

Cautious optimism



Foreword

We are delighted to present this year's Kazakhstan edition of PwC's 17th Annual Global CEO Survey in which more than 1300 CEOs from 68 countries including 36 CEOs from Kazakhstan shared their thinking with us.

This is PwC's flagship global survey, in which business leaders give their assessment of the state of the world economy and of the new challenges for business that arise from the changing political, economic and social environment. In it they also share their own plans and their understanding of the global social, economic and other changes that are transforming business and will affect it in the future.

The Annual Survey provides an excellent opportunity to bring together chief executives of the top global companies to discuss current issues and challenges for the global economy as a whole and for the economies of individual countries.

The Survey has been conducted in Kazakhstan for the second time. We are delighted that this year we were able to talk with a large number of CEOs drawn from different sectors of the economy. It has given us a comprehensive overview of the condition and views of businesses operating in Kazakhstan, and a more objective picture of the economic situation as entrepreneurs themselves see it. Additionally, our Survey attempts to establish the differences between opinions of Kazakhstan CEOs from those of their counterparts in Russia, Western Europe, USA and China and in which issues, their opinions are similar or differ.

This year, forecasts by Kazakhstan CEOs about global economic growth prospects for the next year were quite restrained: only 34% of respondents were confident about growth, compared to 44% worldwide. They were however more confident about the prospects for revenue growth of their own businesses and their own industries (although the share of the 'very confident' among them fell from 73 to 64%).



Overall, their replies reveal they are open to new technology and facing up to increasing competition. Like their global counterparts, they are anxious about a looming skills shortage, frustrated and increasingly intolerant of corruption and ever increasing regulation, unsettled by currency instability – and aware that integration into the global economy, for all its opportunities, is also a source of growing competition and rapid technological and other changes.

As evidence of positive expectations, the business community continued to invest, despite political and economic risks, including exchange rate and capital market instability and the prevalence of bribery and corruption. Labour shortages, particularly a shortage of qualified personnel were also seen as a potentially serious drag on business growth prospects.

Kazakhstan CEOs appear confident that their companies are more able to adapt to change. They also see short term business opportunities not only in terms of increasing market share in existing markets, but also through joint ventures and strategic alliances, as well as opening up new geographic markets. In the long run, they believe the shift in the balance of global economic power and the speed of technological advance will have a revolutionary effect not only on their own businesses, but also on their industries as a whole.

The key to future success will be finding a way to make the best use of these trends for the companies' own benefit. Given current trading links, a further slowdown in Russian growth and rouble depreciation casts a shadow over the “cautious optimism” shown in our survey.

Today Kazakhstan's foreign and trade policy is “open to the four winds.” Kazakh territory forms the vital link in a new iron “Silk Road” express container railway linking China with Europe and the Middle East. Both the railway and the new East-West motorway being built through southern Kazakhstan give shippers a choice between transiting through Russia or via a southern route through Aktau and the Caspian sea.

Massive foreign investment from the US and Europe helped create Kazakhstan's modern oil and gas industry. Energy exports underpin wealth and have created opportunities to develop other sectors in an increasingly service and consumer

orientated economy. A rapid increase in road, rail and pipeline transit revenues and wider trade opportunities are now also in prospect. Kazakhstan, with many cultural, linguistic and economic ties is a founder member of the Eurasian Economic Union and actively co-operates with all its major trading partners.

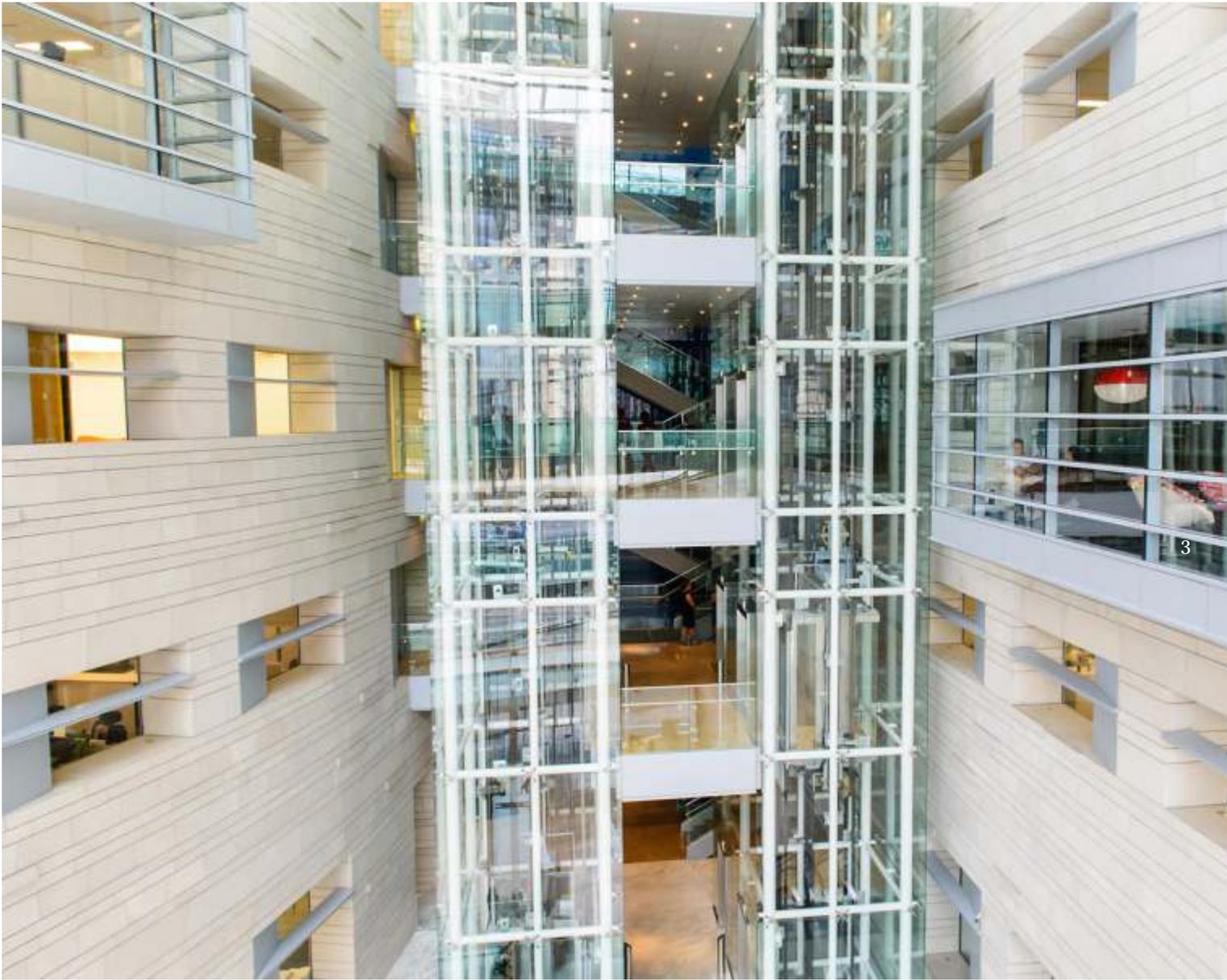
The country has come a long way over the first two decades of independence. Our Survey shows how keen the business community is to make sure this essentially optimistic country continues to thrive, whatever the future holds.

We express our gratitude to all the CEOs of Kazakhstan companies who participated in our Survey and for taking the time to share their forecasts and expectations with us. Their active and candid participation in the Survey is the single greatest factor in its success. We are especially grateful to the 27 CEOs who sat down with us for deeper and more detailed conversations. You will see some of their comments throughout this report.

A handwritten signature in blue ink that reads "A. Akdeniz". The signature is fluid and cursive.

Alper Akdeniz
Managing Partner,
PwC Eurasia

June 2014



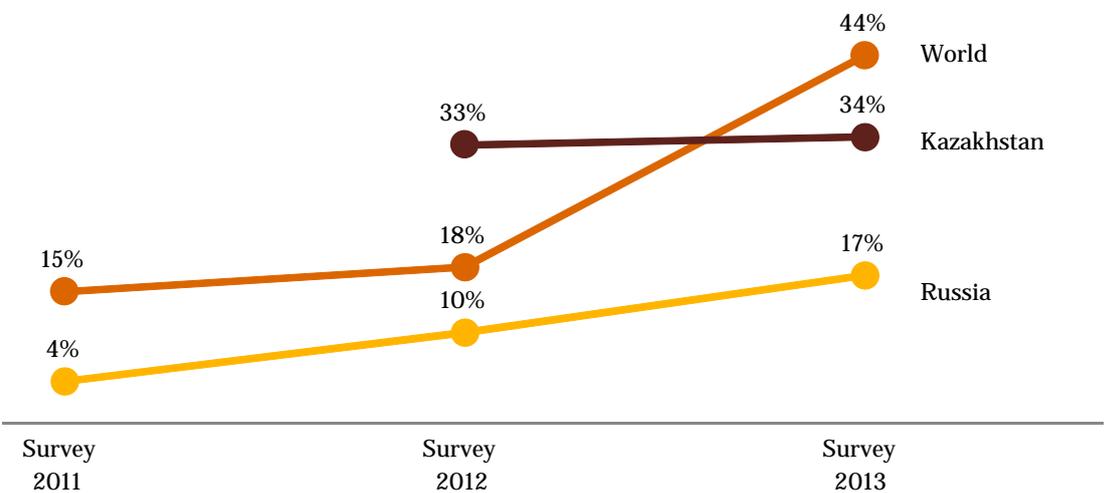
Most of the interviews for this year's Survey were carried out before two significant events, namely February's surprise devaluation of the Tenge and the developments in Ukraine. Many CEOs contacted us to say that some of their answers would have been different had the questions been put to them after these events. This indicates CEO sentiment about the future is becoming more cautious.



The global economy through the eyes of global business leaders

In 2013, the global economy was generally unstable – it was still hard to achieve growth in post-crisis conditions. However, some developed countries demonstrated an improvement in their macroeconomic indicators. Although the growth of developing economies was a little disappointing, it was sufficient to affect the projections of CEOs regarding prospects for growth of the global economy in the following 12 months. This year they were more pleased with the condition of the global economy than last year.

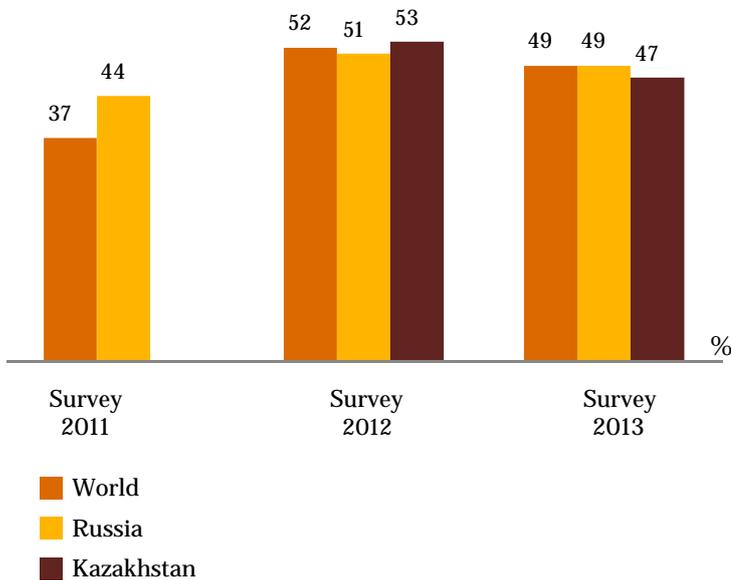
Question 1. Do you believe the global economy will improve over the next 12 months?



Kazakhstan CEOs, in line with their colleagues from other countries, were less sceptical about the growth prospects of the global economy than their Russian counterparts. Some 30% of Russian CEOs expect the state of the global economy to worsen in the coming 12 months. This view was supported by only 11% of Kazakhstan CEOs. The persistence of low or negative rates of growth in developed countries worries 70% of

CEOs from Western Europe. It also worries 83% of US respondents but only 62% in Russia. In Kazakhstan such issues triggered concern in only 53% of the interviewed CEOs. On the other hand, declining growth rates in some fast-growing markets aroused the concern of Kazakhstan CEOs to a greater extent (84%) than Russians (66%) or their colleagues from the rest of the world (65%).

Question 2. Do you believe the global economy will stay the same over the next 12 months?



Aleksandr Deriglazov
Meloman:

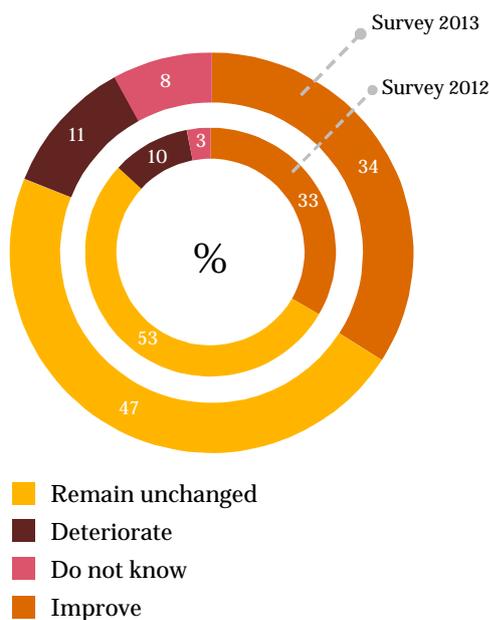
“On behalf of the company, I would say that the state of the global economy will remain the same, but personally I am “cautiously optimistic” - based on the fact that the articles I come across still bring hope that the last two-three hard years will be followed by a modest surge.”



Askar Kanafin
Ordabasy Group:

“Taking into account current market conditions, it will definitely worsen. On one hand, we see continuing recession, on the other we note volatility in metals and commodities markets and currency fluctuations accompanied by continuing growth of the Chinese economy, shifts in the map of geopolitical risks, and other deep macro-processes at work. Therefore, I do not see any prospect for economic conditions to improve in the coming year. Although, paradoxically, with every change in the market, incredible opportunities open up.”

