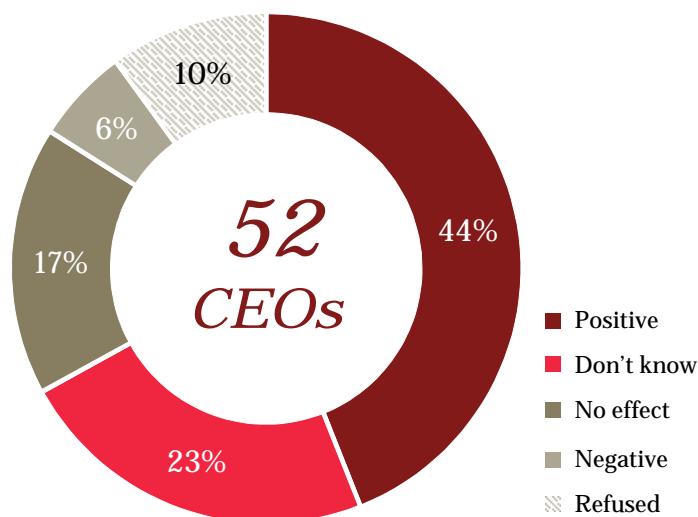
“Replacement of contracts that are indexed in USD, including rentals, with (or into) Tenge. It's the main issue right there. Secondly to support Kazakhstani products in order to require less imported products. It's the second project or focal point right now. And thirdly – to help government officials keep control of inflation rates by cooperating with the suppliers. These are the three main points in terms of the current crisis... We are in cooperation with suppliers concerning the inflation rate. We are trying to keep shelf prices at the same level.”

Aytu Can
Ramstore



Kazakhstan's WTO accession

How does Kazakhstan's WTO accession affect your business?



In July 2015, Kazakhstan officially joined the World Trade Organization. It took almost 20 years of negotiations, and Kazakhstan's economy has changed dramatically over this period. Today, member nations of the WTO account for 90% of Kazakhstan's trade. 44% of CEOs expect positive impact from the WTO accession. There has not yet been a notable impact of WTO accession on businesses. Perhaps that is why 23% of the respondents did not have anything to say on this matter. Another 17% said that the WTO membership would likely not result in any changes for operations of their companies.

"It had a positive impact. With a weak Tenge, being a member of the WTO gives you a number of advantages. The thing is that I can't see any industries in Kazakhstan that could become large exporters."

Askar Kanafin
Ordabassy Group

"It had a positive impact. We mostly buy high-tech equipment and Kazakhstan's joining the WTO will be good for us. But those Kazakhstani manufacturers that manufacture products that can't compete effectively will be in trouble."

Nurlan Saurambayev
SAT & Company

"It had a positive impact. On the one hand, it makes the market more open to foreign competition, in particular from companies from Russia and China, because it is much easier for them to start working here. However, they are now busy trying to fix problems that they are facing in their own countries; besides, today's Kazakhstan is no longer seen as a "gold mine" or a "safe heaven." This allows us to work with Russian suppliers, who offer fairly cheap prices compared with Kazakhstani distributors. There will be less import duties; people will be able to save some money, so their purchasing power will increase."

Ramil Mukhoryapov
Chocofamily holding

"As demonstrated by the Russian experience, becoming a member of the WTO has little effect on the private sector. It took Kazakhstan and Russia a long time to join the WTO, and most companies have found new ways to work. Changes might occur, but they are not going to be fundamental."

Dmitry Zabello
Bank VTB Kazakhstan

"I Believe that accession of Kazakhstan into the WTO is a good initiative, but it will take at least the next few years to see the results. However, the chosen time for the WTO accession is totally wrong for Kazakhstan at this moment."

Siddique Khan
Globalink

How are you going to change your company's operations after Kazakhstan became a member of the WTO?

CEOs in Kazakhstan have no immediate plans to make any significant changes in their companies, because thus far WTO membership has not been regarded as a significant risk factor in the current market situation. However, business leaders agree that in five years they are going to need a new platform so their businesses can compete better: WTO membership should open markets to new companies, thus increasing competition. Because it took Kazakhstan so long to complete the accession process, the actual accession was not big news for the market. Many companies already have to face severe, sometimes unfair, competition within the framework of existing agreements and unions.



"We look at the investment strategy, changes in competition, impact on supply chain and capital markets. We believe that this turmoil will be followed by a quieter period. That is why we are already transforming our thinking. As for the current period, it is not really productive for the economy due to a combination of regional conflicts, launch of the EEU and Kazakhstan's joining the WTO."

Kairat Mazhibayev
RESMI Group

"We are already hiring more highly qualified workers from countries of the former Soviet-Union and from non-FSU countries; we are investing more in equipment and technology, as well as in training and development."

Serik Tolukpayev
Aitas Group, UKPF

"We expect that within the next five years, subsidiaries will be allowed to operate without registering as a legal entity, but with our regulation and red tape many foreign companies will most likely leave the market. We do not plan to change anything significantly."

Eldar Abdrazakov
Centras Group

"No special changes, but it will give us the ability to access highly educated staff to improve labour capacity."

