

Kazakhstan edition of the 20th Annual Global CEO Survey 2017

From survival to growth



1 435

s from 80 countries

56

s from Kazakhstan

Foreword

We are pleased to present this year's Kazakhstan edition of PwC's 20th Annual Global CEO Survey of the world's leading companies. We have tried to define the key trends and patterns in the world economy, and identify the business problems, sentiments and ambitions that influence decision-making by domestic managers. This time, more than 1,400 chief executives from 80 countries, including 56 CEOs working in Kazakhstan, took part in the survey.

Interestingly enough, the context of last year's name of our survey, "Survival Game", very accurately reflected that year's business environment. In fact, this was how most of the CEOs surveyed that year described their companies' confrontation with the acute external and internal challenges and risks of 2016.

We learned first hand that according to the CEOs, the most difficult times were behind them. CEOs of Kazakhstani companies were determined to accomplish their tactical and medium-term objectives and confidently predicted increased revenues for their businesses in 2017. In this respect, they surpassed the expectations of their Russian colleagues and were aligned with the opinion of foreign CEOs, and their optimism indicator jumped from 65% to 84%. Gradual improvement in the commodity markets helped give Kazakhstan's business leaders confidence that their companies' revenues would increase over the next 12

months. I should note that somewhat fewer CEOs were "absolutely sure" their businesses would grow over the next three years than were "absolutely sure" of growth prospects for next year – 48% versus 59%. This may be due to the usual habit of business leaders to expect unforeseen events that dramatically impact the business environment every few years. So, despite their stronger belief in business growth, CEOs of companies in Kazakhstan still gave top priority to professional quality such as the ability to adapt to rapid and unexpected changes in the business environment.

In response to the usual question about relationships between business and the government, the fight against corruption moved from second to first place – two-thirds of company CEOs thought corruption was the most serious threat to business. Nearly half of the respondents mentioned the need to improve the country's business climate and ensure the rule of law in all areas of government activities. Incidentally, business leaders gave the worst rating of all to the effectiveness of the government's fight against corruption and in training highly skilled staff, while ensuring the rule of law had a slightly better rating. In addition, nearly a third thought that government authorities were successfully promoting Kazakhstan as an attractive country for investors. Nearly half of the respondents were willing to help the government improve the country's investment attractiveness,



while slightly fewer were ready to help them train highly skilled staff. What is also important is that this year, Kazakhstani businesses are showing record levels of confidence in retaining and increasing staff, thus helping the government solve the problem of unemployment. As usual, company CEOs also hope that the government will start deregulating the economy and agreeing more readily with business on essential legislative amendments.

We asked the CEOs to comment on important upcoming events in 2017, such as the Expo 2017 International Exhibition and the establishment of the Astana International Financial Center (AIFC). Most CEOs still do not foresee these events exerting a material influence on their business, but do not rule out this possibility in future. The CEOs mentioned that such large-scale events would attract many visitors to the capital from neighboring countries and abroad, and would help promote Kazakhstan in international investment communities.

We would like to thank all the survey participants who took the time to share their opinions, concerns and plans with us. We hope the results of our combined efforts will contribute to a deeper understanding of current processes taking place in Kazakhstan's economy and enable a proper assessment of the pressing problems and enormous potential of our country.

A handwritten signature in black ink, appearing to read 'Dana Inkarbekova', with a long horizontal line extending to the right.

Dana Inkarbekova
Managing Partner,
PwC Kazakhstan



Table of contents

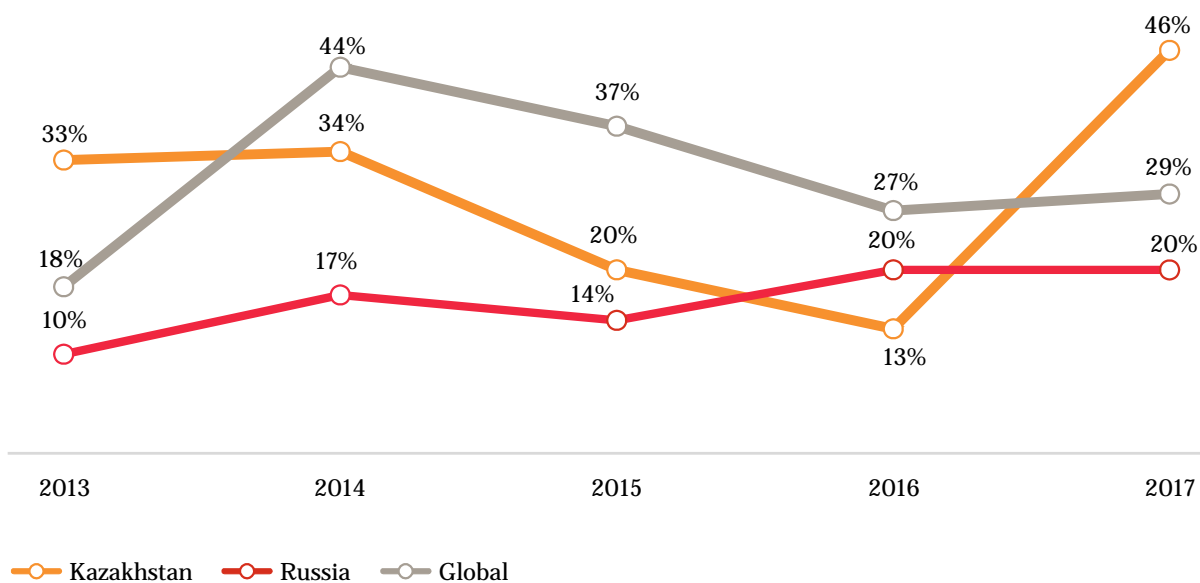
DEVELOPMENT OF THE WORLD ECONOMY	6
Globalisation	12
Technology	14
THREATS AND OPPORTUNITIES	16
Geopolitics	17
Volatility	19
Investment attractiveness	20
Threats to trust in business	21
Human capital	26
PARTNERSHIP	30
Business partnership	30
Cooperation with the government	34
SIGNIFICANT EVENTS FOR KAZAKHSTAN	38
Expo 2017	38
Astana International Financial Centre	40
BEST IN 2016	42
MEET THE CEOs	44
RESEARCH METHODOLOGY	46
WORKING GROUP AND KEY CONTACTS	47

Development of the world economy

Global economic growth prospects over the next 12 months

The turbulent, unpredictable events of 2016 are behind us, and nearly half of company CEOs in Kazakhstan are now confident of higher growth prospects for the global economy. This indicator is in stark contrast to the extreme pessimism – 13% – registered by our survey last year. By comparison, only 20% of our Russian colleagues and only a third of CEOs worldwide are confident that we'll see accelerated growth.

Business in Kazakhstan often evaluates world economic processes with an eye on commodity markets, and today it believes that the worst times have already passed. Geopolitical events in neighbouring countries and abroad also influence the evaluation, although to varying degrees. Such events include the results of the U.S. Presidential election, the sanctions against Russia and counter sanctions.



"I think growth will strengthen throughout 2017. I'm expecting world economic growth of about 3-3.5%. The U.S. could be an important catalyst for this. We've already seen growth in the last two years, mainly due to the policy of financial incentives. Trump's expected turn towards further deregulation should also encourage growth. I'm very optimistic. The European region, including Russia, expects modest growth due to uncertainty on the continent. Prospects for Japan are limited by the threat of unresolved problems, including demographic aging. Although China's 6-7% growth rates look impressive compared to the rest of the world, they don't reflect China's potential. There are also increased risks associated with rising debt. With the correct approach, India's economy could expand even faster than China's amid low commodity prices. However, the reforms being carried out in the country are limiting economic growth. Finally, I'd like to mention the role of the global commodity market, which is expected to recover due to the actions of oil-producing countries and infrastructure development."

Ranga Welaratne
Sanofi Kazakhstan

-GROWTH-



"They'll rise. I don't think global leadership is automatically changing, it's consolidating. For example, the Russian economy is stronger than it was a year ago, and U.S. policy is now changing under Trump's leadership. Brexit is also having an impact. All these changes, even if they aren't necessarily positive, are motivating a drive to future improvement."

Philippe Mahuas
Astana Marriott Hotel

"Commodity prices have dropped in recent years, but this year we're seeing some improvement in the market environment. On the other hand, the structure of our economy is starting to change, and we're expecting economic growth this year."

Marat Seitkulov
Caravan Resources

"There were two major political trends in process last year: Trump's election as president and Brexit. Now these events are quickly turning into economic components. We're all watching to see how they turn out, but we don't expect any real changes in growth rates."

Dmitry Zabello
Bank VTB Kazakhstan

"They won't change. The move from natural resources to a new format of energy use today is causing a shift in the whole global economic paradigm. However, a full conversion will take time. Today, we're already in a period where old technologies are continuing to expand, but falling prices for them are having a significant impact on many countries, while new technologies are still not fully implemented. Why won't there be a slump? Development is ongoing, and the key market drivers (China, the U.S.) will "propel" the global economy. China is experiencing explosive growth, while the U.S., where the traditional structure has already proved itself, will continue to advance. I don't see any specific reasons for growth, because a lot of countries still depend on energy resources, and they'll need time to adjust and find alternative solutions."

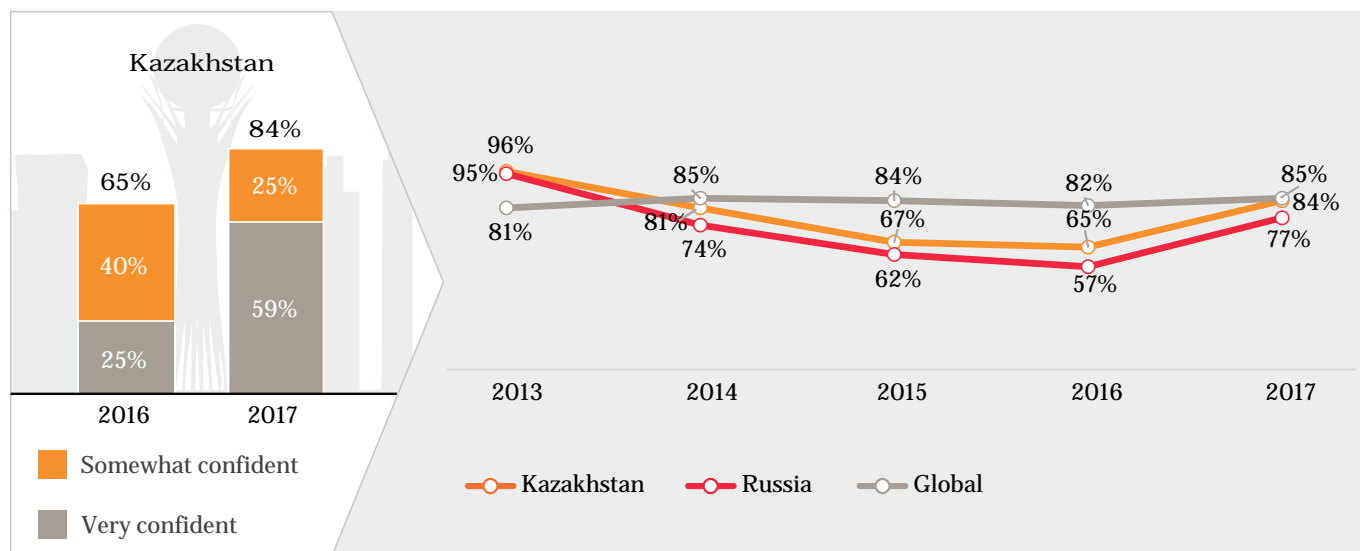
Zhanar Kaliyeva
Kompetenz

"They'll increase, but slowly. The oil market is also showing signs of improvement and stability. I think the oil sector is a global industry leader; it's one of the segments that is still setting the pace and supporting the global economy. Earlier, the buzzword was alternative technologies, so-called green energy sources. After oil prices dropped, everyone forgot about them. This probably happened mainly because of the drop in investments in this sector. This sector needs substantial investments that only the oil industry can generate."