Question 3. Do you believe the global economy will improve, stay the same, or decline over the next 12 months?



Kairat Mazhibayev
RESMI:

“We believe that the state of the global economy will remain volatile. Over the next three-five years, mid-size crises will become common and so will not be unexpected anymore. These crises could be sparked off by currency shocks, by the decline of individual countries, various emergencies, local military conflicts and so on.”

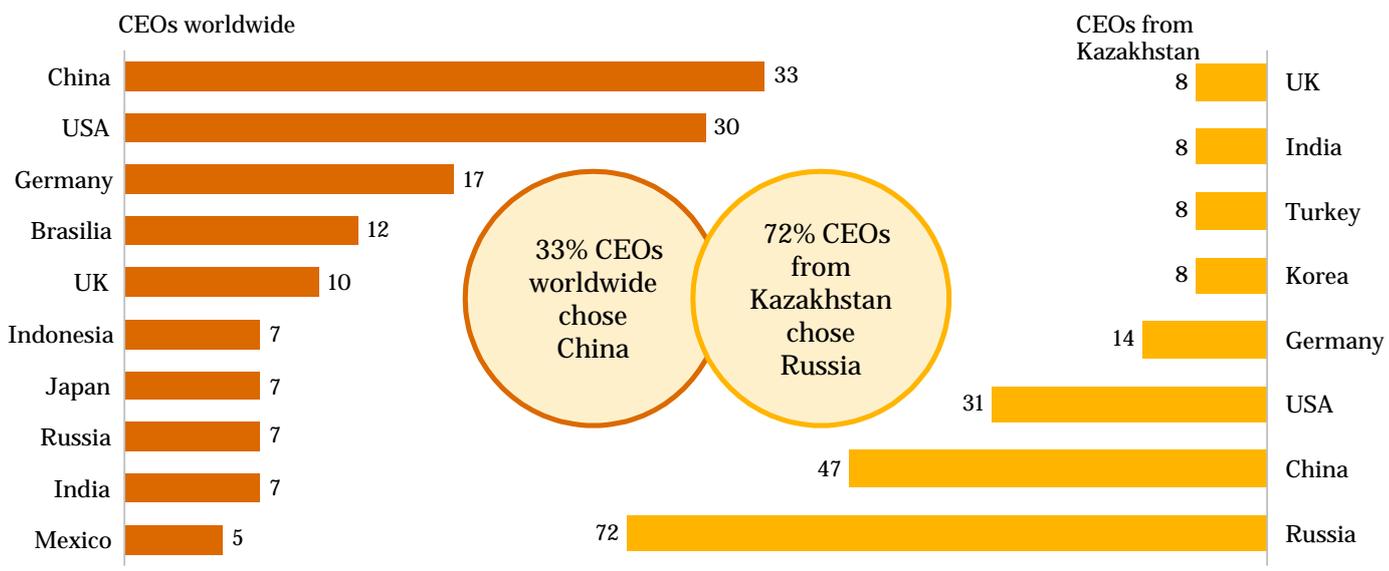


Vladislav Li
CenterCredit Bank:

“I believe that the state of the global economy will not improve in the coming year. The recession is still going on. But improvement is possible over the next three years.”

The list of countries whose leaders were considered important by CEOs across the world includes China, USA, Germany, Brazil and Great Britain. If BRICS countries are excluded, then over a longer period, the economies of other countries, such as Indonesia, Mexico, Turkey and Japan were of interest to CEOs globally while Kazakhstan CEOs remain more traditionally focused on developments in Russia, China and USA.

Question 4. Which countries, excluding the country in which your company is based, do you consider most important for your overall growth prospects over the next 12 months?



Eldar Abdrazakov
Centras Securities:



“In the coming 12 months the US economy will become a growth driver for many economies. Russia ranks second place; if negative changes take place in Russia they will seriously affect Kazakhstan as well. In this case there is the chance of a scenario developing where political issues become economic ones. In terms of economic structure – competitiveness, effectiveness, productivity - Kazakhstan and Russia are identical. And a third country is China. It should be noted that China has been growing for a long time up to now due to domestic investments, as the Soviet Union did in its time. Statistically 60% of GDP is formed by the investment sector. It is impossible to continue growing like that in the long-run.”

Peter Foster
Air Astana:



“Russia, China, Ukraine. Paradoxically, the fact that Ukraine is now in trouble is an opportunity for us. We think that we will resume carrying Ukrainians to China and the rest of Asia at a quicker pace because of the expected weakness of Ukrainian carriers. Because its a potentially large market and in some difficulty, its a big opportunity.”

Kazakhstan's current economic challenges

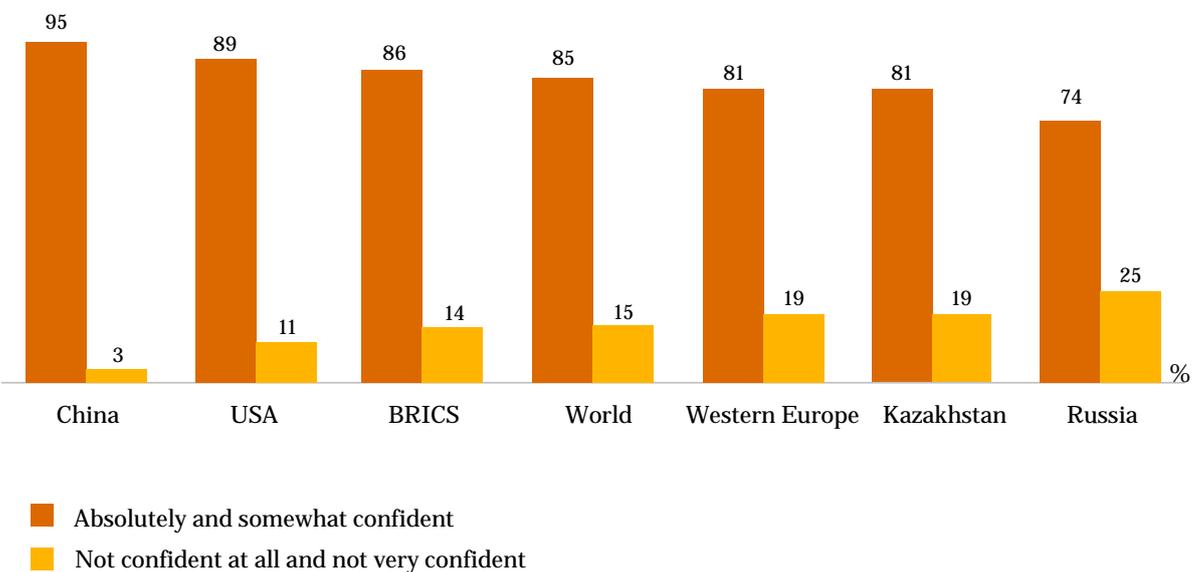
Septicism regarding current growth prospects for the global economy as a whole is reflected in Kazakhstan CEOs' forecasts regarding the revenue of their own businesses. The number of CEOs absolutely confident about growing their revenues in the coming 12 months dropped by 9% compared to the previous year.

The majority of Kazakhstan CEOs believe that the main requirements for ensuring a decent rate of growth for the Kazakh economy include greater stability of the financial sector, better access to capital, improvement of the national infrastructure and better training of more skilled personnel.

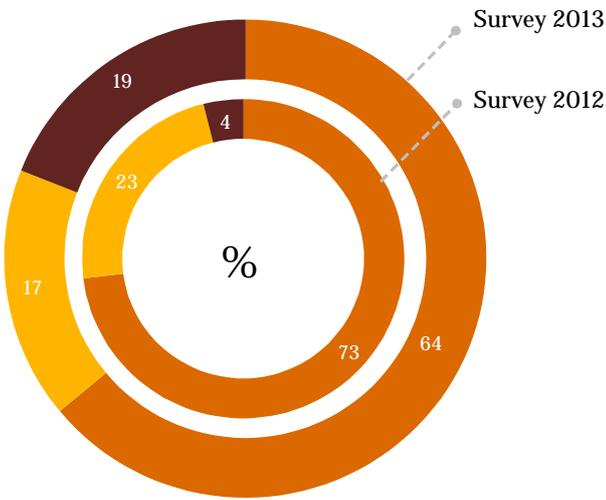
In general, 92% of CEOs around the world and 79% of CEOs in Russia are absolutely or partially confident in the revenue growth of their own companies in the coming three years however, this figure rises to 97% in Kazakhstan.

Some of the respondents also mentioned development of the non-resource sectors as a factor for growth

Question 5. How confident are you about your company's prospects for revenue growth over the next 12 months?



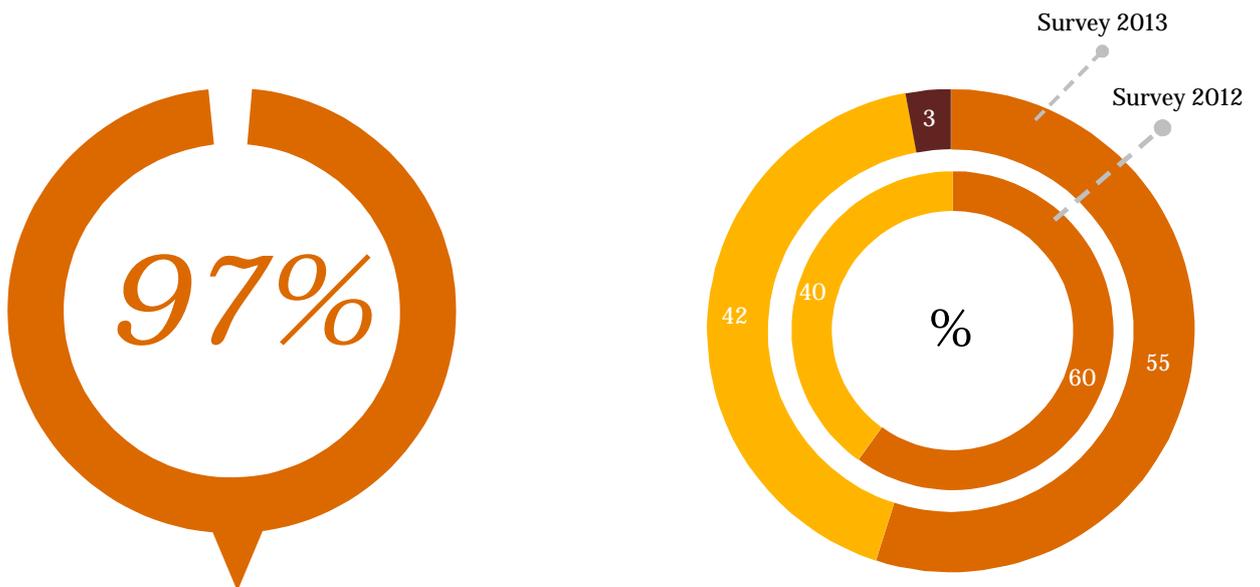
Question 6. How confident are you about your company's prospects for revenue growth over the next 12 months?



Kazakhstan CEOs are sure of growth of their companies' revenue in the coming year

- Absolutely confident
- Somewhat confident
- Not very confident

Question 7. How confident are you about your company's prospects for revenue growth over the next 3 years?



Kazakhstan CEOs are optimistic about growth of their companies' revenue in the coming 3 years

- Absolutely confident
- Somewhat confident
- Not very confident



Shingo Kato
Toyota Motor Kazakhstan:

“Considering that the Kazakhstan economy is continuing to grow and oil and gas prices are rising, I am quite sure about the growth of revenues of the company in the coming three years, provided another global crisis does not happen.”



Timur Issatayev
Alliance Bank:

“I am absolutely confident. The explanation is simple. To date, the bank's loss is \$200 million, and I am sure that it will decrease, which, in turn, will affect revenue growth.”



Andrei Kopytin
Viled Fashion:

“I am absolutely confident that the revenue of our company will increase in the coming 12 months, since we are talking about the year 2014, which we have already fully analysed. The growth will be less than double digit – from 5 to 10%. As for the three year perspective, I am somewhat confident. The growth will be similarly moderate.”



Mikhail Lomtadze
Kaspi Bank:

“I am absolutely confident about the growth of revenue of the bank in the next three years. This confidence is based on the following factors – firstly we are going to increase our client base and propose new products. In the following three years, Kaspi Bank will also offer additional services and products unrelated to our current business. Together this will help increase revenue on a continuous basis.”



Andrey Lavrentyev
AllurGroup:

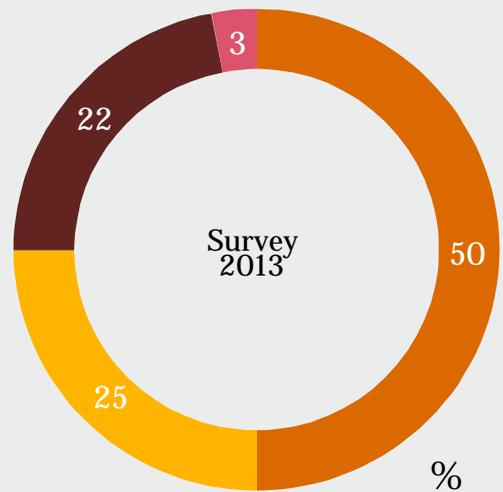
“Of course, devaluation diminishes our growth prospects. We will not be able to raise our prices to 185 Tenge for a US dollar overnight and so will suffer losses. We will be raising prices gradually to 160, 170, 175 Tenge to the US dollar and so on. We will also double our spending on marketing, and work with the banks three times better, so overall we are confident in market growth.”



Peter Foster
Air Astana:

“We do not see the same level of growth coming out of Kazakhstan in the next 12 months as we've seen in most years of our operations. But generally this market is growing as quickly as other emerging markets. We are somewhat less confident about growth from the domestic market in Kazakhstan, but we are looking forward to growth from transit traffic.”

Question 8. How confident are you about your industry's prospects for revenue growth over the next 12 months?