Gary Hodgkinson
Rio Tinto

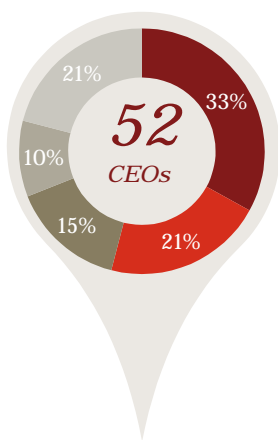
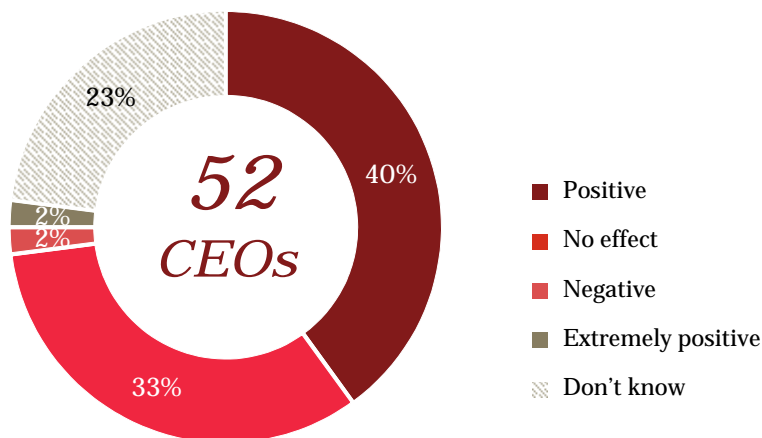
Privatisation programme

How does the government's privatisation programme affect your business?

According to 40% of CEOs, the government's planned large-scale privatisation should have a positive impact on their businesses. Only 2% said it would have negative consequences. 10% and 21% of CEOs said that they will or may take part in the privatization, respectively.

"Positive impact. I think that one of the key aspects of the EBRD is that we believe the private sector can always do things more efficiently than the public sector, and we strongly support this move to bring more companies into the private sector. We will help prepare companies for privatization and we are open to participate in privatization."

Janet Heckman
EBRD



- No, and do not plan to participate
- No, but plan to participate
- No, not participating
- Yes, I am participating
- Don't know

Do you have plans to participate in the upcoming privatisation or are you already participating in it?

"This is the second wave of privatisation we are witnessing. We would like to take part in it and buy subsidiaries of national companies that are connected with our business, for instance, power transmission and generation companies, design institutes, etc."

Erkebulan Ilyasov
Alageum Electric

"We do have plans to participate. I expect that some Chinese companies will merge with local companies, and then we will be able to provide loans to them."

Wei Xiaogang
ICBC Kazakhstan

Best in 2015

Best CEO in Kazakhstan in 2015

Peter Foster, the CEO of Air Astana, has been voted by a wide margin as the best CEO in Kazakhstan this year. The CEOs gave him credit for the success of the national air carrier, noting that the company continues its dynamic growth despite the economic turmoil. Moreover, Air Astana promotes Kazakhstan as a brand and ensures its recognition globally. "To raise the bar that high while promoting the image of the entire nation is an incredible feat," said one respondent.

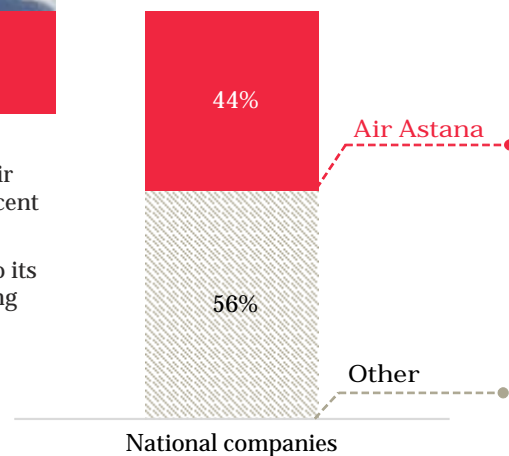
The runners-up include Nurlan Smagulov, Andrey Kurilin and Umut Shayakhmetova.



Best company in Kazakhstan in 2015

Air Astana emerged as the clear winner. According to 44% of respondents, the air carrier is the best national company, taking into account the achievements of recent years.

The respondents agreed that Air Astana is showing steady growth by adhering to its development strategy, upgrading its assets, developing employees, and increasing brand attractiveness, recognition and value. The airline has top-notch customer service, shows professionalism and cares about its customers and employees.



Essential CEO qualities for business success

In the current atmosphere of uncertainty, one must adapt: according to 90% of CEOs, adaptability is the most important quality for a business leader in today's business climate. Other important qualities are strategic vision, leadership, crisis management skills and a passion for personal growth. Paying tribute to the Asian tradition, a number of respondents named humility a key CEO virtue.

"Striving for goals, strategic vision and ability to make decisions quickly in responding to challenges."

Mikhail Lomtadze
Kaspi Bank





"It's all about leadership: sharing a strong vision, embarking on and developing team building, making decisions that may in some cases entail taking risk. For a CEO working in a foreign environment, I would add curiosity, proximity and listening skills towards clients, suppliers, partners, employees and local authorities, because it's important to understand the environment in which you operate. As an expat, I believe that you really have to add humility and listening skills to leadership to make the right decisions in an unfamiliar environment."