Orazkhan Karsybekov
Kusto Group

Revenue prospects for the next 12 months

Gradual improvement in the commodity markets helped give Kazakhstan's business leaders confidence that their companies' revenues would increase over the next 12 months. The percentage of "very confident" respondents was 59%, more than double the figure for 2016. If we include those who were "somewhat confident", the percentage of optimistic CEOs reaches 84%.



"I'm optimistic not only about the economy as a whole, but also our industry. Our company is an oilfield service holding that includes drilling companies. They've suffered the most from the drop in energy resource prices. However, we're a large company and a general contractor for KazMunayGas, which has continued to drill wells for many reasons. A lot of resource companies that suspended operations in 2014 are now being forced to decide whether to continue working or walk away from existing contracts. I think we're going through a time when the majority have become used to the new prices, and a lot of private companies are resuming operations."

Rakhmet Khairullayev
KazPetroDrilling

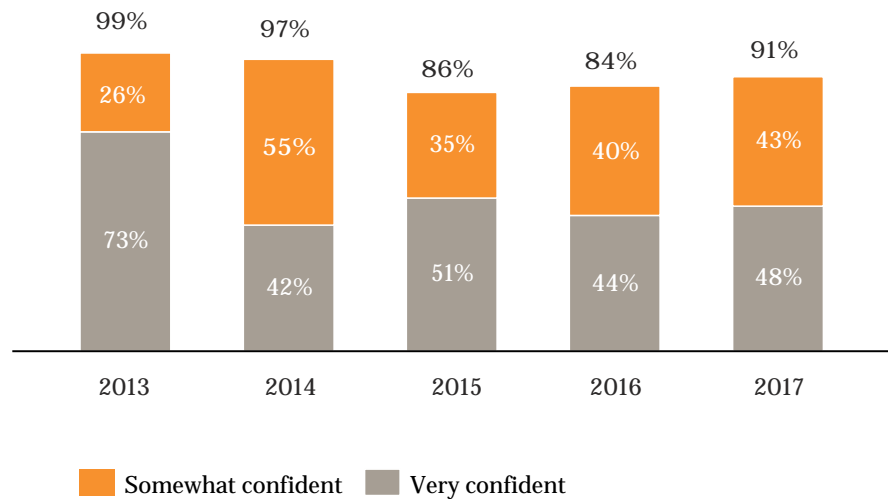
"We expect higher performance indicators of all group companies in the following sectors: gold mining, telecommunications, education, cement manufacturing, and the aircraft industry. The banking sector can probably expect greater consolidation, without either a slump or large-scale growth. However, we've tasked management of all our companies (more than 20) with improving the figures in the coming year. Whether we increase the number of managed companies will depend on circumstances, not the economic situation."

Yerlan Ospanov
Verny Capital



Revenue prospects for the next 3 years

Nine out of ten CEOs are confident in their companies' prospects for revenue growth over the next three years. In this respect, the opinion of our CEOs coincides with the global indicator, and is slightly higher than the Russian figure. Some Kazakhstan CEOs mention that they aren't counting on previous surplus profits and are planning on continuing stable growth. It should be noted that slightly fewer CEOs were "absolutely confident" that their businesses would grow over the next three years than were "absolutely confident" of growth prospects for next year – 48% versus 59%. There may be some reservations about medium-term prospects, because business leaders have become accustomed to unforeseen events or government actions every few years that have a drastic impact on the business environment.



"I'm confident about revenue growth. We've been lucky in that, the sector is very dynamic. The number of Internet users is growing along with the frequency of on-line shopping. We're also constantly expanding our products. For example, along with airline tickets, in February 2017 we launched the sale of rail tickets in our Chocotravel.com service. We have two goals – to increase the number of users and the frequency of purchases by enhancing our products."

Ramil Mukhoryapov
Chocofamily Holding

"I'm very confident, because we have some great new products that have lived up to expectations. We also have a whole product line-up, which is now in the late development stage, and we will offer it on the market in the next three years."

Catalin Radu
Bayer KAZ

"I'm confident about the internal component of Bank VTB Kazakhstan, but we'll all have to deal with the external factors together. There's still uncertainty about the political situation and energy resource prices."

Dmitry Zabello
Bank VTB Kazakhstan

"There is uncertainty in global, and especially regional economies, particularly in Russia and China. The market environment is also changing, which affects companies' business models. So I

can't say we're 100% confident. However, we're not only trying to keep up with what's happening, but also to change in order to outpace the market."

Kairat Mazhibayev
RESMI Group

"There was a correction of the excess returns of companies in the raw materials sector last year. This year we're already seeing a return to balance. Of course, we don't expect excess returns as before, but we're still counting on gradual, stable growth."




Marat Seitkulov
Caravan Resources

"I think a balance of sorts will be established here between the market and sales. We see slight organic growth over the next three years that will most likely be related to a change in prices for finished products."

Dmitry Valishev
EuroChem

Steps to promote business growth and profitability in the next 12 months

Seven out of ten respondents from Kazakhstan are depending on organic growth to improve/preserve profitability, which is similar to both Russian and global indicators (67% and 79%, respectively). Compared to their colleagues, Kazakhstan's business leaders are less interested in cost reduction and making M&A transactions. Many CEOs think the potential for optimisation is already exhausted. The lack of appetite for M&A is bad news for Kazakhstan's privatization plans. Only 5% of Executives are thinking about selling their business or leaving the market (the figure is 6% for Russia, and 15% for the world as a whole). Not bad for a crisis time!

	 Kazakhstan	 Russia	 Global
Organic growth	71%	67%	79%
Cost reduction	43%	61%	62%
New strategic alliance or joint venture	39%	40%	48%
Outsourcing	16%	20%	17%
Collaborate with entrepreneurs or start-ups	14%	28%	28%
New M&A	14%	24%	41%
Sell a business or exit a market	5%	6%	15%

"In Kazakhstan, we expect organic growth because we have a lot of assets expecting reimbursement. I won't call it cost reduction, but I would call it better use of resources, because we are basically shifting to newer drugs and also redesigning our internal structures to meet market needs, which doesn't increase headcount; therefore, it's cost optimisation. We constantly analyse markets and the fit of our portfolio with these markets, leading to optimal allocation of resources in Kazakhstan or neighbouring countries in Central Asia."

Catalin Radu
Bayer KAZ

"We took the key steps towards organic growth in 2016, which turned out to be quite difficult for us. To a large extent, we've managed to deal with the problems that have accumulated in recent years and have made important management decisions. All three of our business lines have been fully updated in terms of management decisions. We'll be dedicating all of 2017 to implementing a new growth strategy."

Dmitry Zabello
Bank VTB Kazakhstan

"Today we're present on markets that are either stagnant or growing only slightly. We're targeting growth investing and a model of consistent profitable growth. So we want to combine organic growth with growth through M&A. We're also determined to accelerate our growth by focussing on the underdeveloped areas of the whole region. The markets we're considering have Food&Beverage and FinTech sectors and everything for B2C in e-commerce and social services, which are now being deregulated. We've always been interested in social services. For example, we were among those who spearheaded serious, non-captive, transparent insurance and pension markets by choosing what seemed to be niche solutions, which later became dominant trends. At this stage, we're looking at health care and education."

Kairat Mazhibayev
RESMI Group

"Organic growth, cost reduction and collaboration with entrepreneurs and start-ups.

There is a lot of emphasis in the direct selling industry on developing the entrepreneurial spirit. We plan to make major investments in this area, and believe it will grow significantly. Above all, I mean our consultant partners who operate throughout the country and whose entrepreneurship defines business development trends. We provide our consultant partners with all the conditions for professional growth. They can become private entrepreneurs with their own small business. To some extent, we act like a small business university."

Konstantin Kulinich
Mary Kay Kazakhstan

Business development areas for maximising profitability from new opportunities

When the conversation turns to the crisis, it's become trendy to recall that in Chinese, this word not only means something detrimental, but can also be translated as "hidden opportunities".

By a wide margin, the leading tools CEOs use to profit from the current situation are: improving competitive advantage, improving the customer experience, and maximising the use of human resources. Less than a third of respondents voted for other methods of using new opportunities.



"It's hard to get into our business, because the industry is very capital-intensive, so our competitive advantage has emerged over time. As for quality of customer service, we're now ready to offer our services for large projects, since our extensive experience and trained staff inspire confidence."

Rakhmet Khairullayev
KazPetroDrilling

"The most important thing is to control costs. Despite the hard times, we were one of the first in the country to shift to the new SAP HANA accounting system. After building a new storage terminal with a conveyor line, we're continuing to invest in infrastructure development. We want to take advantage of hard times to make a quality breakthrough and upstage competitors technologically."

Zhanat Umarov
Medservice Plus

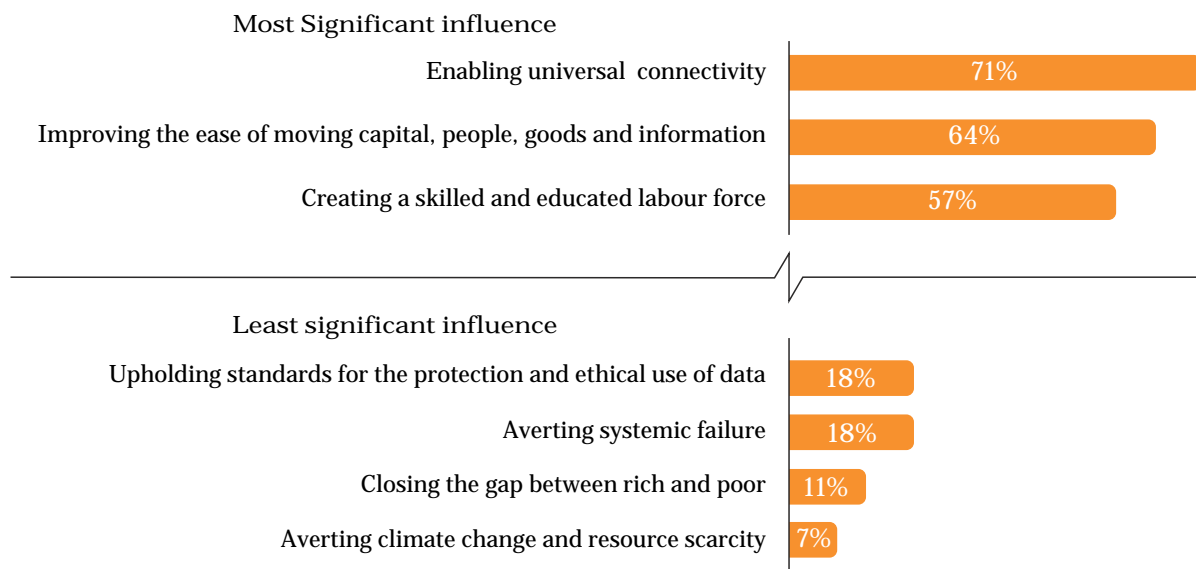
"A new strategic alliance or joint venture, collaboration with entrepreneurs and start-ups. Due to the changes the regulator is currently preparing, we realise we'll probably need new strategic alliances and investors to make our company cost-effective."

Zhanar Kaliyeva
Kompetenz

Globalisation

Evaluating the contribution of globalisation to solving problems

CEOs in Kazakhstan generally agree with their colleagues worldwide in the choice of areas where globalisation has had the most or least influence in solving problems.



"I absolutely agree that globalisation has made global connectivity much easier, since modern communications facilitate this. To some extent, closing the gap between rich and poor and creating a skilled and educated labour force have become more feasible due to globalisation. Simplified movement of capital is likely a result of integration processes. On the other hand, I think that globalisation has a negative impact on averting climate change."

Askar Smagulov
Altyn Bank

"Kazakhstan is a young country formed at a time of pervasive globalisation. I think globalisation has made rapid development of Kazakhstan possible, which in turn has an impact on the formation of a stable middle class. The middle class is the source of prosperity of any country."