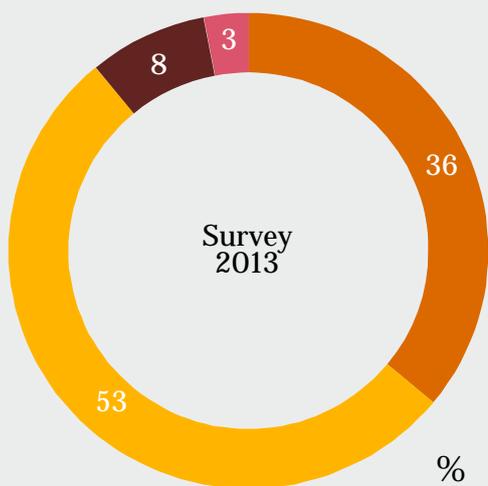


- Absolutely confident
- Somewhat confident
- Not very confident
- Not confident at all



Kazakhstan CEOs are more or less confident in the prospects of their industry in the coming 12 months

Question 9. How confident are you about your industry's prospects for revenue growth over the next 3 years?



- Absolutely confident
- Somewhat confident
- Not very confident
- Decline to answer



89% of Kazakhstan are absolutely or partially confident in prospects of their industries in 3 years ahead



Denis Smirnov
Arena S (Sulpak):

“We are absolutely confident that our industry will grow and develop, although possibly not by the rates of the past years. For instance, 2013 showed insignificant growth – approximately 7%, compared to approximately 22% in value terms in 2012 which was an incredible index for the countries of Europe and CIS. The market is flattening; therefore we expect that in the current year growth will be around zero due to inflation and some other reasons. In terms of the three year prospect, we are somewhat more confident, since everything can change over a period of three years.”



Yerlan Ospanov
Verny Capital

“Talking about the private equity sector I think that the role of private equity firms will be ever growing. Kazakhstan has already passed through several crises, and as a result, market participants and the country as a whole have formed a more or less structured understanding of how an economy operates. They have also accumulated experience and the capabilities to develop during hard times. Personally I think that not everything can be financed by banks; there are niches where only private equity or hedge funds can operate. The Kazakhstan market's understanding of the importance of private equity has been growing. Market and economic conditions create more and more opportunities for the development of private equity. Today the market is in a phase where many companies are experiencing the sort of crisis situations which create opportunities specifically for the private equity market.”



Aleksandr Deriglazov
Meloman:

“I am absolutely confident that the retail industry will grow in the next 12 months, moreover the number of malls and markets will increase, whereas informal trade will decrease. If we consider the performance of our own brands, Meloman's financial performance will deteriorate slower than the rate of growth of Marvin, the brand substituting Meloman. At the same time Komfort, our third business line, will increase slowly. In general, business will grow because of Marvin, which is represented today by “Gameworld” and “Goods for Moms”. At the moment we are satisfied with “Gameworld” and believe that we have built a good niche in the market. We are now starting to develop “Goods for Moms”, but this is a relatively new market for us and hence there are many details to consider.”



Askar Kanafin
Ordabasy Group:

“I am confident, otherwise we would not be present in these markets. At the same time, there are a number of issues requiring close attention. Any business develops in a certain environment, which currently involves carrying geopolitical risks and limitations, dealing with constantly changing legislative requirements and facing a range of issues related to the Customs Union, WTO, and various other political challenges. The world is not as stable as we would wish it to be.”



Kairat Mazhibayev
RESMI:

“For the group as a whole, we are confident about the growth of our revenue over the next 12-36 months. Our company operates in a number of sectors of the economy, acting as a private equity investor. However, the prospects for private equity, as a segment of the overall Kazakhstan financial sector, are unfortunately unclear over the next three years. First of all, this is due to the extended transitional state of both the domestic economy generally and its financial sector. This requires, quick re-thinking followed by reloading and concerns all segments of the financial market – the banking sector, capital markets, private equity and related infrastructure. It is strategically important to determine and define more clearly the precise division of roles and responsibilities between Government and private capital in the economic development of the country. If we are talking about the FMCG sector, we can note the following important factor: so called wealth distribution has improved. This means that wealth and economic goods are being distributed more evenly in our society, especially over the last 5-10 years. For me, the way in which we care for the welfare of ordinary people is an indicator of a maturing society. Better income distribution means that consumer related sectors, will continue to develop across a broad spectrum, but not necessarily at the same pace, including areas such as consumer financing, food products, household electronics and housing. In addition, it is worth mentioning that these sectors started from a low base in the 90's; so there is still considerable potential for growth.”



Mikhail Lomtadze
Kaspi Bank:

“The banks will need to offer clients new products. Other banks, witnessing our development, make various interesting moves of their own; on the other hand, they also copy us. I think in the near future commercial banks' basic product line will include mortgage loans, SME business loans and products for corporate clients. I believe all ordinary banks should actively develop in all these three directions. Therefore, I am somewhat confident about growth, if we are talking only about financial services.”



Andrei Kopytin
Viled Fashion:

“Since we are talking about a group of companies that sells premium goods (from perfume and alcohol to jewelry), we expect that our markets will grow but rather slowly – within a 5-10% range - with demand for various categories growing differently. For instance, the jewelry and watch segment will not increase much, while the premium alcohol, perfume and clothes sectors will grow by 10%. The main reason for optimism is that the overall economy of Kazakhstan is growing and revenue is growing accordingly. In the next three years the situation will be the same – our growth will be connected with the overall growth of the economy and earnings, simply because our industry is well-established.”



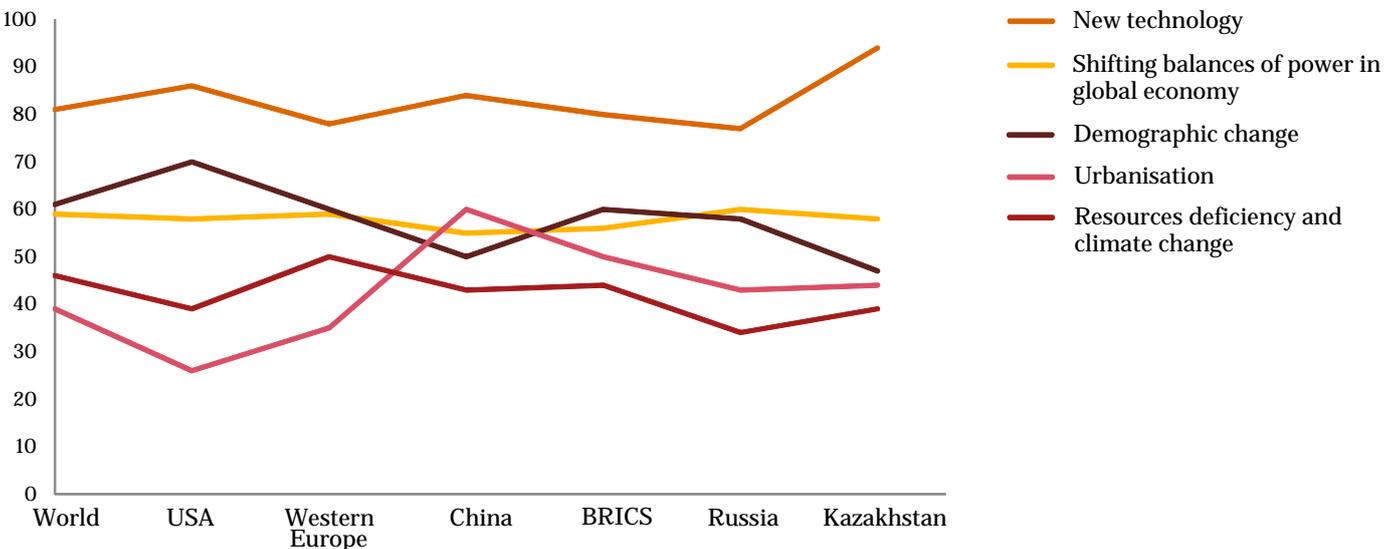
Shingo Kato
Toyota Motor Kazakhstan:

“The automotive industry will grow in 2014. We expect the Customs Union to accelerate sales, and if there are no political issues I do not see any problems in revenue growth for the next year and over the next 3 years.”

Looking at future challenges, CEOs around the world note that over the coming five years they expect their businesses will be most affected by the impact of new technologies, demographic changes and shifts in relative power dynamics throughout the global economy. These three global phenomena will lead to huge economic shifts over the next decades while the mutual influence and interplay of these three trends will play an increasingly important role in shaping the overall business environment. It is worth noting that in the opinion of one CEO from Kazakhstan, new technologies will have a greater impact on their business in Kazakhstan than of their colleagues from

other countries. But CEOs around the world are expecting to focus on breakthrough innovations, the creation of reliable systems for their development and entering into partnerships with other companies to best exploit these new opportunities. As for demographic changes, the changing composition of the global population will have a powerful effect on the availability and productivity of labor resources. By 2025 there will probably be around 8 billion people living on our planet. This growth will not be uniform, in some countries the birth rate will be falling. By 2020, the average age of the European population will be 43, compared to 38 in China and only 20 in Africa.

Question 10. What are the top 3 global trends which you believe will transform your business the most over the next 5 years?



More than their counterparts elsewhere, Kazakhstan CEOs see new technologies as the factor most likely to affect their business.



Aleksandr Kamalov
Sberbank:

“First of all, technological progress, secondly demographic changes, third, changes in the distribution of global economic power. At the same time, the borderlines between developed and developing markets will be eroding. At least, what are now called developing markets will be perceived differently. To say, for instance, that China is a developing market while Germany is a developed one is already not quite accurate in terms of economic growth and the introduction of new technologies. It is very much open to debate here as to which market is more developed.”

What sort of event could have a serious impact on business?

Kazakhstan can no longer be considered to operate outside of wider global processes, since it has become an integral part of the global economy. Kazakhstan businesses and CEOs have become important players whose views and interests cannot be disregarded. At the same time, events in the global market are keenly felt in our local markets. A prime example is the local impact of the 2008 global financial crisis, the consequences of which we are still experiencing.

In the context of the readiness of Kazakhstan companies to cope with future challenges and threats, we asked CEOs about what sort of event, in their opinion, could have a revolutionary impact on society, business and industry in the coming 10 years. The majority responded that the main challenges today are related to the current global integration processes and the development of new technologies.

Kairat Mazhibayev, RESMI, noted that in the coming 10 years their business will be greatly affected by political decisions related to regional developments, such as the Customs Union, the Common Economic Space, the WTO and interactions between them. "We are moving towards consumer oriented sectors. It does not matter whether it is real estate or the financial sector; all sectors will be consolidated regionally. We see it already happening within the individual countries – Russia, Ukraine and Belorussia," he said.

According to Mazhibayev, today any serious M&A transaction or new regulatory measures in Russia, for example, immediately affects a similar business in Kazakhstan. While everybody knew Russian minister Onischenko, for example, few people realised what impact he could have on multi-billion dollar markets within the CIS.

"Now we have to take into account not only the market within Kazakhstan and Kyrgyzstan with 20-22 million consumers but the entire wider regional market. This adds up to over 100 million consumers, if one takes into account the combined population of Western Siberia, the Ural and Volga regions and Central Asia as a whole. We have been systematically developing our presence in Russia, Turkmenistan and Tajikistan for the last three years. Therefore, everything that happens in this region is important for us," concluded the CEO.

Besides the integration processes taking place in the context of the Customs Union, the Common Economic Space and the WTO, the development of internet technologies and telecommunications will also have a huge impact on all sectors of the Kazakhstan economy in the coming decade. Nowadays, the use of innovative technologies has become an integral factor for success in any sphere of business. And the banking sector is no exception.

"Developments in telecommunications are already affecting the structure of markets and consumer behavior. This in turn affects the banking system which will have to re-focus on these new realities with the further development of new technologies," adds **Aleksandr Kamalov, Sberbank**.

"There is a saying that the banks are future advanced IT companies. There are already examples of this trend. Tinkoff Credit Systems, for example is a bank which has neither its own office facilities or its own ATMs and its clients are served exclusively through the website, e-mail, telephone and social

networks, while the bank has enormous capitalisation," he said. **Vladislav Li, CenterCredit Bank**, agrees that traditional banking can move to the area of telecommunications. According to him, this is due to the fact that telecommunication companies are already trying to operate banking businesses, offering their subscribers an opportunity to make instant payments, and use electronic wallets.

"The provision of banking services by non-banking organisations is the main development which could make a revolutionary change in the industry," comments **Timur Issatayev, Alliance Bank**. "Bill Gates once said about our business: "Banking as such (providing banking services) is necessary, but not the banks." Our sector will be immediately affected as soon as such players as Google Money, which sends money through Google Wallet, or Facebook Money, come to the Kazakhstani market, or cellular operators, such as Kcell and Beeline, start partially providing banking services."

And it will take less than 10 years. Since the advent of internet connectivity, the number of users, volume of traffic, number of gadgets and so on are increasing each year. This is gradually changing the standard banking client profile. **Mr. Kamalov** notes: "In Europe, about 50% of clients are already autonomous, that is to say they consume banking services via their gadgets. In Kazakhstan, the percentage of autonomous clients is not yet substantial and does not exceed 10%, the vast majority of clients continue to visit a bank for services."

"But the development of internet banking in Kazakhstan will have a significant influence on our business through the transition from physical client service at the office to an electronic banking service. Although many individuals and corporates so far choose to be served in the branches, there is continuing growth in the number of internet banking users. Clients are getting used to the idea that it is safe and convenient to manage one's money on-line. The internet actually creates a virtual bank office, by means of which one can practically conduct any operation and in future there will be less and less need to physically visit a bank.

In the near future, we will also see growth in the number of mobile banking users. Thanks to mobile banking, clients can conduct their operations at any time using their mobiles, tablet computers or personal communication devices, from any part of the world. Extension of the Internet to the regions will support this process, and the number of users will continue growing.

As a result, the physical existence of offices will be less important for the development of financial institutions. Banks need to be ready for these changes and develop new strategies and approaches in order to appropriately employ these opportunities, take advantage of new ideas and expand the functionality of their electronic banking systems," concludes **Guram Andronikashvili, ForteBank**.

In the opinion of **Vladislav Li**, social networks can also lead to domination of non-office banks. "The important thing is to take advantage of the economies of scale. If there are potentially 500 million clients, then why not provide them with the services they need and dominate the market," he says.