Renaud Chamonal
Danone Kazakhstan

"Self-improvement and self-discipline are very important. In a time of crisis, you have to be prepared to take responsibility, inspire confidence and impart a sense of stability in your team to prevent panic. It is important to focus on goals."

Magzhan Auezov
Kazkommertsbank

"Reaction time is crucial. Today, things around you are changing rapidly, so you'd be better off if you know how to respond effectively to changes. You have to see the trend, feel it, and adjust your business processes accordingly."

Raimbek Batalov
Raimbek Group

"Honesty, a good reputation and a desire to introduce global best practices."

Ramil Mukhoryapov
Chocofamily holding

"Preparedness for changes and the ability to respond to changes in the business environment."

Alexander Garber
Magnum Cash & Cary

"To overcome difficulties and achieve success in an atmosphere of high volatility, a corporate leader has to possess qualities such as preparedness for change, proactivity, consistent strategic thinking and employee involvement."

Alexander Kamalov
Sberbank

«To be successful, top managers should be mobile, flexible and open to new ideas. To be able to create a corporate culture, where every employee understands the company's mission. Such companies stand out among a host of other organisations."

Shalkar Zhusupov
KMF

"Confidence, timely response, ability to hear co-workers and make decisions taking into account the risks."

Altynsaka Nurzhami
Zhilstroysberbank of Kazakhstan

Meet the CEOs



Aytu Can
Ramstore

*Alexander
Kamalov*
Sberbank



*Andrey
Kurilin*
Citibank
Kazakhstan

*Askar
Baitasov*
AB Restaurants



*Askar
Kanafin*
Ordabasy Group



*Bulat
Mukushev*
TSSP

*Wei
Xiaogang*
ICBC Kazakhstan



*Gary
Hodgkinson*
Rio Tinto

*Janet
Heckman*
BRD



*Dmitry
Zabello*
Bank VTB
Kazakhstan



*Eldar
Abdrazakov*
Centras Group

*Erkebulan
Ilyasov*
Alageum Electric



*Yerlan
Ospanov*
Verny Capital

*Kairat
Mazhibayev*
RESMI Group



*Konstantin
Kulinich*
Mary Kay
Kazakhstan

*Magzhan
Auezov*
Kazkommertsbank



*Marat
Seitkulov*
Caravan
Resources Ltd



*Mikhail
Lomtadze*
Kaspi Bank



*Nurlan
Saurambayev*
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Chamonal*
Danone
Kazakhstan



*Saule
Dzhundubayeva*
Interteach



*Serik
Tolukpayev*
Aitas Group,
UKPF



*Siddique
Khan*
Globalink



*Stanislav
Ryaskov*
Central Asia Gold
Corporation



*Ualikhan
Akhmetov*
Karlskrona LC AB



*Philippe
Mahuas*
Astana Marriott
Hotel



*Shalkar
Zhusupov*
KMF



Research methodology

Fifty-two CEOs participated in the Kazakhstan edition of the Survey, including 30 CEOs, who provided detailed and helpful answers. The participants of this Survey were top executives of national companies in Kazakhstan. To get the most comprehensive picture, we chose leaders from various industries: metallurgy, oil and gas, finance, energy, telecommunications, automotive, consumer goods, construction materials, transport and logistics, entertainment and retail, health care and insurance, and the tobacco industry. The CEOs were asked to respond to questions about the prospects for the global economy, changes in business practices and business trends. The Survey participants were also asked to elaborate on the priorities of the government, the consequences of Kazakhstan's joining the WTO and prospects of the privatisation programme. The majority of interviews took place in Kazakhstan between mid-December 2015 and the end of February 2016.

All the quotes cited in this study have been checked and confirmed by the speakers.



Working group and key contacts



PwC:

Dana Inkarebekova, Konstantin Yeliseyev, Danat Shiderkulov, Marina Karpova, Mariya Krasnoyarova, Tatyana Sineglazova.

Editorial support:

Aizhan Suleimenova, Forbes Kazakhstan

Portrait photographer: Stanislav Antonov,

For further information on the survey content, please contact:

Dana Inkarebekova
Managing Partner
PwC Kazakhstan
dana.inkarebekova@kz.pwc.com

Konstantin Yeliseyev
Partner, Deals Leader
PwC Eurasia
konstantin.yeliseyev@kz.pwc.com

For media enquiries, please contact:

Tatyana Sineglazova
Marketing & Communications
tatyana.x.sineglazova@kz.pwc.com

Marina Karpova
Marketing & Communications
marina.karpova@kz.pwc.com

Almaty
34 Al-Farabi Ave,
Building A, 4th floor,
050059, Almaty,
azakhstan
Tel.: +7 (727) 330 32 00

Business Center "Q2", 4 floor
Kabanbay Batyr Ave, 15/1
"Yesil" district,
010000, Astana, Kazakhstan,
Tel.: +7 (7172) 55 07 07

www.pwc.kz



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