Farrukh Makhmudov
Avtodom

"I think globalisation and development of technologies have given people opportunities they never had before. Anyone with IT skills today can easily place software they've developing on iTunes or Play Market. On-line shopping is expanding. The gap between rich and

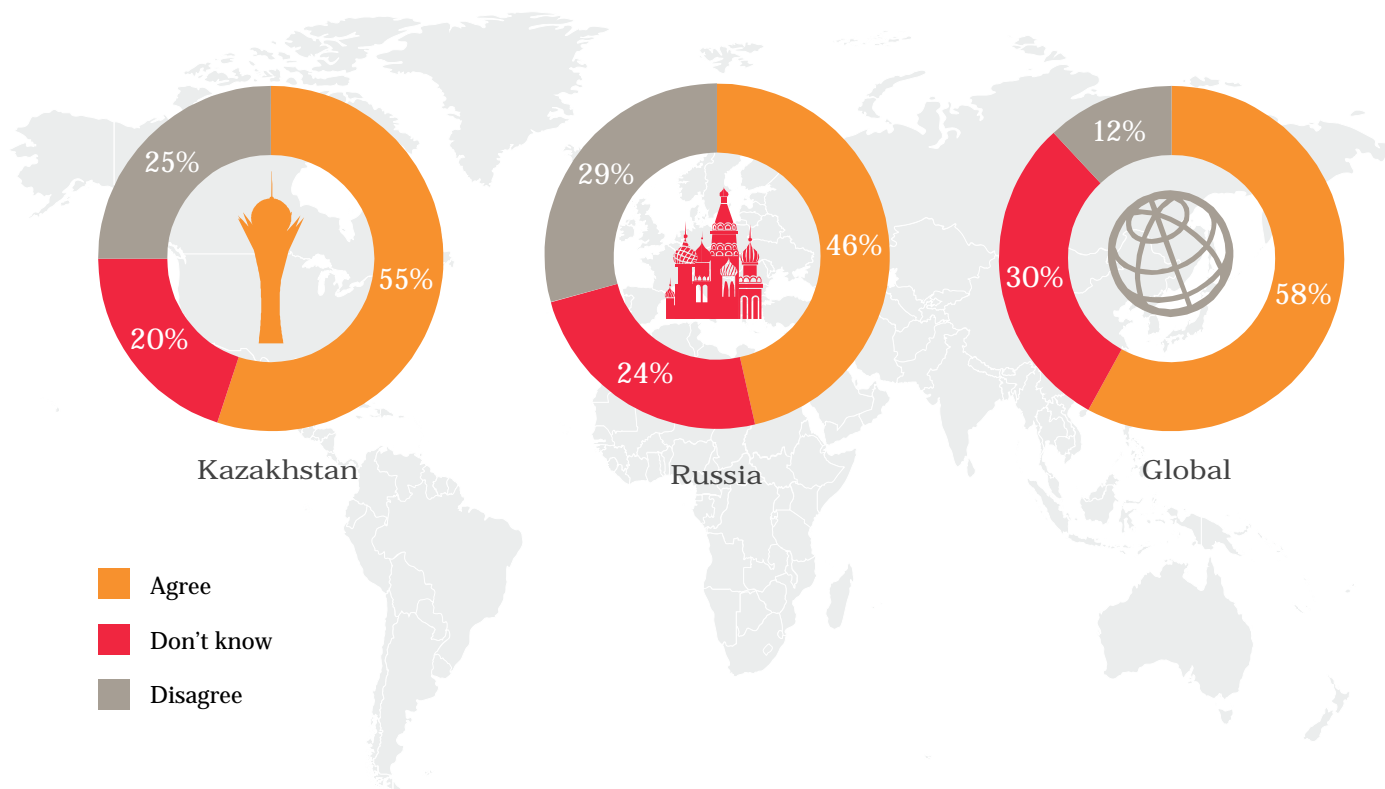
poor is closing in many areas of life. On the other hand, there are countries where globalisation has helped them leap forward to the next level, and countries that haven't moved or have gone down. But thanks to the Internet, in terms of accessibility and information equality, globalisation has had a positive influence."

Askar Kanafin
Ordabasy Group

"Globalisation is having a huge impact. It's a process of blurring the distinctions between countries, ethnic groups and culture. Globalisation is when all barriers preventing the flow of information, capital and human resources are removed. Systemic risks increase, diversity decreases, the social gap widens, rigid specialisation is created in entire regions, and global specialisation begins. I think this system is vulnerable, because it destroys diversity."

Konstantin Kulinich
Mary Kay Kazakhstan

Is it becoming harder to compete in an open global marketplace with trends toward more closed national policies?



"National politics is making it more difficult to compete in the global environment. I really like the quote of Vladimir Lenin that "Politics is the most concentrated expression of economics". I think politics should serve economics, but it's often not a tool of economic interests, and in some cases even runs counter to them."

Marat Seitkulov
Caravan Resources

"Given the global economic upheavals, we should be aware of the appearance of isolationist tendencies in the world. Instead of interests in extending economic influence beyond the country's borders, there are interests aimed at concentrating influence within the country. Key global players have become focussed on internal problems. National governments have started putting more emphasis on tightening control over domestic markets. Of course, this situation makes it even more difficult to compete, especially when the market is highly concentrated."

Alexander Kamalov
Sberbank

"The tougher the national politics, the less competitive the environment; however, if you consider only the domestic market, it's unlikely that business will be able to grow significantly. Any large business requires the use of export potential, and national politics must enable this."

Dmitry Valishev
EuroChem

"This problem will exist until a real market economy develops. When there are certain privileged groups with easy access to capital and administrative resources, it's nearly impossible for companies without these advantages to compete."

Zhanar Kaliyeva
Kompetenz

"It's becoming harder to compete because of tougher national political demands. Global markets are opening, which creates some imbalance. For example, the Customs Union allows free movement of goods and services. It's very difficult to compete, but high-quality products will always be in demand on both local and international markets."

Anar Dosmambetova
Unipharm

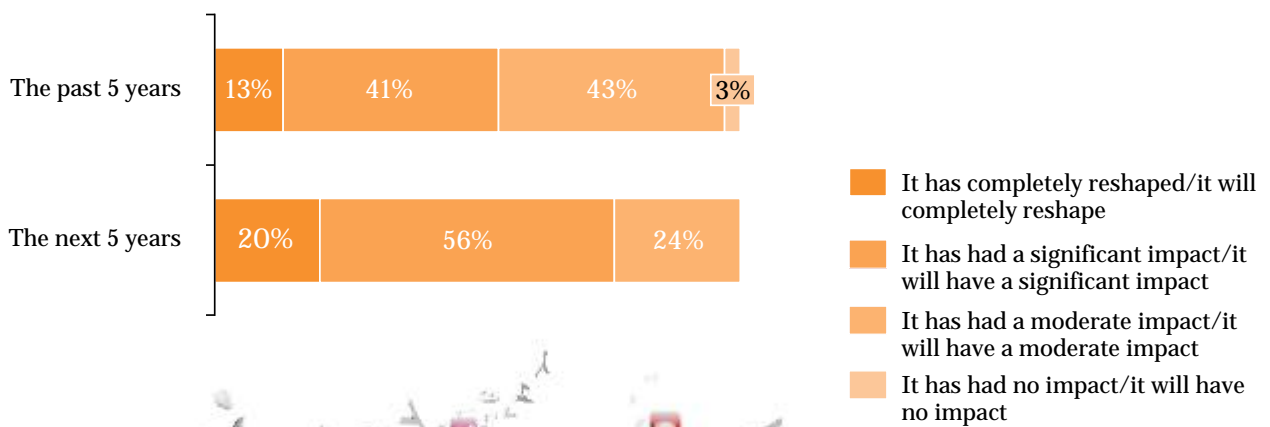
"I agree that it's becoming harder for CEOs to compete in global market sectors, because information and knowledge are transmitted instantly today. Speed is important these days. If you succeed, you win. There are also large TNCs that have a lot of influence on market movement due to their production costs and brand weight."

Dauletkhan Kilybayev
Al Falah Capital Partners

Technology

The impact of technology on the competitive environment

Over the last five years, business in Kazakhstan has felt the full impact of technology on the alignment of forces in their sectors and recognises that the role of technology will continue to grow in the near future.



“The global industrial landscape is being radically reshaped by digital technologies and additive manufacturing. And we’re just getting started. We’re going to see tremendous progress with digitisation in the years ahead.”

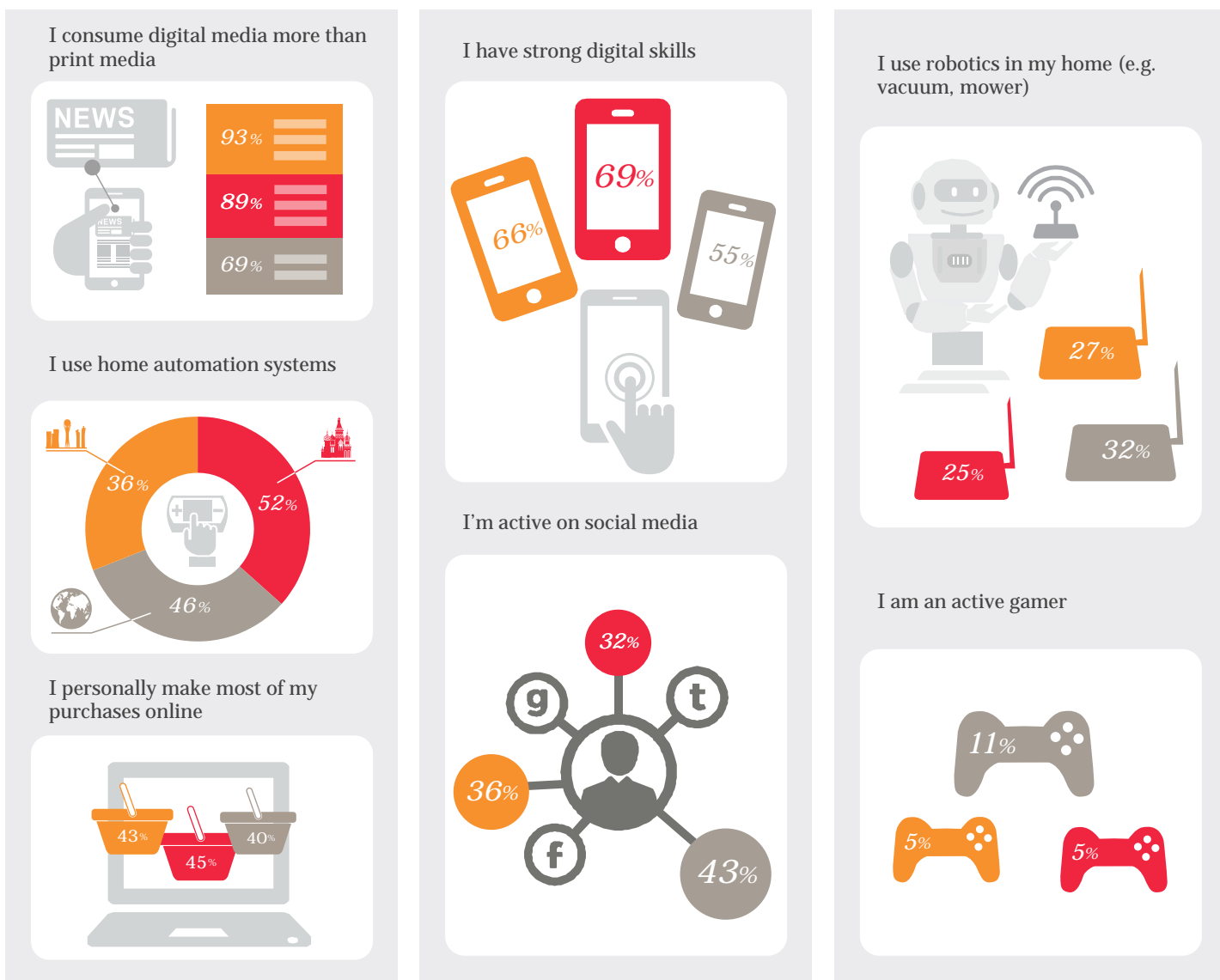
Bela Ferenczi
General Electric

“Technologies have a significant impact on business. In the next 5 years, we expect acceleration of the impact of technologies on the banking sector. They will completely change the environment in terms of data analysis, marketing, analysing banking products, means of informing consumers about them, and the ability to create targeted offers based on individual consumers and customer preferences.”