Either way, in the coming 10 years, the structure of the banking sector will significantly change as a result of the development

of internet technologies and telecommunications. The office format will change, requiring new gadgets and IT-platforms as well.

“As for financial markets, the growth and development of the local currency capital markets in Kazakhstan is the key to developing a sustainable financial market in the country. This is demonstrated by the heavy impact of February's devaluation. It is important to de-dollarise the economy. The key areas requiring work are: better corporate governance, more transparent and open capital markets, improved regulations around the pension fund and a stable banking sector free of non-performing loans.

Making available sustainable Tenge financing will enable companies to make the capital investments necessary to develop real sources of domestic production. It's important to develop economic activity outside the traditional oil and gas sectors. Our main strategy at EBRD includes work on diversification of the economy. I think in the long run Kazakhstan's future depends upon its ability to operate in a larger population zone. So rather than simply being in the Customs Union I would look more towards also opening up potential markets in Central Asia, such as Uzbekistan, and developing export opportunities to Iran, all of which will help to make the scale of domestic production economically viable,” noted [Janet Heckman, EBRD](#).

Heavy investment in modernising and expanding the transport and logistics infrastructure now underway will also radically change prospects for the entire transportation and logistics sector. This will allow companies in this segment to work more efficiently and productively so employing less people, notes [Siddique Khan, Globalink](#).

The company is actively using new technologies which enable it to optimise the supply chain. “The introduction of new technologies and the wider use of increasingly sophisticated solutions for data processing and electronic commerce are really revolutionary in this business,” says Mr. Khan. According to him, the introduction of new, high tech management and information systems will cut costs, reduce dependence on human resources and make accessible real time information about goods in transit and deliveries. This will allow real time cargo tracking on-line at all stages of pick up, transport and delivery.

Retail will be affected in similar ways by these complex technological changes. In the general opinion of players in this market, the internet and new mobile technologies in particular will significantly affect the sector.

[Andrei Kopytin, Viled Fashion](#), spoke about the growing impact of internet sales on his area of the retail sector. It is the most serious development to which the market as a whole and the company in particular will have to react, Kopytin believes, “In terms of consumer preferences, we do not expect any special changes. But access to clients will change and will move more and more towards the use of new technologies. Therefore, we have to change inside the company and use the new technologies to better understand our consumers in order to provide the best service, as a result.”

[Aleksandr Deriglazov, Meloman](#), is sure that “In the course of time, in offline shops people will buy less, as they switch to on-line buying. We will be prepared for this. We have an online shop, but the winner will be the one which delivers goods quicker and more proficiently. We are now trying to work out the internal logistics. Today, the average delivery time is more than a week, but that is not our worst problem. The worst is that we can only manage to serve around 60-70% of call orders.

So now we are expanding the staff at call-centers and improving the way they work.”

“In Kazakhstan we are moving more and more of our budget to digital marketing. Overall some 20% of the budget is currently going to digital marketing. This shift means that marketing agencies and our own marketing people will have to change their attitudes, habits and points of view, especially as regards those products targeted on a younger audience. We have some brands that we only support digitally now and we are increasingly selling products and services online and developing our online business,” says [Mark Pothast, Nestle Food Kazakhstan](#).

However, internet sales will not completely replace off-line sales, adds [Denis Smirnov, Arena S \(Sulpak\)](#).

“While the Internet will be taking some clients from physical retail outlets, we cannot forget that shopping has its emotional side. When potential customers come to a shop offering both functional and friendly service, they are not only buying the product but also satisfying some basic human emotion. The buyer has moved away from meeting simple needs – if their emotional needs are also met they are ready to pay. Therefore, in response to the question as to whether internet will kill retail, I would answer - probably not. How the internet will change the retail sector nobody really knows yet” according to Mr. Smirnov.

Over the coming decade, changes in the culture surrounding insurance will probably have the biggest impact on the insurance business. Until these cultural changes happen, this sector will not be able to develop properly. [Oybek Khalilov, AIG Kazakhstan](#), stressed, “It is important for the culture of consumer spending to move from expenditures on food products and clothes to purchasing certain long-term products, such as insurance. I think these changes can occur only if people have confidence in the financial, banking and insurance sectors.”

“As for machinery manufacturing, the main trend is environmental friendliness. Revolutionary changes are already occurring in this sector. Tesla Motors, for instance a new American automobile company from the Silicon Valley, pulled off such a revolution. It not only invented an electric car, but also designed and created the infrastructure required to serve these cars. That is why Tesla became a success; and the growth in demand for electric cars is accelerating each year,” noted [Yerlan Ospanov, Verny Capital](#).

[Shingo Kato, Toyota Motor Kazakhstan](#), underlines that the switch to ecological cars requires more efforts from both the government and consumers – which again requires a change in mentality. The popularity and focus on eco-friendly products is clearly growing but “if people start to buy ecological smaller cars, it will affect our profit structure, and we are preparing for that,” says Mr. Kato.

“The automotive industry is one of the key sectors that supports the development of our science, encourages new engineering solutions and so on. Therefore we should move towards electric cars, hybrids and innovation and follow the market leaders. And I think that will work out,” – says [Andrey Lavrentyev, AllurGroup](#).

As for the future of the alcohol market in Kazakhstan, the industry will eventually be legalized, in the opinion of [Aleksandr Samoilov, Kokshetauminvody](#). There will be legalisation of the industry, as was the case in Poland, where 10 years ago the level of illegal turnover also comprised 30-40% of the market. Legalisation will level the playing field and provide



equal conditions for all players. Such a move would promote competition and allow the best players, and the best products to win. “These issues cannot be resolved by just increasing the excise duty as those not paying the duty, do not care. As a result, a double burden lies on bona fide taxpaying companies who have been investing, improving production, and increasing efficiency all this time. These taxpayers are the backbone of the economy and a factor in the competitiveness of the country,” says Samoilov.

In his opinion, the excise tax rate should be linked to establishing greater transparency and legitimacy of the market, which did not exist at the time the excise tax rate was last increased. Secondly, the rate should be related to the purchasing power of consumers. Just giving examples of alcohol prices and rates in Europe and USA is not the correct

way to proceed. One should first of all note the level of average salaries. This would show how much alcohol an average citizen of Europe can buy with their wages compared to a Kazakhstan citizen.

The Kokshetauminvody CEO added “We also have to compare the national level of consumption with that of countries which are culturally and socially close to us and the dynamics of its growth there. Only then should we come to conclusions as to how to adjust state regulation, including the tax rate. We were not against increasing the excise duty. We just wanted to see a more correct order established in this process. In other words, first undertake significant measures to legalise the market, and then, after analyzing the first positive results, adjust the size of the tax rate.”

Moving on to speak of prospects for the fast growing air transport sector, Peter Foster, CEO of Air Astana says “new geographic markets will be number one driver of growth.”



Peter Foster
Air Astana:

“We have an opportunity through joint ventures and alliances to make Central Asia a very interesting market. We see significant prospects for such alliances and in fact we are presently evaluating which alliances to join. In terms of M&A, Air Astana view is that we have to grow organically. Some airlines are growing by acquisition, and some airlines grow largely organically. We believe in organic growth so that any M&A activity has to be strategic.

In terms of geographic markets we are in very good shape. Our market is a new one; the standards and level of competition is poor in relation to us. We have and are investing a lot in our product. This means new airplanes, new seats, and entertainment systems. We believe that to ensure our future we have to put ourselves far ahead of the regional competition. We have moved a lot of capacity into new markets like Russia, Ukraine, and Georgia. We've covered 18 regions in the last 2 years.

Our first priority is to increase capacity, because the more capacity we have the more service we can offer and, the more connectivity we have the better the connections become. We're looking both to the west and to central China and to an increase in transit traffic.”



Mikhail Lomtadze
Kaspibank:

“The development of big data technology and data management skills will have a significant impact. Secondly, touch-technology penetration will increase, allowing people to initiate communication themselves. For instance, when clients push a button on a device they receive a quality product or service, fully tailored to suit their individual needs. This will bring revolutionary changes to the business because people will be able to receive such tailored products and services anytime and anywhere.”



Askar Kanafin
Ordabasy Group:

“It is worth noting that globalisation will remain the major trend and will continue to have a strong impact both on the world as a whole and on the Kazakhstan economy in particular. The Customs Union, the Common Economic Space (CES) and the WTO are just the logical consequence of global trends, which today are reflected in the paradigm of the political/economic world and its interrelations, including the development of global technologies. At the same time, taking CES in particular, it should be noted that this issue requires a serious and thorough work-out, since our countries have different political interests and structures, different industrial focus, mentality and so on. Whether these are short-term or mid-term factors is difficult to say. Globalisation is a likely – distant, but inevitable perspective.”

Potential threats to business development

Attracting promising professionals and skilled personnel of all kinds is becoming one of the most important factors for healthy business development. Business leaders understand this very well. 70% of CEOs worldwide and 91% of CEOs in Kazakhstan are concerned about finding the right employees with the necessary qualifications. In this regard more than half of CEOs worldwide, including 75% in Kazakhstan, also point to the need to deal with the rising cost of labor, especially in fast-growing markets.

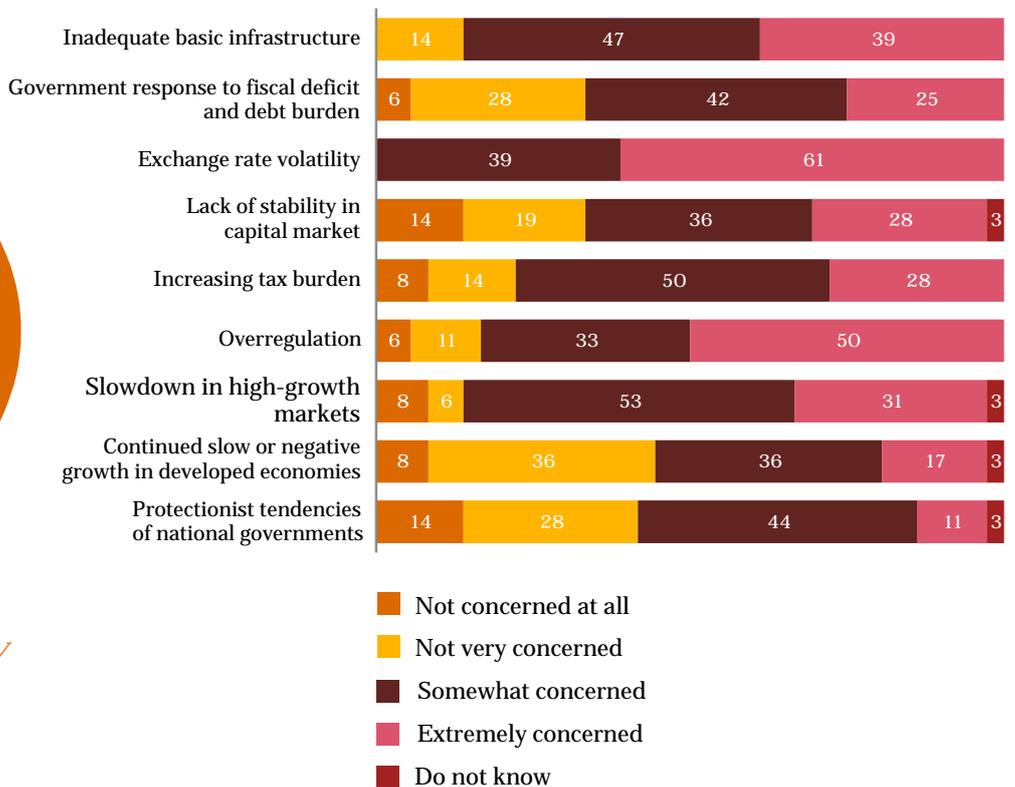
Understandably, in the light of February's 19% Tenge devaluation against the US dollar exchange rate volatility is widely seen as one of the most serious threats to business development in Kazakhstan. A full 100% of interviewed CEOs admitted to being extremely or partially worried about the threat. In Russia, on the other hand, the most frequently mentioned threat to business (73%) is perceived to be the instability of capital markets.

In second place among the threats to business development in Kazakhstan are counted bribery and corruption which concern 89% of respondents. In Russia, the problem only concerns 62% of CEOs.

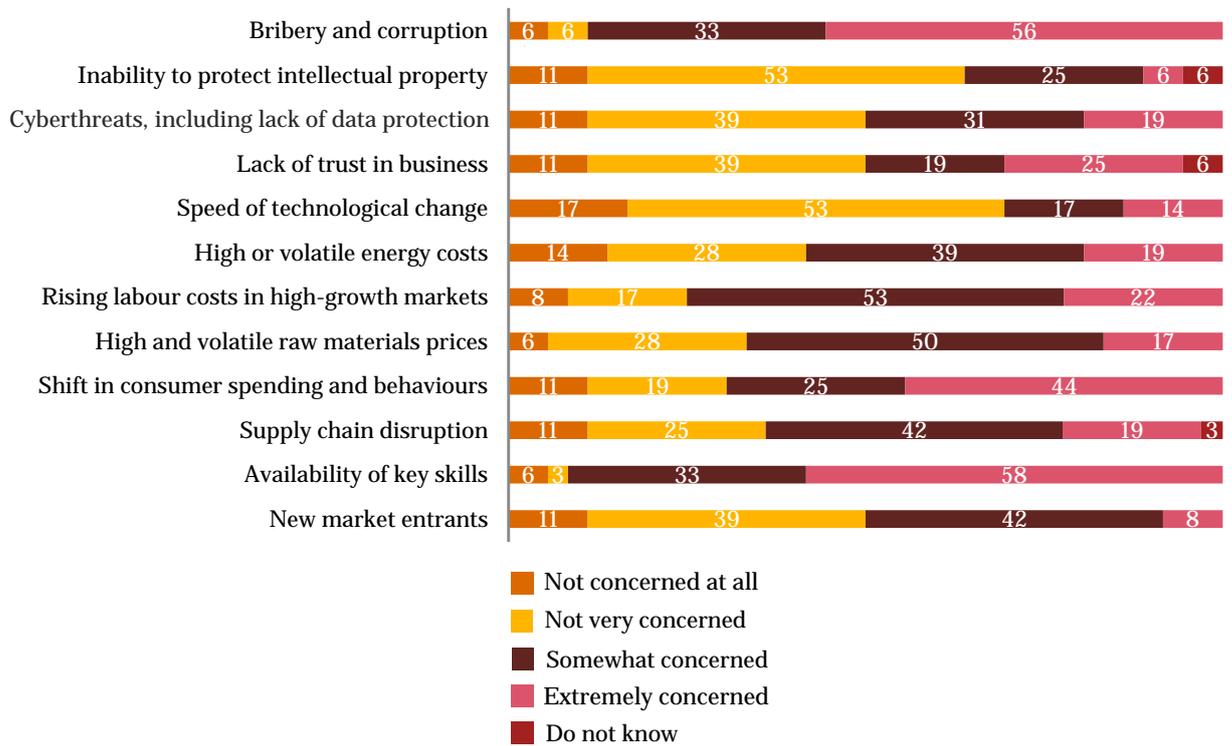
Question 12. How concerned you are about the potential economic and policy threats to your organisation's growth prospects?