Magzhan Auezov
ForteBank

Using new technologies




Some believe that in order to successfully manage business in the age of technology, company CEOs themselves must be advanced users of digital devices. What are the personal skills of Kazakhstan CEOs in this area? We discovered that there wasn't much difference between Executives of companies in Kazakhstan, Russia and the world for most indicators of our rating.



■ Kazakhstan ■ Russia ■ Global

Threats and opportunities

The level of concern about economic, political, social and environmental threats to a company's growth

	 Kazakhstan	 Russia	 Global
Geopolitical uncertainty	86%	80%	74%
Exchange rate volatility	84%	82%	70%
Over-regulation	84%	80%	80%
Uncertain economic growth	80%	79%	82%
Increasing tax burden	77%	71%	68%
Terrorism	73%	52%	54%
Social instability	71%	70%	68%
Inadequate basic infrastructure	70%	54%	54%
Protectionism	64%	51%	59%
Access to affordable capital	55%	60%	43%
Climate change and environmental damage	54%	31%	50%
Unemployment	42%	29%	45%

Geopolitics

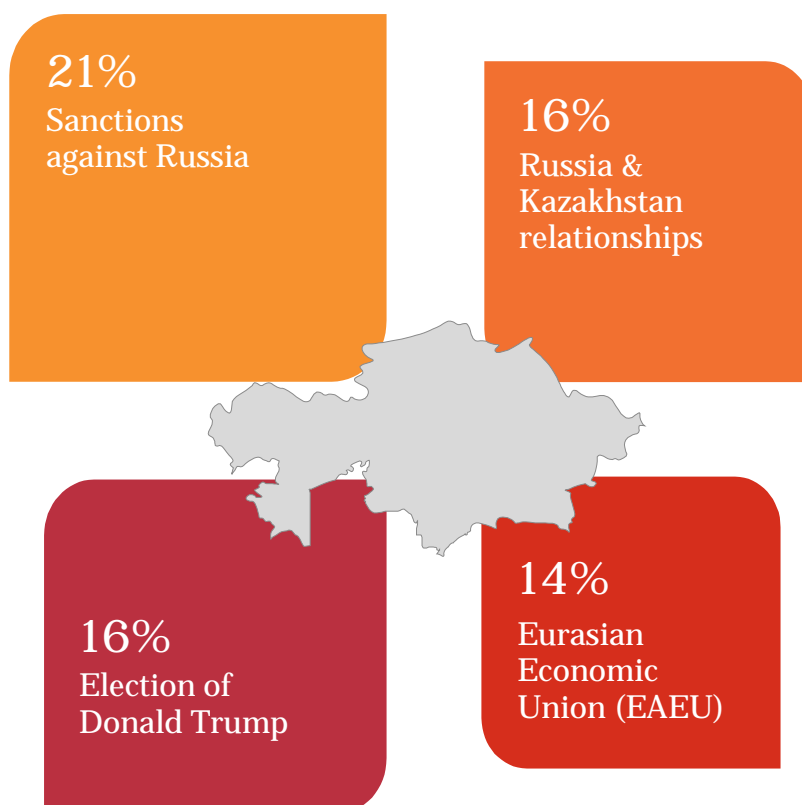
Geopolitical events impacting Kazakhstan and business in particular

CEOs of Kazakhstani companies showed the most concern regarding geopolitical instability, with 9 out of 10 respondents acknowledging this as an important issue. In Russia, this indicator is split between second and third place, and is in third place at 74% worldwide on average. This difference may be due to the awareness of the impact of geopolitics on global commodity markets and Kazakhstan's inability to isolate itself from the effects of geopolitical events in neighbouring countries and regions.

Three of the four key geopolitical events named by Kazakhstani company CEOs

are associated in some way with the Russian Federation. According to the CEOs, the continuing Western sanctions against Russia have the greatest impact on Kazakhstan and business. In the opinion of members of Kazakhstan's business community, the significant economic integration of the two neighbouring countries is prompting some foreign investors to make decisions about Kazakhstan in line with their decisions about Russia. The respondents say that this has restricted Kazakhstan's access to capital markets. Conversely, a number of respondents think that in

some industries, investors have shifted their focus from the Russian to the Kazakhstani market. Kazakhstan-Russia relations and Republican Donald Trump's win in the U.S. presidential elections were split between second and third place at 16% each. Kazakhstan CEOs are still divided in their predictions of the effect of Trump's rise to power on their business. This is followed closely by the influence of the EEU, which is still considered a very politicised association and not just an economic structure.



“The sanctions against Russia are the most significant event. For a lot of investors, we’re part of Russia, so Kazakhstan has become very isolated from capital markets, although technically nothing has happened. The ‘appetite’ for Kazakhstan has been lost. This isolation has degraded our export traffic to Europe. As a result, we’ve shifted our focus to the Middle East and Central Asia.”

Dauletkhan Kilybayev
Al Falah Capital Partners

“Geopolitical conflicts have had a negative impact on the investment environment. I hope that Trump’s election will help normalise and revive the markets, since in recent years globalisation has led to tightening of the market. Ironically, today China is championing the idea of a free market.”

Eldar Abdrazakov
Centras Securities

“Creation of the EEU, harmonised tax laws in our business, and formation of a single market. Economic union has made drugs less affordable due to higher prices. Among global events, the outcome of the U.S. Presidential elections is a cause for concern. Such as how the global security system will be built and how it will turn out. The sanctions against Russia may even promote technological development, because the import substitution system is working.”

Zhanat Umarov
Medservice Plus

“Western sanctions have affected the Russian economy and caused tension in relations between Russia and the West, first of all, with the U.S. Russian foreign policy has now shifted its focus towards Asia, particularly to China. The strategic partnership between Russia and China is creating a new global reality. China’s role in Central Asia has been steadily increasing, and the role of Central Asia in global politics is growing. This region is becoming a pillar of the whole Eurasian continent. A transformation is taking place in the European Union. A number of blatant terrorist acts, an unprecedented migration crisis, financial problems and Brexit suggest that Europe will never be the same again and the “Old World” is entering an era of major upheaval. However, the potential of the EU can not be underestimated. The EU is Kazakhstan’s largest trade and investment partner.”

Catalin Radu
Bayer KAZ

“Globally we are seen as the part of the CIS, a region that has been negatively affected by the problems in Ukraine. However, Kazakhstan is more affected by global economic issues than geopolitical issues ones, the most significant of which being commodity prices.”

Blair Pollock
Qazaq Air

“The drop in prices for energy supplies has had a major impact on our business and on Kazakhstan as a whole. The sanctions against Russia have sometimes had a positive effect on our country’s oilfield service industry, because some concerned Russian investors have shifted their focus to Kazakhstan.”

Rakhmet Khairullayev
KazPetroDrilling

“The end of borders in member countries of the Customs Union has affected Kazakhstan positively in some areas. But of course, instability of regional currencies still bothers businesses and people in general. I also think that growing recognition of Kazakhstan is very important for the country today. Kazakhstan now participates in global events like discussions on Syria; and the country joined the UN Security Council as a non-permanent member, which I think creates an image of credibility and stability for investors.”

Renaud Chamonal
Danone

“Kazakhstan and Russia have moved closer in the last 3 years, which has resulted in expanded opportunities for business. The migration system has been simplified, which is also positive for building business relations. Free movement of human capital has become possible, which we use for relocating and training specialists, and communication with the holding’s other divisions in Russia and Europe.”

Dmitry Valishev
EuroChem

“I would mention the problems with migration and refugees in the Eurozone, which have their own impact. The crisis in Russia caused by the embargo also affects us. The election of Trump is a fairly significant factor as well, because the election has caused uncertainty and has influenced relations with China.”

Serik Tolukpayev
Aitas Group, UKPF

“If you run a business in various countries, it becomes dependent on geopolitics. For example, the Russia-Ukraine conflict has led to sanctions against Russia and Russian banks, which has spilled over to our company, since a number of our large customers carried out their business through Russian banks.”

Anar Dosmambetova
Unipharm

Exchange rate volatility

Tenge exchange rate volatility is still a serious concern for CEOs in Kazakhstan, with 84% of respondents mentioning it. Volatility of the Tenge after the devaluation in 2015 remains in second place in the threat rating, although the indicator was slightly lower. Almost the same number of Russian colleagues (82%) are worried about Rouble volatility. The

apprehension of business leaders is understandable: implementing short-term plans and long-term strategy are heavily dependent on the “behaviour” of the national currency. Experience shows that it is nearly impossible to predict the behaviour of the Tenge due to the impact of factors that sometimes catch the market off guard.



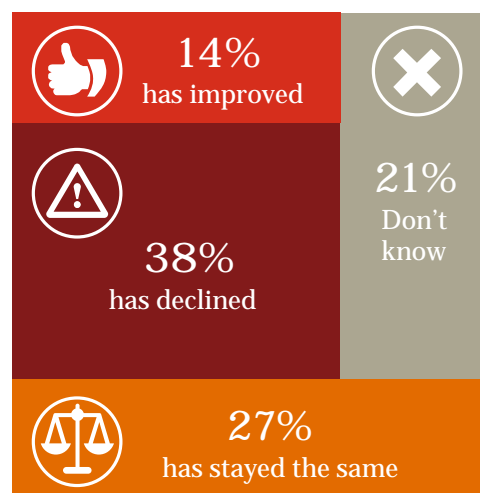
“The drop in oil and commodity prices led to foreign exchange volatility. This was the key issue in 2016. I hope it's behind us.”

Ranga Welaratne
Sanofi Kazakhstan

Investment attractiveness

Change in Kazakhstan's investment climate in 2016

In comprehensive interviews, the 14% of CEOs who gave 'investment attractiveness' a positive rating mentioned a number of prompt government actions and efforts to diversify the economy and limit red tape and the start of the investment ombudsman's work as support for their ratings. The executives noted that Western investors were being replaced by Russian and Asian investors because Kazakhstan remains attractive for them due to its geographic location and available resources. More than a third of respondents mentioned the investment climate's deterioration, geopolitical events beyond Kazakhstan's control, and the lack of actions to address the reasons for the worsening investment environment as support for their ratings.



"The investment climate has changed drastically in the last two to three years due to devaluation. It's created uncertainty about capital flight for investors. I take a dim view of foreign companies leaving the market. Even if they create more competition, they still motivate development of industry players."

Rakhmet Khairullayev
KazPetroDrilling

"The investment climate in Kazakhstan has got worse in 12 months, even as the rest of the world recovers. It's easier for investors to forget about the troubles in this region while taking advantage of opportunities elsewhere. However, this will change enormously in 2017. The price of global assets has gone up a lot, and with devaluation of the Tenge, Kazakhstan looks attractive comparison."

Blair Pollock
Qazaq Air

"Investment interest in Kazakhstan has almost disappeared, not only as a separate country, but also as a member of the Customs Union. The stand-off between the West and Russia is having a serious effect on us. Moreover, a lot of financial institutions have ended the country limit for Kazakhstan and set a single limit for the Customs Union. This means that Russia attracts the most interest. Capital has become expensive, which has an adverse impact on small and medium business. Of course, many of them have managed to restructure and shift their focus. Government support had a role in this."

Askar Kanafin
Ordabasy Group

"The investment climate continued the trend toward greater integration in the European Union. The exit of Western investors started being compensated by an inflow of investments from Russia and China."

Dmitry Zabello
Bank VTB Kazakhstan

"The investment climate in Kazakhstan continues to improve. Government agencies are increasingly open and transparent, and officials have open doors and are always ready to listen. We feel we have a good understanding of how to succeed in Kazakhstan, and the foundation is our confidence in the long-term partnerships we have built here."

Bela Ferenczi
General Electric

"I don't see an investment boom in our country. Of course, I notice representatives of Chinese companies around our city and country, which probably means Chinese investments in the oil and gas industry."

Zhanar Kaliyeva
Kompetenz




"Overall, the investment climate in Kazakhstan is still attractive. Some investors are leaving, but new ones are replacing them. Kazakhstan will always be attractive for international business because of its geographic location and available resources. Yesterday, it was Western countries, and today it's Asian countries, especially China."

Alexander Kamalov
Sberbank

Threats to trust in business

Level of concern about business threats affecting the company's growth

The shortage of skilled labour tops the rating of main business risks that worry both CEOs in Kazakhstan and their colleagues around the world. The top three potential risks in Kazakhstan also included readiness to respond to a crisis and volatile commodity prices.

	 Kazakhstan	 Russia	 Global
Availability of key skills	87%	72%	77%
Readiness to respond to a crisis	71%	64%	59%
Volatile commodity prices	71%	49%	55%
Changing consumer behaviour	65%	67%	65%
Supply chain disruption	64%	46%	49%
Lack of trust in business	62%	60%	58%
Volatile energy costs	58%	44%	49%
Cyber threats	56%	38%	61%
Speed of technological change	55%	45%	70%
New market entrants	53%	53%	58%

“The skilled labour shortage, the government's, and very often the public's lack of trust in business, and readiness to respond to a crisis are a cause for concern. Tactical factors related to new players, volatile energy supply prices, the speed of technological changes, disruptions in the supply chain, and volatile commodity prices are somewhat disturbing, but you can cope with them. We aren't worried about changes in consumer behaviour, because we can reinforce positive behaviour ourselves. We're no longer troubled about stock market volatility.”

Kairat Mazhibayev
RESMI Group

“If you hire staff from Russia or Ukraine instead of from Kazakhstan, a highly skilled employee demands 2-3 times more than their salary. So the catastrophic drop in the level of education in Kazakhstan is a very real concern. Deliveries have become more complicated due to the blockade of Ukraine and sanctions against Russia. There is a problem on the border with China. It seemed like we had adapted to numerous crises, but the latest devaluation has been a disaster for business. At the end of each year, there are “battles” with suppliers – prices for raw materials are increasing, but consumer purchasing power is dropping. Suppliers make concessions, but only temporarily.”

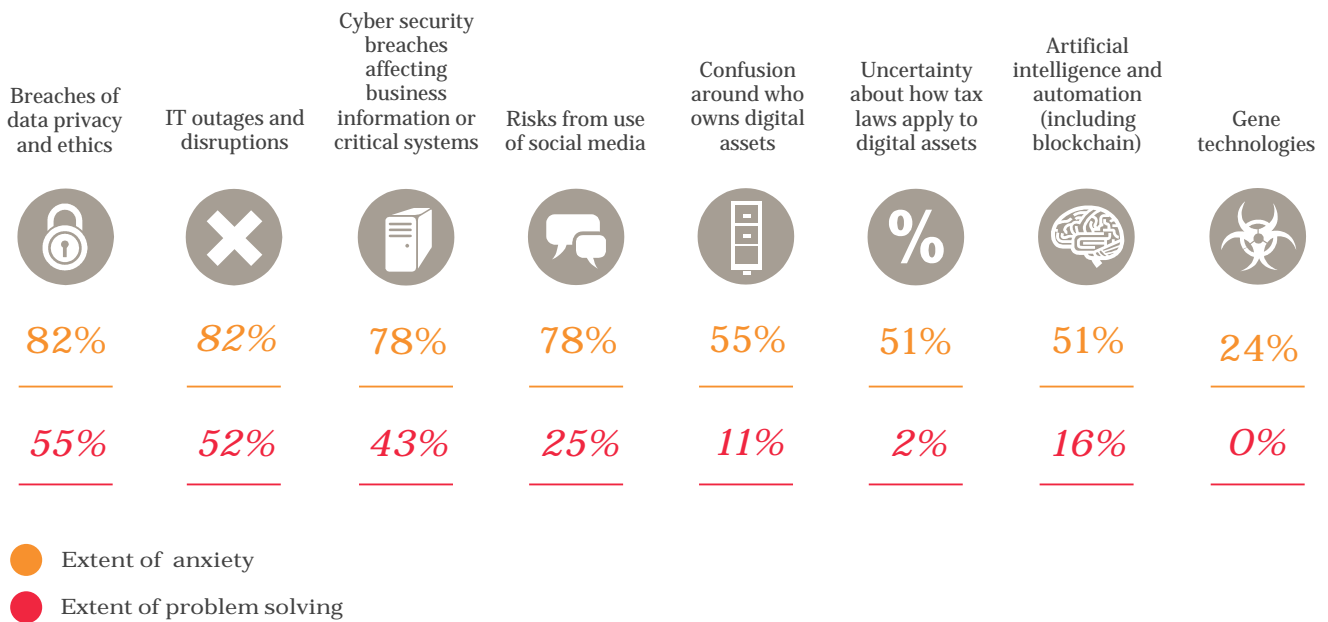
Yerlik Balfanbayev
Alina Group

Level of concern about risks affecting the trust of interested parties, and the extent of involvement in mitigating them

Anxiety about the level of trust rose by 6 percentage points compared to last year. Respondents consider disclosure of personal information and interruptions and failures of computer systems to be the main risks. The threat of breaches of cybersecurity systems and the risks of using social media are slightly behind. This anxiety is mainly due to the growing

number of hacking attacks, which have caused enormous damage to business worldwide. Next in importance was the lack of clear ownership structure and tax regulation of digital assets.

Many companies in Kazakhstan are still only looking at potential active methods to ameliorate these risks.



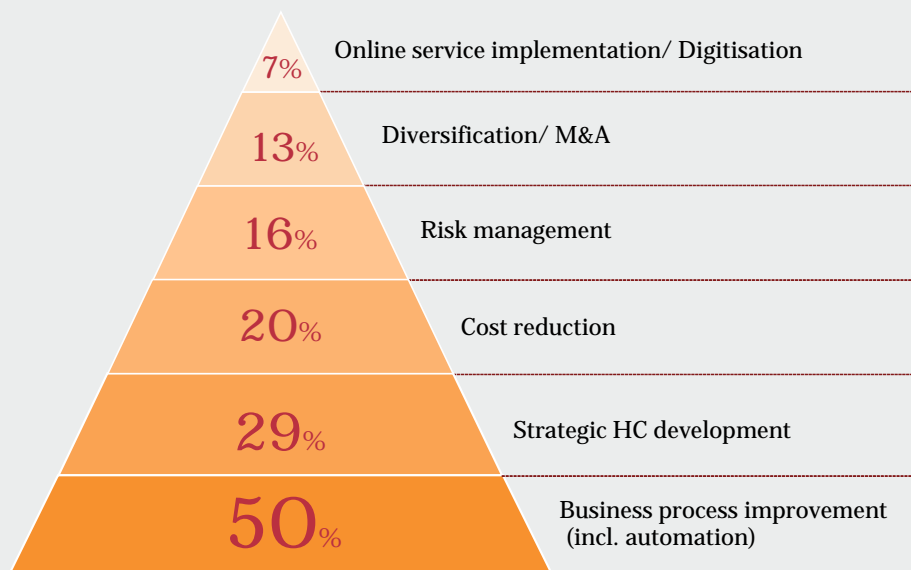
“Social media have become a very powerful tool for managing public opinion. Of course, this is worth emphasising. But when it comes to banks, confidentiality of personal information is still a key risk with a direct impact on the reputation of a financial institution. Every year, hacking attacks cost business in any country enormous amounts of money. So we’re constantly improving our skills in combating cyber threats.”

Alexander Kamalov
Sberbank

Changes made by companies in 2016 due to potential economic risks

Over the last 12 months, half the CEOs in Kazakhstan have taken actions to improve business processes, including their automation; nearly one-third have focussed their efforts on strategic development of resources; and one-fifth have optimised their company's expenses.

They plan to optimise expenses and reduce manufacturing costs, but not by downsizing, as mentioned in previous years, but by implementing new technologies and deploying new equipment, improving communication within the company, motivating employees, and diversifying and integrating businesses.



"Last year we made efforts to improve business processes by cutting costs without downsizing. We worked on developing our employees' skills. We're also constantly improving our service and are committed to securing customer loyalty. We will dedicate 2017 to aggressive business development in the agricultural sector. We also want to increase the share of business in the oil and gas industry."

Farrukh Makhmudov
Avtodom

"In the last few months, we've identified and clearly defined our priorities in terms of products and territories. We slightly restructured our organization internally. As we see it, society is evolving together with the market for our products."

Catalin Radu
Bayer KAZ

"We're seeking synergy by forming a joint venture. We've managed to bring our business to a certain return level. The next challenge is to optimise our cost structure through partnership with

industry colleagues, launching new products with allowance for the change in subscriber behaviour, and finding balance between quality and cost of services."

Roman Volodin
Tele2

"We anticipated the crisis as far back as 2009, and we were ready for it. Today, we're always changing the structure of our investment portfolio, and within this portfolio we're changing the economic, financial and organisational models of certain businesses. This will mean an exit from some businesses, and acquisition or creation of new businesses, because we have a better understanding of what the next lift or the current profit generator might be, and what might be a re-investment resource."

Kairat Mazhibayev
RESMI Group

"Our bank expanded several areas in 2016 as part of strategic growth. They all take global shifts in the wave of innovation and the global financial and

economic system into consideration. We focussed mainly on quality of customer service, increasing risk-free revenues (non-loan based), and enhancing Digital banking, where we're actively developing remote service channels and expanding multi-channel capability. Improving internal management efficiency and competitiveness is an equally important area for us."

Alexander Kamalov
Sberbank

"On the economic side of business, we achieved positive financial results and made a profit last year. Three years ago, there were losses due to illegal payments. We set up our sales management system such that our company grew by 67%. We were able to market several new products for small and medium business. Our mission was to provide inexpensive products for companies in this sector. We'll also be introducing an inexpensive fixed property and home insurance product."

Zhanar Kaliyeva
Kompetenz



“Our aim was to put all our profit into circulation or into upgrading fixed assets. We’ll continue to look for ways to cut production costs. For example, we’ve accumulated manganese ore cuttings that can be made into briquettes and high manganese lumpy ore using a specific technology. These projects create new jobs, cut product costs and allow us to use our own raw material rather than buying it from a third party. We’re also planning to open new deposits and buy new equipment. The first thing on our list this year is to create and improve workplace culture. This applies to both senior management and rank-and-file employees.”

Nurlan Saurambayev
Sat&Co

“We have strengthened our financial and operational foundations over the last 12 months; entered to online supermarket and wholesale sectors as new industries; taken decision on concentrating in our supermarket format and so we shrunk or closed our inefficient large area supermarkets. Taken decision on continuing to investments in Almaty and Astana cities. Signed reconstruction contract for Ramstore Samal Almaty Shopping and Business Center (the construction will be ended till June, 2017). Signed a 3000 m² Ramstore supermarket investment in Expo organization (in Mega Silk-Way shopping center).”

Aytug Can
Ramstore

“We’re searching for deeper deposits, because this is a large niche. Depths to 4 m have nearly all been explored and won’t be developed, but there are some underlying hydrogen sulphide occurrences. We didn’t have the equipment to explore them previously, but we recently assembled large

drilling rigs with German partners. There are a lot of ideas related to automation and using more efficient equipment.”

Rakhmet Khairullayev
KazPetroDrilling

“First of all, we did a lot of work on HR and the employee incentive system. We did job evaluations and developed an incentive programme (monetary). We carried out major restructuring of Verny Capital group. The result was a clear chart for employees, what they had to do to earn a certain monetary reward. We also implemented a new management system in our group that increased employee involvement. Increasing involvement improves performance. It’s too soon to talk about changes for next year.”

Yerlan Ospanov
Verny Capital

“The most important thing is a multi-scenario model. Any initiative today has two or three scenarios (best case, worst case). We also started following key initiatives more aggressively. Whereas before we monitored some factors once every six months, we now look closely at their development through hands-On management. We’re tying managers’ incentives to business results, so that the goals of managers and the company coincide.”

Askar Kanafin
Ordabasy Group

“Last year we developed the Strategy 2020 (Central Asia Road Map 2020). We chose regions where we want to operate and started investing in them. We recently acquired a new consumer health care business, and are now in the process of integrating it. We work constantly on growing our



team and human capital.”