Exchange rate volatility is the most serious threat to business development



Question 13. How concerned you are about the potential business threats to your organisation's growth prospects?



Kazakhstan CEOs are concerned about availability of key skills



Kazakhstan CEOs are concerned about bribery and corruption



*Andrey Kopytin
Viled Fashion:*

“Our company has expanded in retail significantly and now we find that it is almost impossible to find qualified people who understand how this business operates, and who also have previous managerial experience. Fashion retail in our country still mainly operates at an entrepreneurial level of entrepreneurs, that is to say owners are also the managers of their businesses. Viled Fashion is probably one of the pioneers in creating a category of hired professional managers in the fashion retail business.”

Initiatives to accelerate growth

How do the CEOs of global and Kazakhstan top companies intend to respond to current challenges?

Replies show that there is no a single, simple solution. Today's CEOs are well aware of the need to combine a lot of different qualities and be able to look beyond the present to the near and distant future. To survive and prosper they need to use best experience from the past, constantly acquire new knowledge and direct and guide their organisations through the thorny path of change if they are to succeed in today and tomorrow's challenging conditions.

While seizing opportunities for growth, CEOs also have to be aware of, and be sensitive to, concerns about the wider public interest. They also have to be able to manage staff and labour forces which often span different generations, cultures and nationalities. At the same time they have to be prepared to meet the changing needs and expectations of customers in ways that are simply not comparable in their complexity to previous periods.

In response to this rapidly changing business environment Kazakhstan CEOs took many active steps to restructure their businesses last year. No less than 72% of respondents implemented initiatives to reduce costs, while 25% decided to outsource some business process or function.

This year a further 61% of Kazakhstan CEOs are considering implementation of cost reductions initiatives in 2014. This demonstrates that such initiatives remain the most popular form of restructuring since the previous year. Creation of new strategic alliances or joint ventures also remain the second most popular choice for 2014, despite the slight drop by 10% compared to the previous year.

The situation is similar for the global and Russian markets, where 64 and 49% of CEOs, respectively, will implement initiatives to reduce costs, while 44% of CEOs worldwide and 36% in Russia plan to enter a new strategic alliance or joint venture.

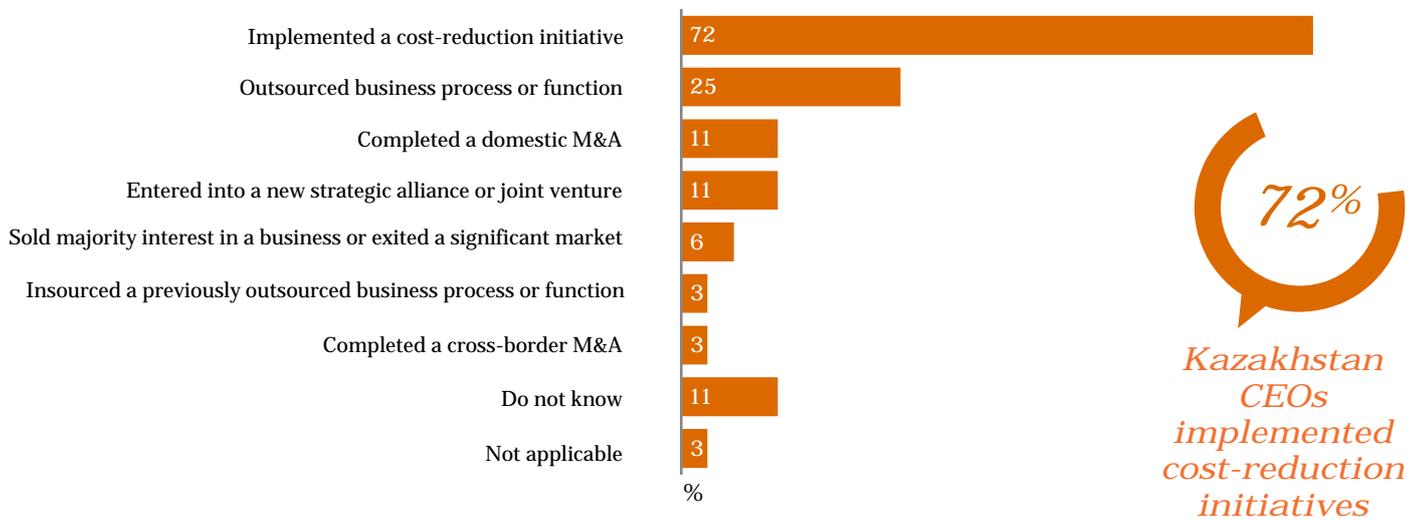
It is interesting to note that Kazakhstan CEOs are less cautious than their Russian colleagues in outsourcing processes. Some 25% of Kazakhstan CEOs outsourced in 2013 and the same proportion also plan to outsource non-core functions in 2014. In Russia, only 13% of the interviewed CEOs outsourced non-core functions in 2013, compared to 25% worldwide while this year only 11% (25% worldwide) are ready to outsource.

When it comes to cross border M&A transactions however Kazakhstan and Russian CEOs see eye to eye. Unlike foreign colleagues, neither plan active cross-border M&A transactions this year.

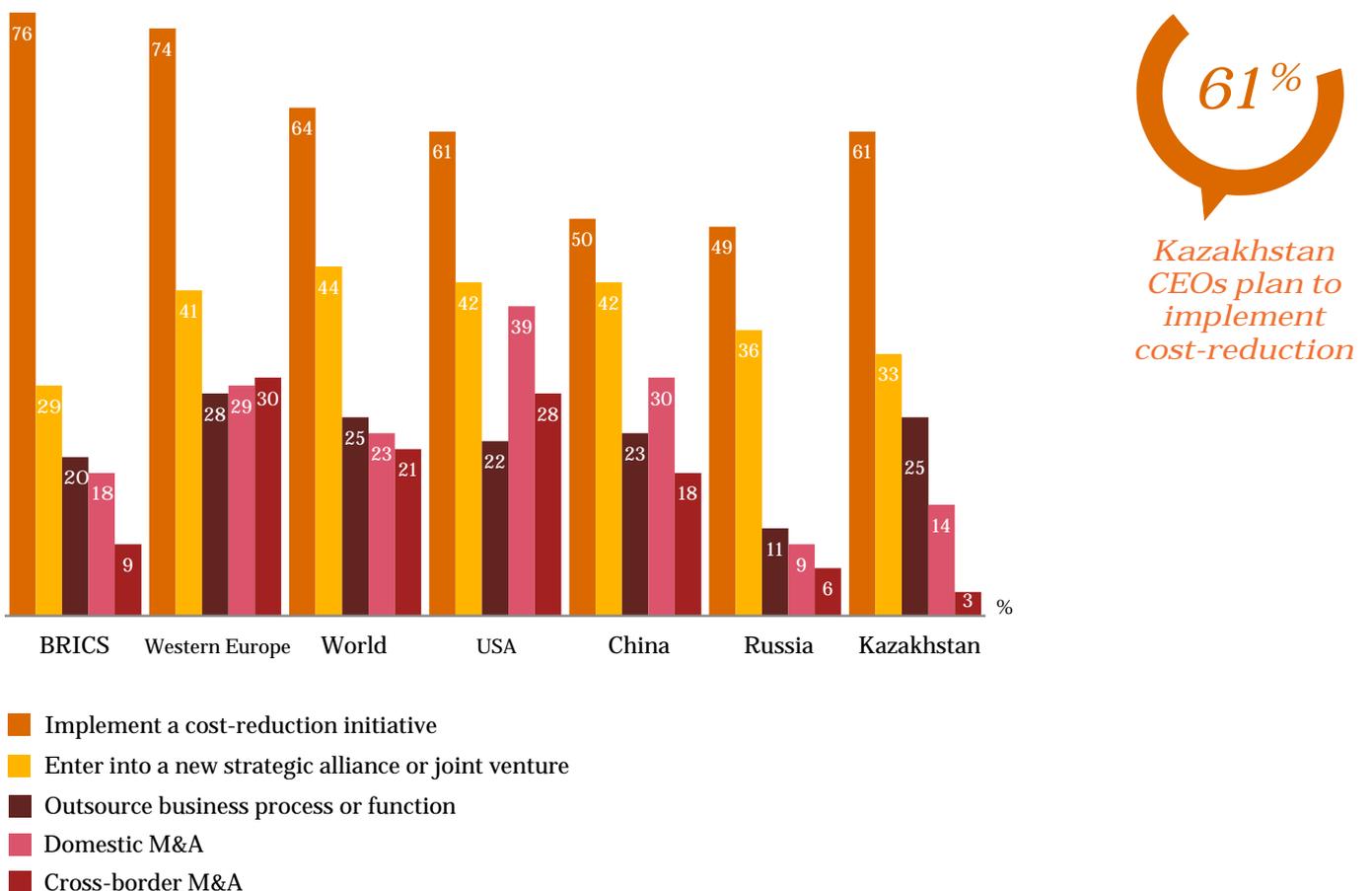
Those Kazakhstan companies which are potentially interested in alliances or joint ventures are mostly interested in Central and Eastern Europe and Central Asia. It is a similar story for Russian and some other BRICS countries' CEOs who are also more attracted by possible opportunities in Central and Eastern Europe (83%) and Central Asia (20%). CEOs from Chinese companies, meanwhile, mainly show interest in East Asia (56%) while, CEOs from Western Europe are mainly interested in potential deals with their own region (56%), and it is a similar pattern amongst CEOs from USA who are most interested in North America (74%).

CEOs plan to focus on the markets of their current presence or those close geographically

Question 14. Which of the following restructuring activities have you initiated in the past 12 months?



Question 15. Which of the following restructuring activities do you plan to initiate in the coming 12 months?





Denis Smirnov
Arena S (Sulpak):

“We will introduce cost reduction initiatives. We are growing and expect cost reductions to come from economies of scale and centralisation. Doubling our volume will require only 10% of additional fixed costs.”



Alexander Deriglazov
Meloman:

“Since we do not consider, and do not have an opportunity, for M&A, we believe that our daily routine task is to increase revenue on one hand, and reduce expenditures on the other, which naturally leads to cost reduction. We do not manufacture, but trade, so tighter budgeting is our routine work, but conducted in accordance with a program specially created and embedded into our complex business structure. The purpose of this program is to increase transparency and boost cost controls.”



Alexander Kamalov
Sberbank:

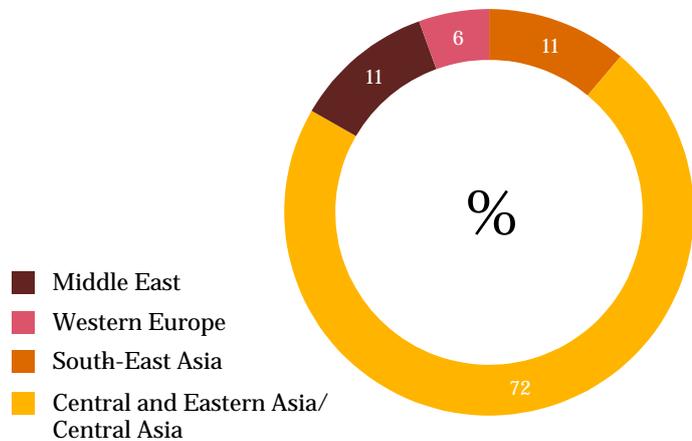
“Cost reduction initiatives involve a number of actions related to opening new offices and servicing the current ones. We also aim to improve margins and employ profitability management tools in relation to certain customer segments. We started these initiatives last year.”

For those respondents who reported M&A as a step towards business restructuring in the next 12 months, we asked about the regions in which they plan transactions. 72% of them identified Central and Eastern Europe and Central Asia as the most promising areas.

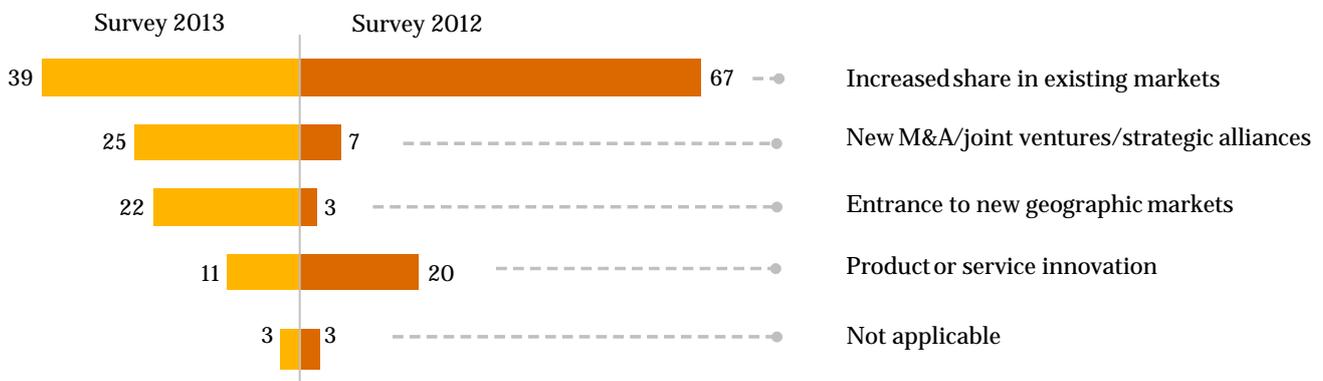
Question 16. In which regions are you planning to carry out M&A, joint venture or strategic alliance?