Ranga Welaratne
Sanofi Kazakhstan

“We’re always working on cutting production costs and expenses. All risk management boils down to improving production efficiency.”

Stanislav Ryaskov
Central Asia Gold Corporation

“The current focus in our company is on risk management. We’re very cautious about taking out loans, and we’re optimising costs instead. Each project has a risk manager whose main task is to monitor exchange rate volatility.”

Orazkhan Karsybekov
Kusto Group

“I think the biggest achievement is our leading safety management system with the full participation of every employee of Qazaq Air. It helps to highlight trends and behaviours before they become a problem, so we can take action to prevent them in future. This was possible only because we have open communication environment in our company. Our people can be open about what’s happening in the company, point to the company’s problems without fear of negative reaction.”

Blair Pollock
Qazaq Air

“We started implementing risk management in the company last year. In order to make the company more adaptable, we decided to increase the role of the CEO. The demands on him

are quite high. A holding in the form of a “strategic controller” is inefficient and unsustainable in current conditions. To make the holding adaptable and able to respond quickly to external challenges, we need a high-mobility management system, and this is possible only with very strong CEOs who can react immediately to these challenges. Until June of last year, we were growing according to the “strategic controller” principle where the holding managed everything and kept everything under tight control. Then we changed direction. This is irrelevant now, since the times demand adaptability. Precisely because of a potential power shift, we introduced a shareholders’ institution and shifted our priorities.”

Serik Tolukpayev
Aitas Group, UKPF

“We’ve tightened cash-out transactions. Before this, companies could conclude an agreement with each other and withdraw an unlimited amount of cash from the till. However, capital source is important to us, so we set a limit. We want to familiarise customers with the idea of wire transfers.”

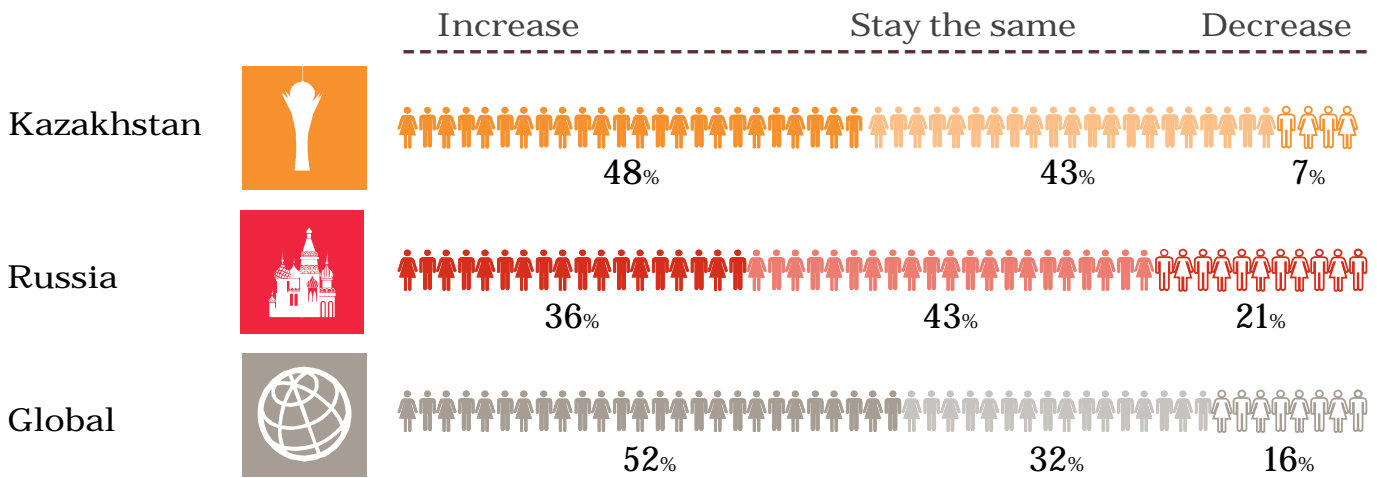
Sholpan Nurumbetova
Bank Kassa Nova

“We’ve changed the company’s structure by shifting from division functions to a product and brand division, and we’ve implemented an employee award system, dashboards, and energy-efficient production. This is to cut production losses, and preserve the environment, of course.”

Yerlik Balfanbayev
Alina Group

Human capital

Expected headcount changes



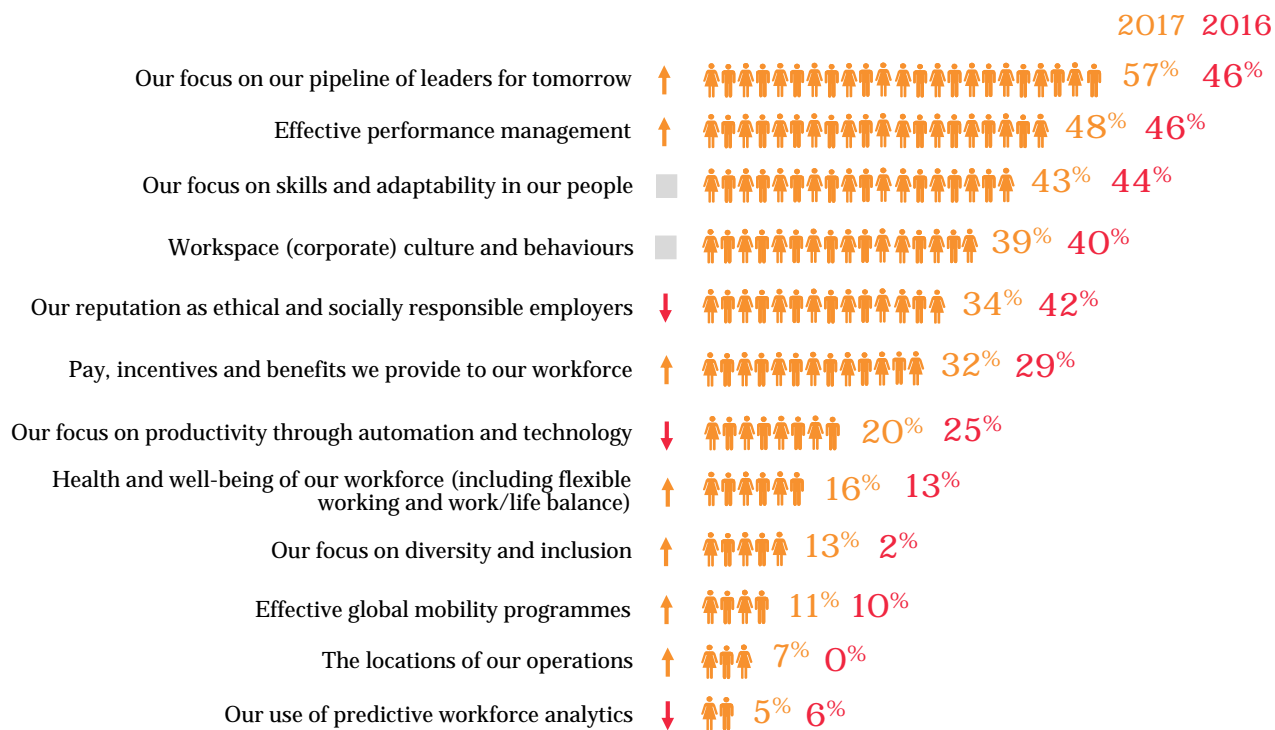
As mentioned above, the skilled labour shortage is a chronic problem for business everywhere. Three-quarters of CEOs worldwide consider solving this problem a priority.

In the current year, the overwhelming majority (91%) of CEOs in Kazakhstan intend to retain and even increase headcount. It's encouraging that last year, business laid off somewhat fewer employees than planned, and no more than 7% of respondents are planning to decrease headcount in 2017. The reasons for downsizing in descending order are:

cost optimisation, outsourcing some business processes, and automation.

Nearly all CEOs are creating a supportive environment for diversity and inclusion by giving employees various opportunities. This stated indicator is 5 percentage points higher in Kazakhstan than the global average. The search for top specialists is independent of demographics or territorial principles. Three-quarters of CEOs in Kazakhstan plan to include digital literacy courses in their companies' training programmes. This indicator is 8 percentage points higher than the country average, which shows determination to overcome Kazakhstan's lag in this area. Seventy-five percent of CEOs use data analytics to fill job vacancies and develop and retain staff (the global average is half of respondents). In general, Executives are talking about shifting their focus from external business development factors, such as promotion and marketing, to internal factors, e.g., developing available human resources with a view to improving product/service quality.

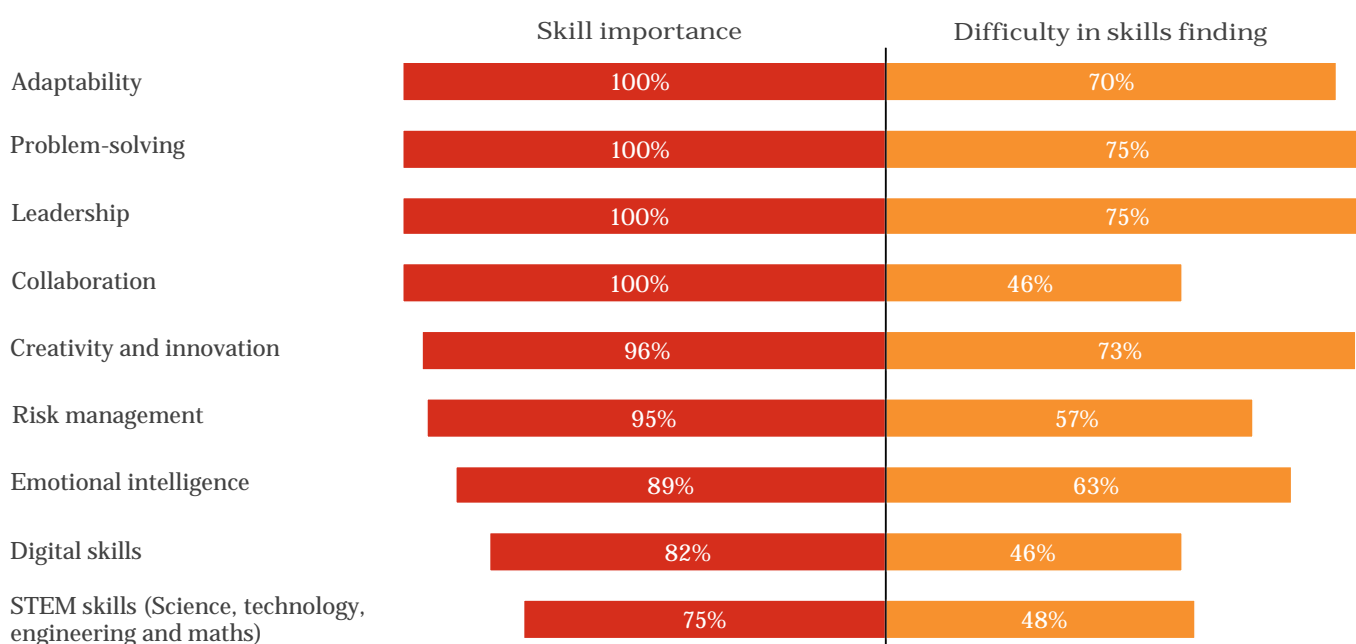
Aspects of talent strategy subject to change for a greater effect on attracting and retaining employees



The importance of specific skills for a company and problems of recruiting specialists with these skills

Given the labour shortage on the local market, Kazakhstan CEOs are changing their policy in this area, placing more emphasis on developing available human capital. Nearly two-thirds of respondents are planning to identify the most promising employees and systematically cultivate “captains of business” (less than half of respondents had this goal last year). Traditional employee motivators – pay, incentives and benefits – are not being used as actively as they were before the crisis.

Executives in Kazakhstan are emphasising balanced development of employees' professional skills, especially training in adapting to a changing business environment. Employee adaptability is the most sought-after skill by CEOs worldwide. The figure for Russia was 98% of CEOs, while all respondents in Kazakhstan indicated this intention. Other vital skills include problem-solving ability, leadership qualities and teamwork skills.



“We’ve retained all key personnel. In 2017, we’re planning to increase our sales staff.”

Dmitry Zabello
Bank VTB Kazakhstan

“We’re planning to increase workplaces: we need more people in the sales department. The main problem in Kazakhstan is that employees burn out quickly. This is likely related to our national character, where people overestimate their capabilities and their torch quickly goes out. There are no long-term goals, and the market lacks fast growth models as role models for youth. Teamwork skills are a problem for the younger generation, but they have high adaptability.”

Eldar Abdrazakov
Centras Securities

“To prevent employee turnover, we try to offer them opportunities for growth. Specifically, we were one of the first companies in Kazakhstan to launch an option programme for employees. We’ll transfer 10% of our company’s shares to employees over the next four years. We developed the programme ourselves rather than hiring outside specialists.”

Ramil Mukhoryapov
Chocofamily Holding

“I look for leadership qualities in my employees, that is, the ability to make their own decisions and emotional intelligence. There are a lot of people working in the industry, so it’s important for them to have the right attitude to get the results you want. You need to set ambitious goals that aren’t easy to achieve, so adaptability is important. This means that people can organise themselves, accept responsibility and make decisions. You need to hire people of different ages and gender and channel employees’ efforts in the right direction. Using an RACI matrix here helps get results at the end of the process. Each year, we announce new projects, change our input data and use project management tools.”

Serik Tolukpayev
Aitas Group, UKPF

“My key resource is human capital, so the focus today is on people and building an enterprise system. At the end of last year, we put a lot of effort into a strategy for developing and retaining people and defining values. Whereas in the past, it seemed like we had to look for customers and be involved in promotion and marketing, today we understand the need for human capital development within the company. Along with business skills, it’s very important to have problem-solving ability, leadership qualities and digital technology skills.”

Zhanar Kaliyeva
Kompetenz

“We have more talent development projects in Kazakhstan. We put a lot of effort into the Mars Academy, and it’s done well. This was also noted globally. Our collaboration with universities is very important to us. First, we share best practices with students, which enhances our reputation as an employer; and second, we can recruit skilled staff.”

Mikhail Bazanov
Mars Kazakhstan

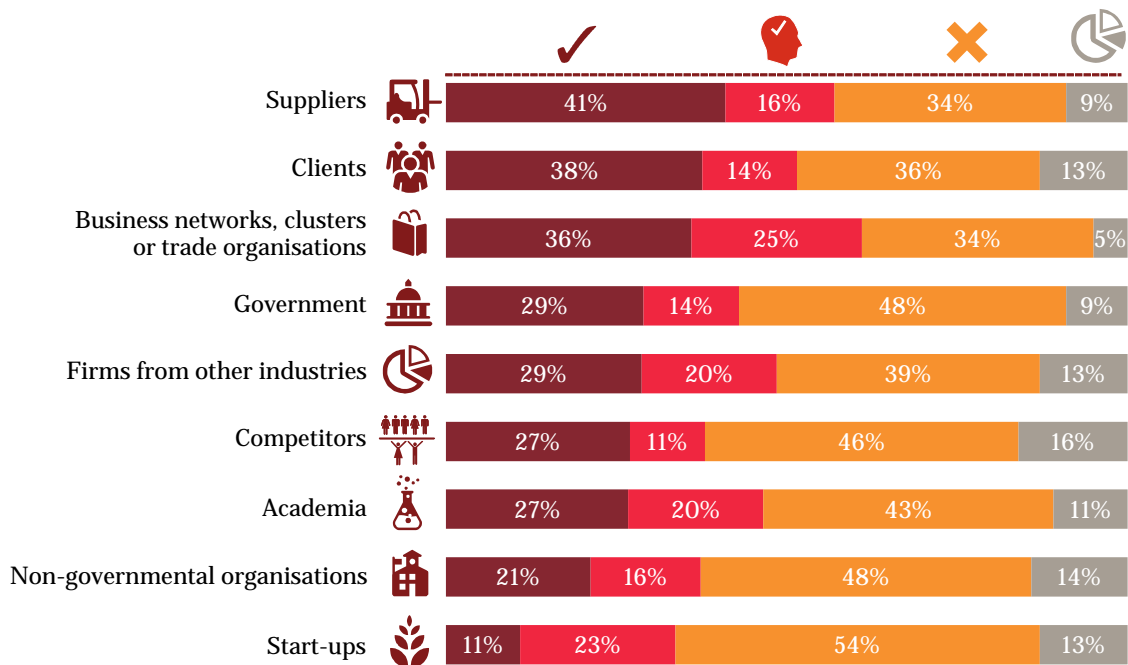


Partnership

Business partnership

Partnership through joint ventures, strategic alliances and informal associations

It's interesting to note that the importance of partnership with government dropped from first place (37%) last year to fourth place (29%) this year, and that nearly half of CEOs are not even considering this option. This shows a growing confidence of private business in its own resources and/or a decreasing trust in government. This year, Kazakhstani CEOs were most inclined to partnership with suppliers, customers and professional associations.



Yes
 Considering
 No & not considering
 Refuse to answer

"We're actually working with everyone: suppliers, customers, the government and even competitors; we're members of various expert or business councils under ministries and industry associations; and we're involved in the National Chamber of Entrepreneurs, either as a member of an industry association or as a member of the executive committee. We're happy to support start-ups, both with cash and as mentors. We consider start-ups as a real live business on competitive markets. This is a very difficult and complex task, but I believe that when you give a lot, you get even more in the end."

Kairat Mazhibayev
RESMI Group



“Trade organisations. We’re already present on the Kazakhstan market, we’ve started selling, and we’re studying opportunities in agriculture by working with the agro-industry, agricultural institutions and specialised centres. We’ve also carried out a series of benchmark jobs, planted control fields using our technology and products, and made recommendations on crop cultivation technology, and the use of pesticides, herbicides and fertilisers. As a result, we’re expecting a positive effect in the form of an inflow of more customers for our products. I think we’ll gradually start providing full-fledged service and helping growers, which EuroChem is already doing successfully in Russia and on major international markets.”

Dmitry Valishev
EuroChem

“Our focus is on suppliers, customers, competitors, start-ups and companies in other industries. With suppliers, we’re discussing a transaction and consolidation on the aviation market, and since our partners have experience in this section, we can offer Internet expertise. We’re in continuous negotiations with competitors. We’re actively discussing the idea of crowdsourcing. We would like to make our customers our shareholders by 2020, when we hold an IPO. This is usually a great option for the

B2C sector, since users themselves understand what a company does. We also think this will promote customer loyalty. Maybe we won’t wait until 2020. For example, the Russian company Dodo Pizza first looked for venture capital, but ultimately collected 2 million dollars from the market by approaching its partners and customers. This option might make sense for us as well, since it’s only one step from pooled purchases to pooled investments.”

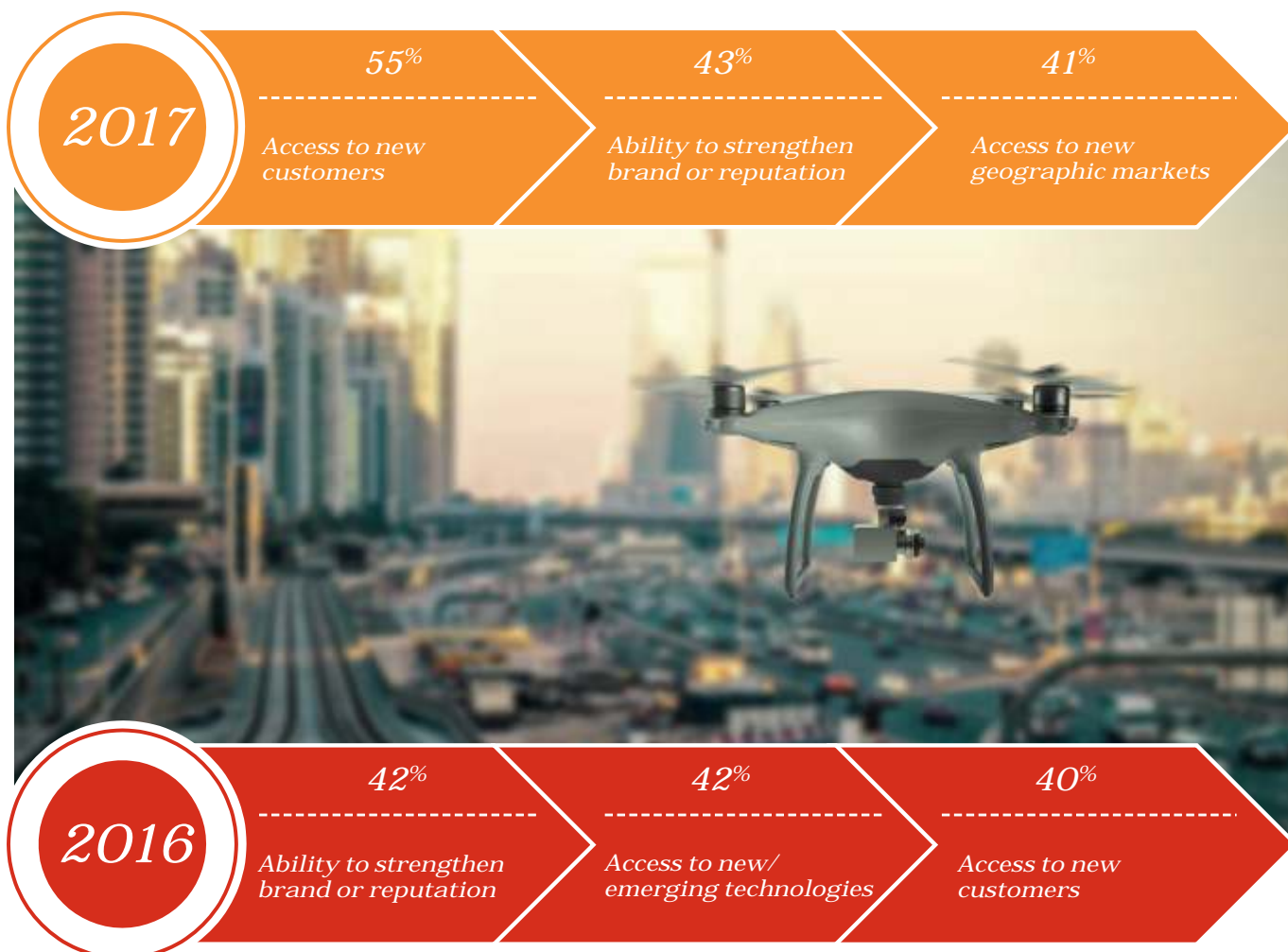
Ramil Mukhoryapov
Chocofamily Holding

“In terms of consolidating some businesses, it’s easier to form a joint venture or carry out a merger. This is also relevant for competitors. When the market shrinks, administrative expenses soar. In this case, it’s easier to reduce your own participation. With respect to partnership with government, there are certain aspects of a public-private partnership that seem more attractive. We’re ready to collaborate with companies in other industries, ones that have territorial or industry-specific expertise and are open to partnership in general. However, I don’t really believe in a high degree of vertical integration.”

Askar Kanafin
Ordabasy Group

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

In an effort to revive the growth of managed companies, Kazakhstani CEOs are looking once again at opportunities to gaining access to new customers and enter new geographic markets.



"Risk sharing and technological collaboration. We need technological collaboration to gain more expertise. Collaboration is based first of all on sharing risk intelligence."

Marat Seitkulov
Caravan Resources

"The time factor. This is why we participate in joint ventures and strategic alliances, since they help us gain access to new customers and enter new markets."

Eldar Abdrazakov
Centras Securities

"We don't need strategic alliances, because we take our lead from shareholders. You could even say we're in a strategic

partnership with our shareholders. When it comes to adaptability, our main customer here is retail. VTB24 (our Russian retail brand) is quite innovative. It uses all modern technologies and enhances them. We don't want to be revolutionaries, but we don't want to be outsiders either. We take all solutions approved by the market and scale them for ourselves as fast as realistically possible."