The focus of Kazakhstan CEOs has shifted significantly from local to foreign markets compared to the last year. In addition, they expressed greater interest in non-organic growth and readiness for partnership.

Unlike Kazakhstan CEOs, 32% of Russian CEOs favored development of new products or services as their main perceived business opportunities while 28% opted for increasing their market share on existing markets.



Question 17. Which of the following do you see as the main opportunity to grow your business in the next 12 months?



Kazakhstan CEOs demonstrated unexpected readiness for partnership and expansion to new geographic markets



Shingo Kato
Toyota Motor Kazakhstan:

“Our new and only point is to improve our products and the service we offer. Kazakhstan is finally waking up to greater awareness of ecological and environmental aspects and this will be enhanced by preparations for Expo 2017. The Kazakhstan Government is showing a lead here and we

will benefit as we are leaders in this kind of product as we have all type of hybrid cars, electric cars, eco cars, and are ready to launch these products in Kazakhstan.”



Andrey Kopytin
Viled Fashion:

“We plan to increase our market share in existing markets through offering a premium quality of service in our stores and premium brands. We expect both an increase in the number of customers and a growth of sales volume. As for the fashion industry, there are stores in Almaty which are historically well known to customers and we plan to capture those customers and redirect them to our stores. This is a time consuming process, but we are already seeing traffic and revenue growth, partially as

a result of our activities in capturing market share from the competition.”



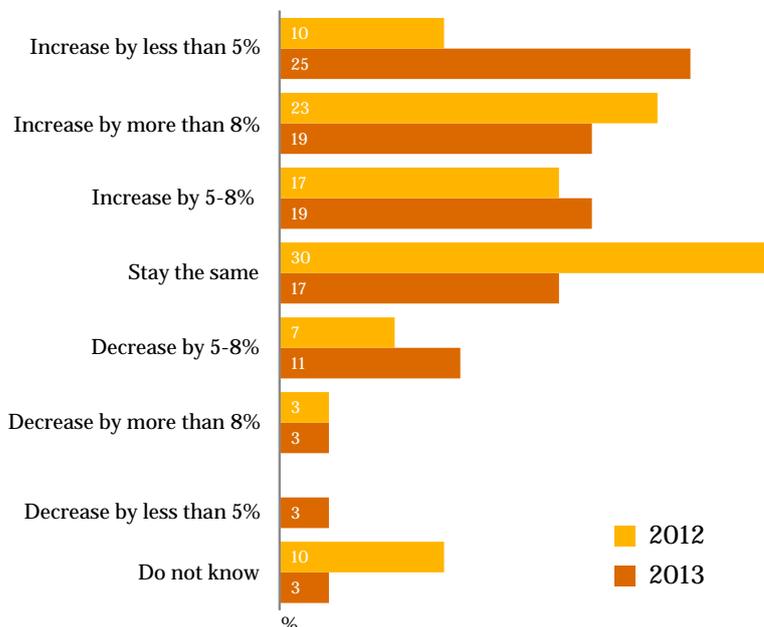
Kairat Mazhibayev
RESMI:

“We have two growth factors – organic growth through general business development and an increase of our market share in existing markets, and secondly, development of new territories. However, in the short term we see

most potential in organic growth. Due to the uncertainties surrounding capital markets we always look at M&A as a supplementary growth factor that cannot be planned within a 12 month period. This is what makes us different from classical private equity funds. We have a more entrepreneurial or so-called opportunistic approach. We do not want to commit to either the value or volume of investments over a given period. This is contrary to the nature of entrepreneurship.”

Accelerated business growth in most cases requires personnel expansion. No less than 63% of Kazakhstan CEOs are considering an increase in headcount this year, which is 14% more than CEOs globally and 27% higher than in Russia.

Question 18. What do you expect to happen to headcount in your company globally over the next 12 months?



CEOs of Kazakhstan plan to increase their headcount



Kairat Mazhibayev
RESMI:

“We would like to see the number of employees remain at the same level or somewhat lower. But in reality our headcount will increase by at least 5%. We cannot jump over our heads at the current level of labor productivity. It is not possible to achieve 15-20% growth with the same personnel; we have to increase headcount despite quite a high level of automatisisation in our production processes.

Unfortunately, Kazakhstan companies have to maintain extensive back-offices due to the requirements of state regulation and the monitoring, financial and tax administration systems. In order to offer a good product and be sufficiently protected, you must have fairly large back offices. If we compare, for example, the organisational structure of Kazakh and British brokerage firms, we can see that in Kazakhstan up to 70% of personnel is employed in the back-office. They maintain functions unrelated to core activities, like book-keeping and reporting. In Britain, this figure makes up a maximum of one third of the entire personnel.

You can imagine how this affects productivity. The main function of our companies is not to create as many jobs as possible; our task is to improve the quality of life and work and raise the level of competence. To achieve this we try to focus on the quality of our business processes and the improvement of personnel productivity.”



Alexander Deriglazov
Meloman:

“The number of personnel will increase by 5-8% as a result of opening new outlets in Almaty, Astana and Ust-Kamenogorsk. The expected 75% increase in the Almaty trading space, for instance, will require at least 60 additional people. We also have seen an increase in on-line sales and that

has lead to an expansion of call-center personnel.”



Askar Kanafin
Ordabasy Group:

“We are not planning any personnel increase. Organic growth should take into account the fact that labor productivity in Kazakhstan is much lower than in developed countries. Therefore the main issue today is the proper organisation of jobs and business processes and setting

tasks which ultimately contribute to an increase in the efficiency of every employee. Raising both quality and efficiency are of paramount importance.”

Question 19. What is your current planning time horizon and ideally where would you like your planning time horizon to be?

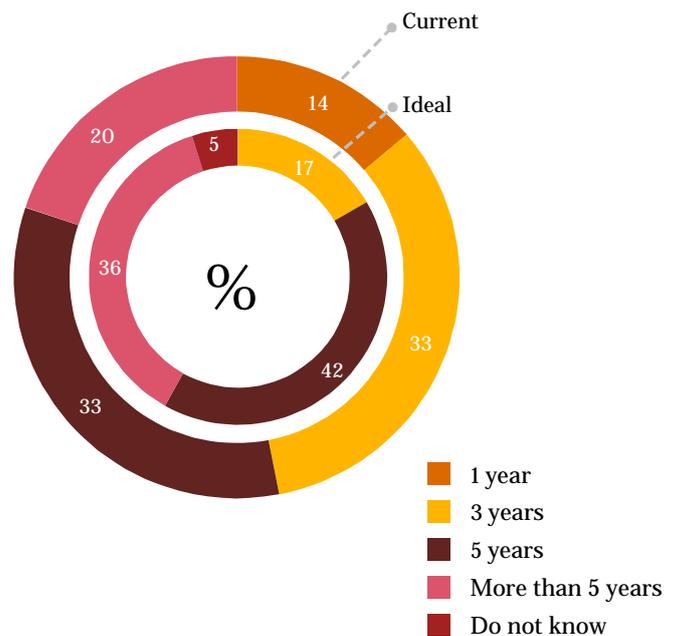
The overwhelming majority of respondents believe that the current planning horizon of domestic companies is at least three years, while almost half of CEOs would prefer a planning horizon of five years.



Denis Smirnov
Arena S (Sulpak):

“Our current planning horizon is three years. The three years horizon gives reasonable comfort to shareholders, partners and banks as one can predict future developments with a certain accuracy. Extending this period to five years takes it up to a strategic level and

there are too many inputs, both internal and external, that make planning a more difficult exercise. Most of our projects are planned for 6-24 months.”



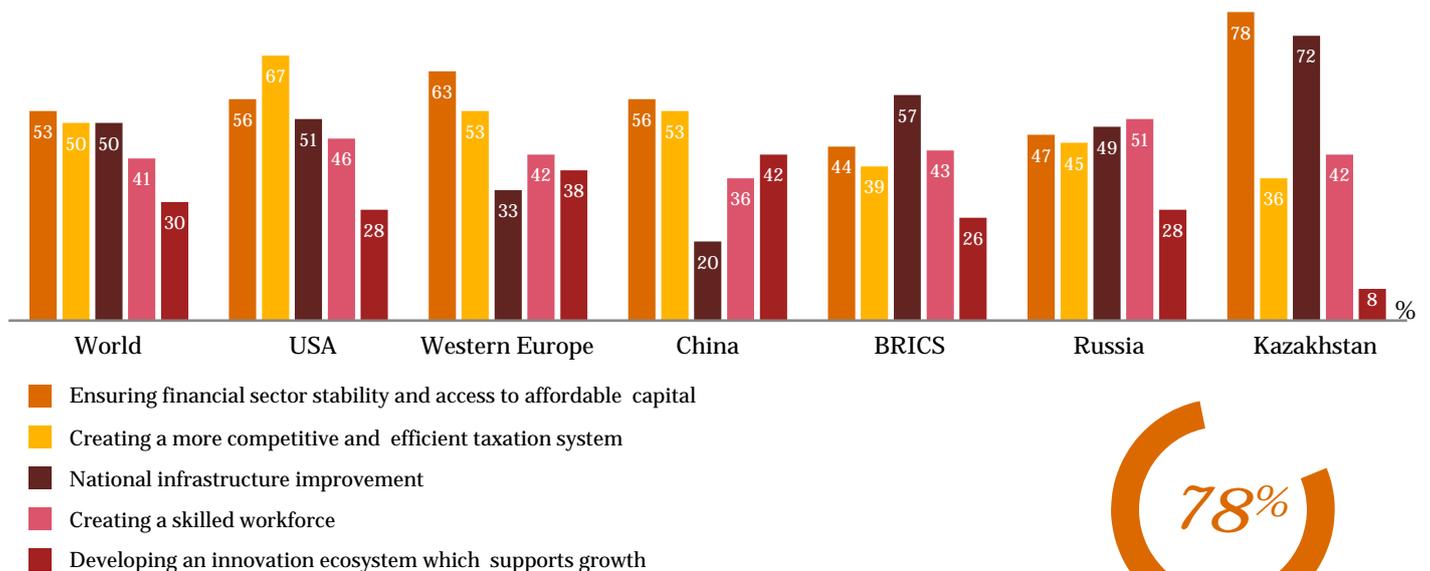
Priorities of the state from a business prospective

Kazakhstan CEOs identified three main areas of activity which should, in their opinion, be high priorities for their country's government. The first is ensuring greater stability of the financial sector and better access to capital. This is seen as a priority by 78% of Kazakhstani CEOs but only 47% of Russians. Improvement of national infrastructure was cited as a priority by 72% of Kazakhstan but only 49% of Russian CEOs. Preparing better qualified labor resources was seen by 42% of Kazakhstan and 51% of Russian CEOs as the third key area for government action.

It should be mentioned that this year 'infrastructure development' was downgraded to second priority by Kazakhstan CEOs while last year's survey reported 87% of CEOs saw this as the top priority. Upgrading skills and the preparation of qualified personnel also dropped back in perceived importance, being cited by 42% as a priority against 67% last year.

In general, 22% of Kazakhstan and 15% of Russian CEOs, compared to 46% globally, believe that actions taken by their governments are not efficient. By contrast some 46% of CEOs globally believe that their governments are able to solve issues of financial sector stability and access to capital in an efficient manner, while 53% of Chinese CEOs share the same positive point of view.

Question 20. Which three areas should be government priorities, in the country in which you are based?



78%

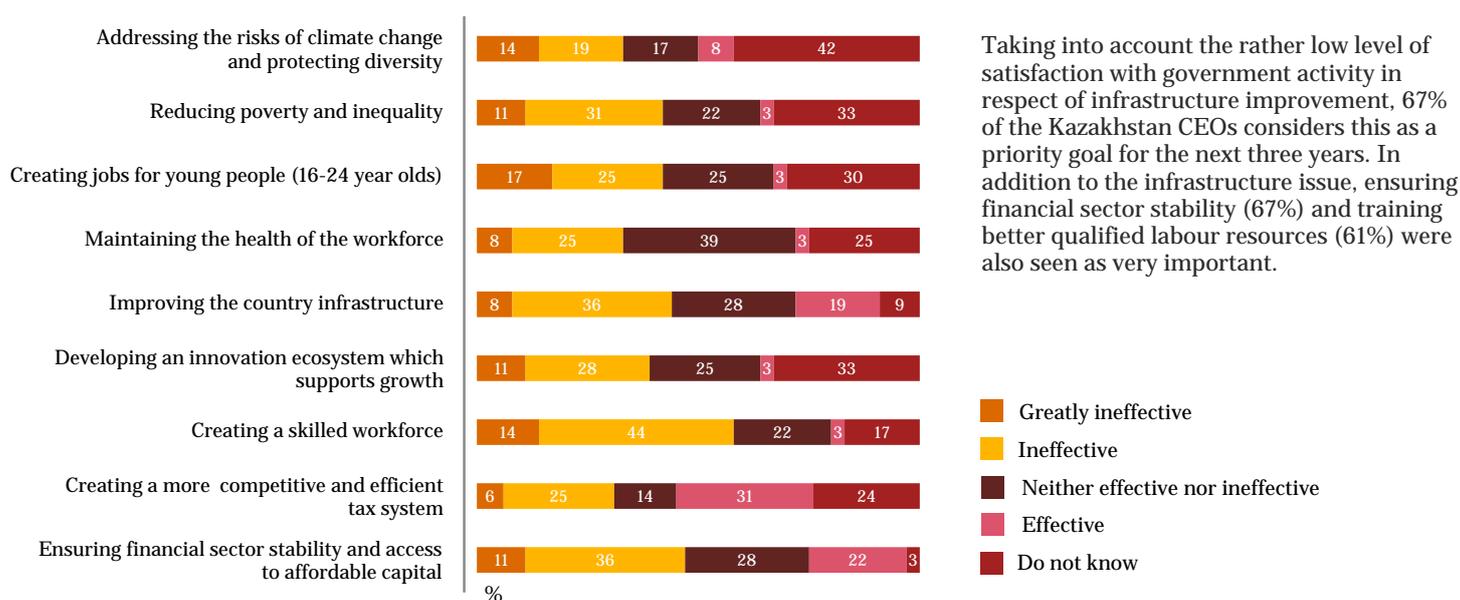
Kazakhstan CEOs consider stability of the financial sector to be the key priority for the state

In Kazakhstan, only 19% of CEOs are satisfied with actions taken by their Government to improve the national infrastructure, and only 13% of Russians. In general, concerns around the underdeveloped state of basic infrastructure are typical for BRICS countries.

Only 3% of Kazakhstan CEOs think that actions taken by the Government to prepare qualified labor resources are efficient.

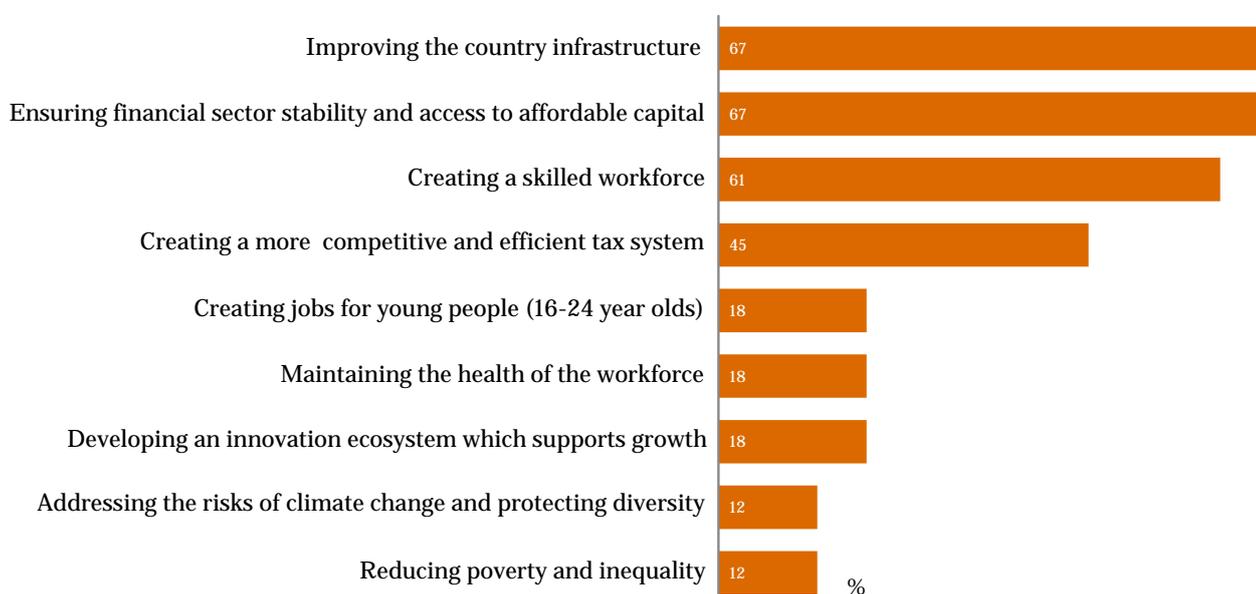
Some Kazakhstan CEOs also mentioned additional areas of the Government's 'great inefficiency', such as ineffective anti-bribery and anti-corruption efforts, and the development of non-resource economic sectors

Question 21. How effective has government been in achieving these outcomes in the country in which you are based?



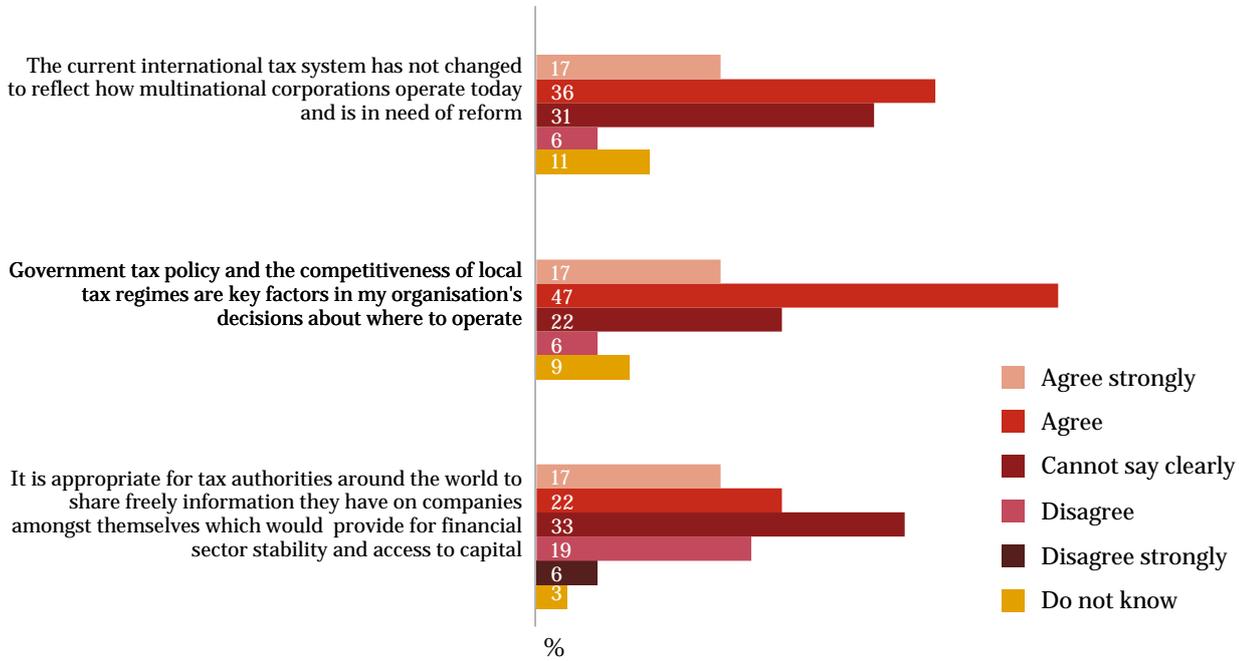
Taking into account the rather low level of satisfaction with government activity in respect of infrastructure improvement, 67% of the Kazakhstan CEOs considers this as a priority goal for the next three years. In addition to the infrastructure issue, ensuring financial sector stability (67%) and training better qualified labour resources (61%) were also seen as very important.

Question 22. Which of these national outcomes is your organisation focusing on as a priority over the next three years?



We asked CEOs to share their views on the impact on business of state regulation.

Question 23. Looking specifically at tax policy and administration, to what extent do you agree or disagree with the following statements?



39% of Kazakhstan CEOs agree that the efficiency of governments would increase if tax authorities of other countries were able to freely exchange information on companies

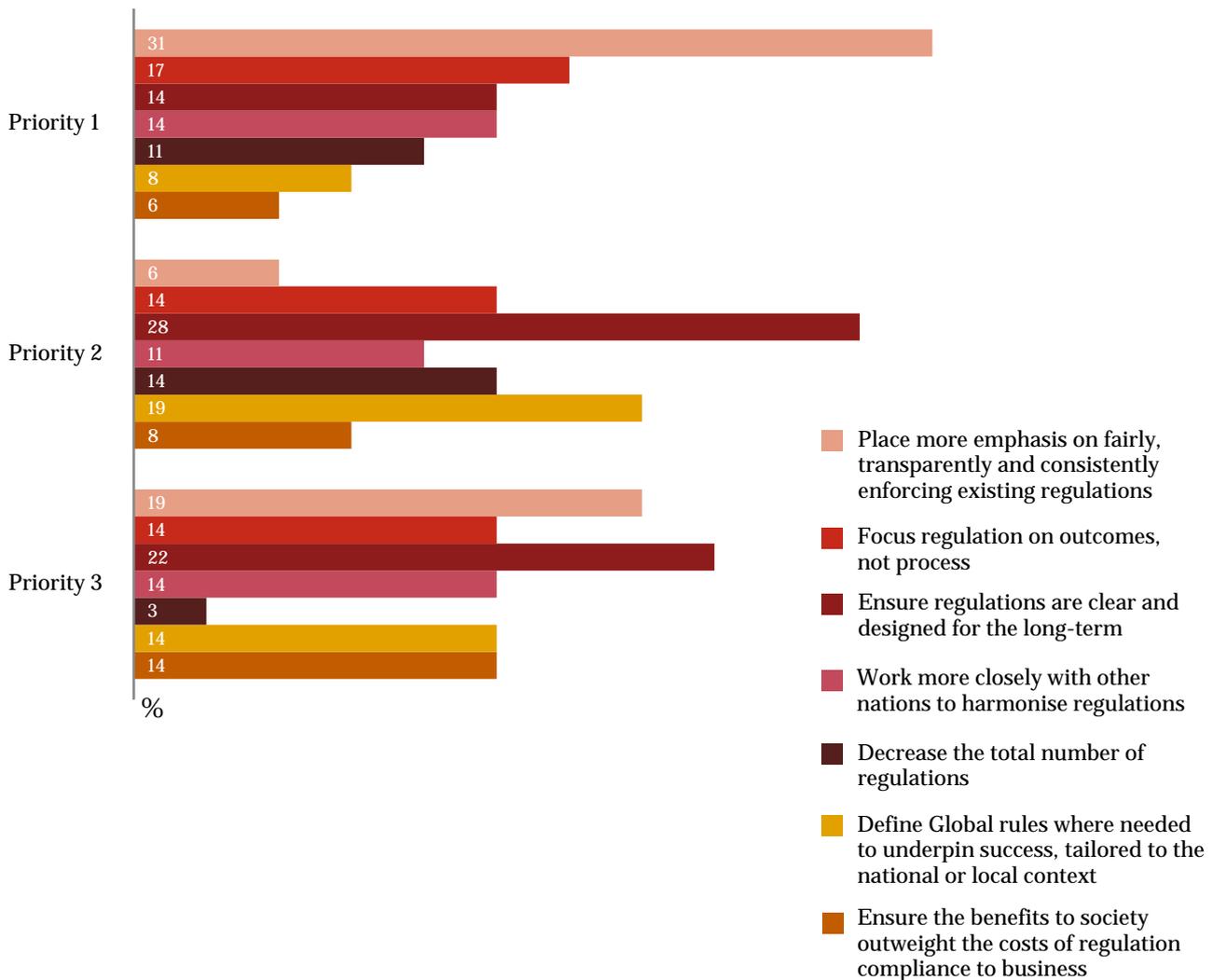
Question 24. How has regulation impacted your company over the past 12 months?

CEOs worldwide	Our operating costs increased – 79%
	It became more difficult to find and attract skilled workforce – 52%
	Production/service delivery quality standards increased – 51%
CEOs in Russia	It became more difficult to find and attract skilled workforce – 74%
	We could implement new market opportunities successfully – 66%
	Our operating costs increased – 62%
CEOs in Kazakhstan	Our operating costs increased – 78%
	We could innovate effectively – 67%
	Production/service delivery quality standards increased – 56%

Question 25. Looking at the following ways in which governments could improve the policy-setting process with regard to regulation, please rank which three of these you think would have the biggest impact.



Kazakhstan's respondents pointed out the increased operating costs as a result of the state regulation



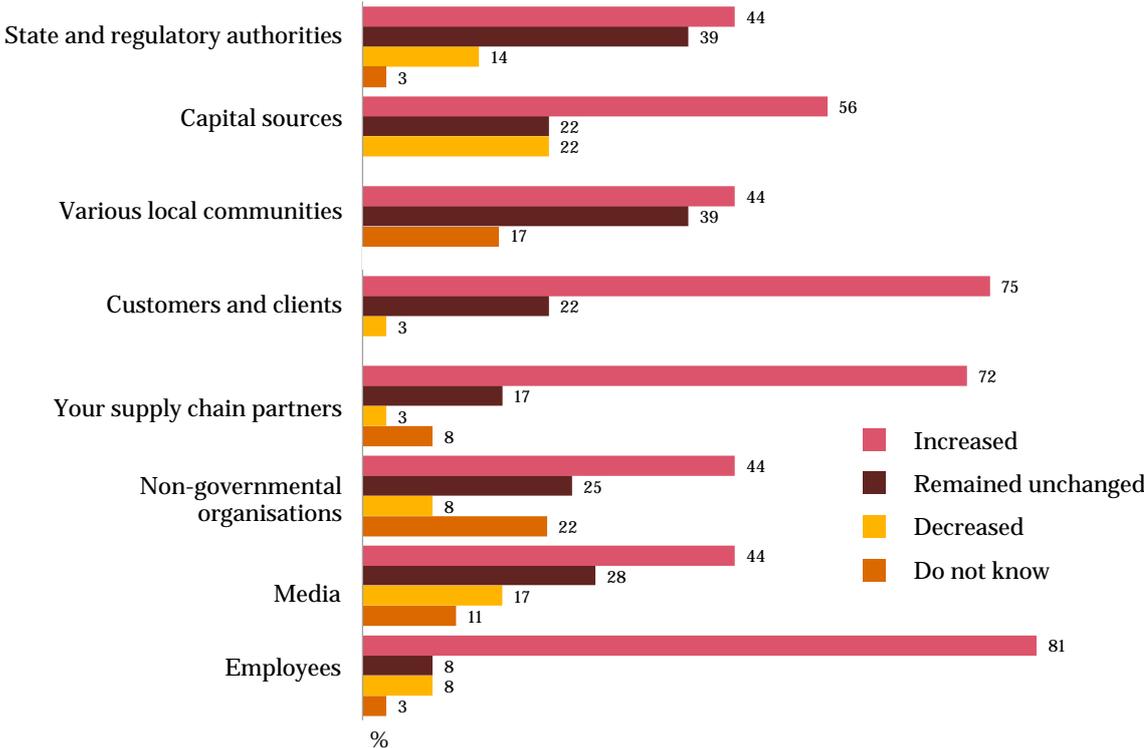
Public confidence in business

The majority of Kazakhstan CEOs are cautiously optimistic and believe that the overall level of confidence in their area of operations has increased. According to Kazakhstan CEOs the highest improvement of trust was noted among their employees and reached 81%. This trust quotient dropped to 40% in Russia, 32% in Western Europe and 32% in the US.

Some 75% of Kazakhstan and 60% Russian CEOs, noted an increase of confidence in their industries among customers and clients.

An increasing number of CEOs worldwide now understand that beside its financial obligations business also has social obligations to satisfy. CEOs understand that they are expected to maintain a correct balance between the interests of different stakeholders, and that means not only of shareholders but also customers and employees.

Question 26. To what extent has the level of trust felt by the following stakeholders in your industry changed over the past five years?



Question 27. *What do you personally think drives trust in your sector and why?*



Oybek Khalilov
AIG Kazakhstan:

“The quality of customer service, the degree of financial stability, and the ability to make timely insurance payments are the most important indicators in our industry. There is a high level of trust in a company only if it demonstrates professionalism and competence, good industry knowledge and expertise. All this together helps us to achieve our objective – to be the best in our business. This happens only when our customers are satisfied.”



Denis Smirnov
Arena S (Sulpak):

“Our business is 100% a client business. Everything depends on how comfortable and interesting it is for a client to shop in our store. Over the last three years we have taken many steps that, in our opinion, will allow us to strengthen our position in customer's minds as a reliable partner which offers good service. We understand that this is as a long term policy. This year we launched an extensive program focused entirely on quality of service. The first step was to concentrate all communications with clients through a single center (SC). All and any feedback, whether positive or negative and from whatever source is received by this SC. Each item of feedback is processed, and a mandatory call is made to clients in order to clarify any problem faced by the client and perhaps offer an option for solving it. We are confident about our future and note that our key performance indicators, such as traffic in our stores is constantly growing. This would not happen, if customers did not like to visit us. I am sure that soon we will be able to pleasantly surprise our clients.”



Siddique Khan
Globalink:

“Attitude towards a company is based on the speed, reliability and cost of services provided. Since we are a logistics company, it is very important for us to deliver goods on time, as the further planning of our clients work depends on how quickly we can deliver. It is very important for us to deliver goods to their destination safe and sound and at a reasonable and affordable price.”



Askar Kanafin
Ordabasy Group:

“If we speak about markets and market-driven economies in general, the question of trust is linked to the development of capital markets, the consequential reduction of excessive state regulation, and the development of those market tools which allow the creation of a balanced market situation in a non-regulatory and natural way. Each and every increase of competition leads to the growth of industry-wide efficiency and that, in its turn, creates or boosts confidence.”



Timur Issatayev
Alliance Bank:

“In our area, an increase of the confidence level is supported by one thing only – higher quality corporate governance and everything that relates to it. The reason is that people still have an incomplete understanding of the banking business. This means that they make their conclusions without knowing or understanding the whole process or seeing only a minor part of it. Thus, the more open and the more understandable the bank becomes, and the more transparently it operates (and this is a part of corporate governance), the higher is the level of confidence in the industry.”



Vladislav Li
CenterCredit Bank:

“Specifically as regards our industry, trust is linked to the stability of the exchange rate and the overall macroeconomic condition of the country. If everything is good in the country, then everything will be fine in the banking sector, and as the macroeconomic situation in Kazakhstan depends on the price of raw materials, that in turn depend on the state of the world economy.

We need to understand that 40% of Kazakhstan budget depends on the oil sector. If oil prices are lower than budgeted, it will lead to budget deficit, and hence to a decline in gold and foreign exchange reserves, and so on. Low oil prices may even result in a systemic crash. Then we will have two options – either devaluation or default. Therefore we should move away from oil dependence and stimulate manufacturing. Whether we are able to do this is another issue.

There are success stories in this regard. South Korea was able to restructure and became export-oriented in 30 years. However, there is also the risk that if external demand falls everything will collapse. China is aware of this risk and is reorienting a bit towards internal demand. As for manufacturing, we need to diversify our economy, but that raises the question whether we have the necessary infrastructure, people and legislation required to achieve this diversification.

For me, the main driver of the economy is people who want to run their own business. But, our people are hesitant, since they see a lot of problems in this sector. The President constantly says that the share of SME in the economy should increase and contribute up to 40% of the GDP. But I don't think the Government copes with achieving this task very well. It is necessary to create a system that would encourage the development of SMEs. Of course, this may be quite a narrow view, but nonetheless...”



Alexander Kamalov
Sberbank:

“Strengthening trust in the banking sector is supported by brand strength and the ability to manage risks together with the quality of services, products, and technologies. All these factors work, but at different times one or other of them dominates, both for the bank and for the client. Looking back at 2009, the level of service was not seen as so important in Kazakhstan, and attention was focused on improving risk management. When choosing a bank or executing any transaction, the client first looks at the reputation of the brand, and whether there is an understanding of the risk level, service quality, and technologies.”



Mikhail Lomtadze
Kaspi Bank:

“A large number of satisfied clients.”



Kairat Mazhibayev
RESMI:

“In our industries the main factor is stability and establishing clear rules of the game that are not changed randomly and reflexively. This is very important. This enables us to create more efficient and clear business models for all the parties involved.”



Andrey Kopytin
Viled Fashion:

“If we take consumers, there are two factors – fair pricing and sufficient choice. This relates to all lines of business where we operate – fashion, alcohol, jewelry and watches. If there is insufficient choice or the products are overpriced, then clients start to spend money abroad, and this especially relates to such segments as fashion, jewelry, and watches.

Despite the fact that we have higher taxes and import duties, prices may differ from European levels by only 5–15%. When they are higher, clients turn away. This affects our business, since we have to accept lower margins than our Middle Eastern colleagues. In addition, I would like to note the importance of trust between partners. In general, people do tend to trust the business-environment in Kazakhstan.”



Shingo Kato
Toyota Motor Kazakhstan:

“Quality is our key factor. So far, Kazakh tastes match Toyota's qualities, so we should continue to strengthen this point.”



Alexandr Samoilov
Kokshetauminvody:

“Effective or ineffective Government regulation.”

Personal question

This year we decided to make our survey more personal and asked the following question:

Question 28. As a CEO of your enterprise what is the one thing you want to be remembered for and why?



Peter Foster
Air Astana:

“Not only creating a high quality air transport system but also contributing to the development of Kazakhstan businesses in general.”



Mark Pothast
Nestle Food Kazakhstan:

“We showed the high quality standards of doing business. When you asked me about corruption I selected 'not concerned at all', because we do not do it. It is going to be clean business or no business at all.”



Janet Heckman
EBRD:

“EBRD's work on the Green Economy: climate change and energy efficiency in Kazakhstan. It's important for future generations. We are working on projects across Kazakhstan in the power sector, municipal transport, waste management, water and district heating.”



Askar Kanafin
Ordabasy Group:

“My principal goal is to implement the company's development strategy. This is quite a multifaceted task that requires consolidated efforts. I would like to be remembered both as a leader and as a professional who achieves set goals.”



Guram Andronikashvili
ForteBank:

“Innovation and creating a vision of the bank as a service orientated organisation with the main objective of providing quality customer service. Because I believe that this is the essence of a banks operation and the only way we can benefit our clients.”



Mikhail Lomtadze
Kaspi Bank:

“Innovation. This is what makes people's life better, it is interesting and inspiring.”



Aleksandr Deriglazov

Meloman:

“We want our people to have access to the same level of entertainment that people do in developed countries, so that world achievements in culture can be presented countrywide here too. We always come across a dilemma - whether to earn more money or bring to the country something less profitable but more interesting; and we always prefer the latter, whether it is a movie, music, books, video games and so on. We aim to bring in not only mainstream products but also rare ones and masterpieces.”



Aleksandr Kamalov

Sberbank:

“For the best bankers' team in Kazakhstan. Because the team is the driver of any change and progress. In fact, caring about your team is the key part of any CEO's duty.”



Vladislav Li

CenterCredit Bank:

“For having the bank prospering, leading and strong during my leadership.”



Denis Smirnov

Arena S (Sulpak):

“We want our clients to remember us for satisfaction with our service. This is a priority. It is important that every person visiting our shops remembers a positive experience and has a desire to come back again. This is vital for any company.”



Kairat Mazhibayev

RESMI:

“When we enter a market we want to improve it in a big way. Usually we enter sectors that grow with difficulty: markets divided up among plenty of minority players, and characterised by price dumping, lack of standards and rules, a critical level of professionalism and so on. However, after a project is implemented we usually see the market becoming consolidated and highly competitive with innovative products, professionally managed companies, with government interest in this sector and so on. I would like our company to be remembered as one which improves our society by bringing in the qualitative transformation of consumer segments.”



Andrei Kopytin

Viled Fashion:

“For the work-for-result and not for the work-for-process.”



Siddique Khan

Globalink:

“Heritage. I think that every General Director wants to be remembered not only by the things he achieved for his business but also by what he did for his employees, in terms of creating favourable working conditions. Our company's global policy is to hire local people, educate and improve their skills and implement international standards into their work. Around 99% of all Group employees are local people who are able to gain business experience at an international level.



Oibek Khalilov

AIG Kazakhstan:

“My personal goal is creation of a benchmark-team that will be a role model for others, and to become one of the best employers on the financial market of Kazakhstan. On leaving the country I would like to leave behind a professional and talented team that would continue to deliver top-level work.”



Timur Issatayev

Alliance Bank:

“Implementing plans for a three bank merger in 2014 - because no one has ever done it before. We are planning a three-fold merger but our bank-consultant noted that while there were several three-fold bank merger attempts in post-war European history, none of them succeeded. In other words statistics play against us.”



Eldar Abdrazakov

Centras Securities:

“It would be great to establish a Kazakhstan company with a globally competitive business model. This is more of a personal, psychological thing. My personal ambitions, my self-actualisation may be far beyond the scale of our country, because it is hard to call our society highly-competitive. Our society is known for excessive self-esteem.”



Shingo Kato

Toyota Motor Kazakhstan:

“For successful collaboration. I think that the mentality of Kazakhstan and Japanese people is close, and I think Kazakhstan and Japan should further collaborate on a basis of mutual trust. The Kazakhstan perception of business is very similar to the Japanese, For me it was really easy to bring the Japanese way of doing business here. I have worked in the UK, France, Belgium, USA and Australia, but the easiest and most appreciated collaboration I have had in Kazakhstan.”

Conclusions





In summary we note that Kazakhstan CEOs, along with their colleagues from other countries, are still restrained in their assessment of world economic growth prospects. And such a cautious mood affects the expectations of Kazakhstan CEOs regarding their revenue prospects for the current year. The number of respondents completely and partially confident about prospects for income growth still exceeds 80%, but has gone down by 15% since last year.

We also see that this year Kazakhstan CEOs are consistent in their assessment of the main threats to the growth of their business. These are the instability of exchange rates, increasing state regulation, the growth of corruption and the lack of qualified staff. But, in spite of existing threats and challenges, companies are focused on accelerating business growth. To achieve this, CEOs are restructuring and implementing cost cutting initiatives. In addition, Kazakhstan CEOs demonstrated an unexpected readiness for joint ventures and strategic alliances and willingness to enter new geographic markets. Of most interest for CEOs are the markets where they already operate or those geographically very close to them.

As regards the role of the Kazakhstan Government, respondents noted the inefficiency of its actions. Moreover, the majority of CEOs highlighted the growth of operating expenses due to state regulation. In order to render real assistance to existing businesses, the Government should, according to them, ensure the stability of the financial sector and provide better access to capital. With respect to the regulatory environment; the Government should also pay more attention to ensuring compliance with current regulatory requirements on a fair, transparent and consistent basis. Business also wants Government to make sure that the regulations are defined clearly and accurately and reflect a long-term view of what is aimed for.

Meanwhile, the majority of the Kazakhstan CEOs display a healthy although cautious optimism. Entrepreneurs are confident in the prospects of the industries in which they operate, and that the level of trust in it has increased. Confidence comes from understanding the importance of balancing the interests of all the different parties involved, not only shareholders but also customers and employees. In our second survey we tried again to identify the best CEO of the past year, the one who commanded most respect from the respondents regarding the methods of company management, success and personal qualities. As last year, Survey results revealed no obvious leader, and as a rule, respondents nominated managers from the business areas, in which they operated. While conducting this survey we noted however that some CEOs were nominated two years in a row more frequently than others. From the top these were Peter Foster (Air Astana), Nurlan Smagulov (Astana Group), Dauren Zhaksybek (Tsesnabank), Timur Issatayev (Alliance Bank), Alexandr Garber (Prima and Magnum Cash & Carry), Vadim Golenko (Meloman/Marwin), Umut Shayakhmetova (Halyk Bank) and Askar Mamin (KTZh).

Research methodology

In total 36 CEOs took part in the Kazakhstan Survey this year, nine of whom were interviewed by phone or online; 27 gave us extensive, detailed interviews. CEOs of Kazakhstan national companies did not take part in the Survey.

To obtain a complete picture we selected respondents from different sectors: metals, oil, gas production, finance, energy, civil aviation, telecommunication, automotive, retail and consumer, engineering and construction, transportation and logistic, entertainment and media.

The majority of interviews in Kazakhstan were conducted from 1 November 2013 to 31 January 2014.

CEOs were asked questions regarding the development prospects of the world economy, companies and different markets, changes in business practices, and business development trends. They were also asked to express their opinion on the efficiency of various business processes and Government actions.

Complete confidentiality with respect to all answers has been kept in the preparation of this report. In addition, all the information obtained as part of the survey was used regardless of any certain company, and only with respect to an area, size of entity and other demographic data. All quotations from interview of Kazakhstan CEOs used in this survey were agreed with respondents in advance of publication.



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