Dmitry Zabello
Bank VTB Kazakhstan

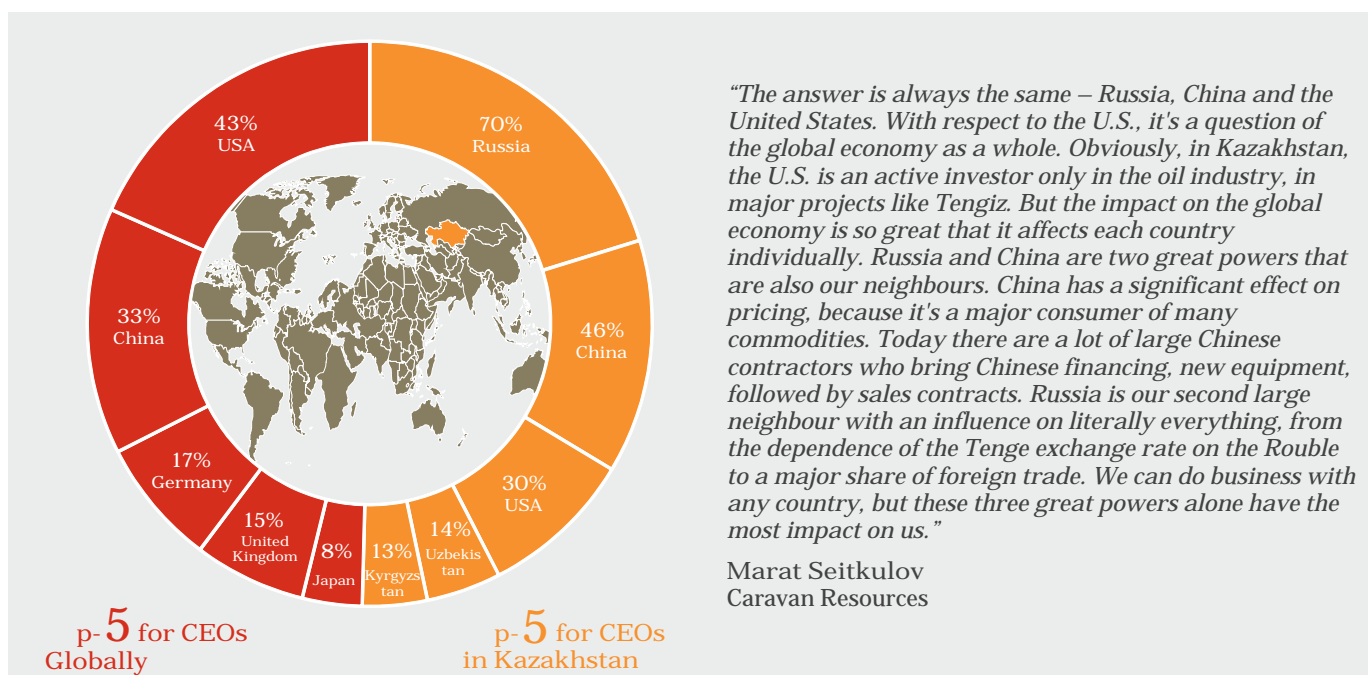
"Our industry is faced with a lot of problems. So we need to confront the challenges appearing today together with market participants and non-governmental organisations."

Zhanat Umarov
Medservice Plus

Most important countries for business development for the next 12 months

Russia was in first place by a wide margin (70%), followed by China in second place (46%) and the United States in third place (30%). Compared to last year, Russia has increased in importance by 8 percentage points, while China's rating dropped slightly for the first time in recent years, and the indicator for the U.S. rose by 8 points.

The top 5 countries for Kazakhstan included Uzbekistan and Kyrgyzstan, displacing Turkey (which was 13%) and Iran (10%) from the group of five in last year's rating.



"The answer is always the same – Russia, China and the United States. With respect to the U.S., it's a question of the global economy as a whole. Obviously, in Kazakhstan, the U.S. is an active investor only in the oil industry, in major projects like Tengiz. But the impact on the global economy is so great that it affects each country individually. Russia and China are two great powers that are also our neighbours. China has a significant effect on pricing, because it's a major consumer of many commodities. Today there are a lot of large Chinese contractors who bring Chinese financing, new equipment, followed by sales contracts. Russia is our second large neighbour with an influence on literally everything, from the dependence of the Tenge exchange rate on the Rouble to a major share of foreign trade. We can do business with any country, but these three great powers alone have the most impact on us."

Marat Seitkulov
Caravan Resources

A majority of respondents named Almaty, Astana and Shymkent as top-priority cities for business development. The list also included Atyrau – the centre of the country's oil and gas industry – and Karaganda with its large population and mining cluster. Interestingly enough, in this rating of cities, the capital of Kazakhstan (86%) was close to Almaty, the country's largest city (88%).

"The top cities for GE are Astana, Almaty, and Atyrau. I put Astana first, because that's where major government decisions are made and where our regional headquarters are located. At the same time, Almaty remains one of the largest economic centres in the region and a key hub for Kazakhstan's business community. And Atyrau is the hub of the oil & gas industry."

Bela Ferenczi
General Electric

"On this issue, our focus is on demographics, because business companies are the business of tens of thousands of our private entrepreneurs who are spread evenly throughout the whole country. The largest cities, namely, Almaty, Astana, Shymkent and Karaganda, are a top priority for us."

"These cities account for the largest share of sales. This has a very strong correlation with the demographic distribution in all regions."

Konstantin Kulinich
Mary Kay Kazakhstan

"Almaty is a business and financial centre, where large taxpayers and most of our customers are located. All the state-owned companies are located in Astana. We're also focussed on international companies in Atyrau. A large number of our customers, who are either partners or separate subcontractors, are concentrated around the Kashagan project and Tengizchevroil."

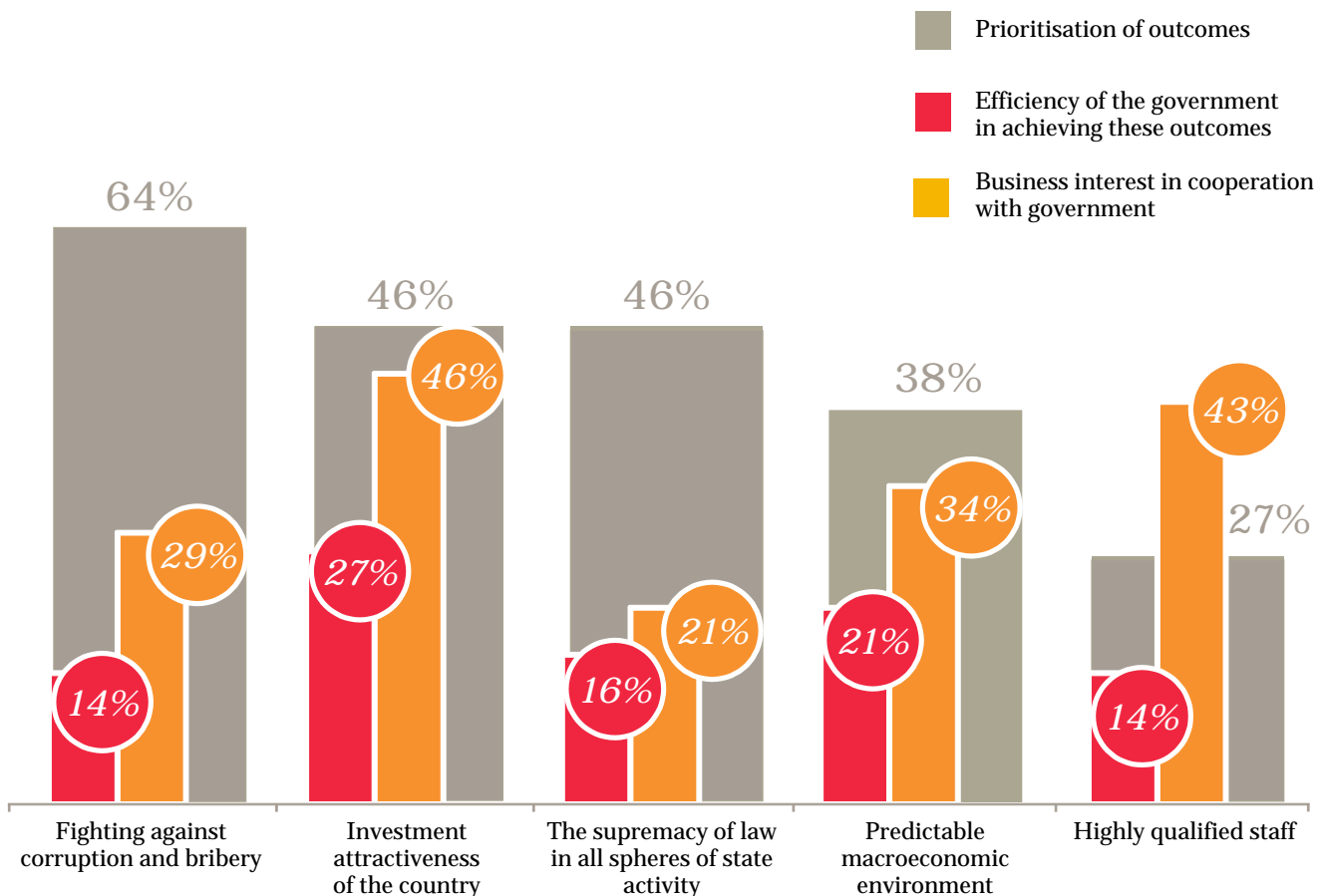
Askar Smagulov
Altyn Bank

Cooperation with the government

Primary development objectives of government agencies in Kazakhstan, the government's effectiveness in achieving these objectives, and the company's interest in cooperation with the government to reach them

What exactly do CEOs expect from the government this year? Fighting against corruption is in first place (compared to second place last year). Half of business executives think that the priorities of the public administration should include improving investment attractiveness and the universal supremacy of law. The top 5 priorities also included macroeconomic predictability and training skilled staff. The

government should focus on the business community's expectation for more effective government actions against corruption, ensuring rule of law and training skilled staff. The public administration can count on substantial support from business in planning and taking measures to increase investment attractiveness and train skilled staff.



"Improving the tax system. This is important for us, since we operate in the same space as Russia and Belarus. Regulation of manufacturing is also very important for us."

Farrukh Makhmudov
Avtodom

"Foreign practice in the mining industry, especially Australian, is being very closely studied. Today, for example, an amended law allows a new format for granting mineral rights. In general, there's a real desire to liberalise the mining industry, which is highly regulated. The shift to self-regulation is also important in order to reform it for business needs. 'Turn business over to business', since a business owner and the government are interested in the same result."

Marat Seitkulov
Caravan Resources

"I want the government to stay out of the business environment and let the players develop the industry. I'm all for the Yellow Pages principle, where the government doesn't compete with private companies."

Rakhmet Khairullayev
KazPetroDrilling

"The anti-terrorism law passed at the end of last year imposes additional obligations on all mobile service providers. We're holding discussions about how the provisions of this law will be applied. This will cause some difficulties with our service supply chain and require changes in a number of business processes. We are also discussing the updated law on communications with the regulator. We're seeing some progress here in liberalising the market and sense the government's support."

Roman Volodin
Tele2

"I would like to see transparency in the allocation of assets, which are controlled by monopolistic providers. For example, Kazakhstan only produces half the aviation fuel that the country needs and it's a valuable resource and who is it given to? I want transparency in this process. How are attractive slots allocated at the airport? Finally, we need more flexibility at customs to help us speed up the arrival of aircraft parts. We are already well on the way to fixing this problem."

Blair Pollock
Qazaq Air

"Deregulation and simplified standards, especially in tax administration. Companies must aim for professionalism, and the government must facilitate this. There are standards that must be adhered to for basic general security. In order to reduce corruption, the government must learn how to manage these processes or change the system by means of tougher standards."

Eldar Abdrazakov
Centras Securities

"Regulatory changes related to regional law in the EEU that we would like to see. First is harmonisation of commodity markets. They must be in line with financial markets. Financial markets must be regulated; i.e., there must be a clear-cut rule for everything. When we integrate markets without integrating financial regulation, we get devaluation, inflation and endless trade wars. The source of all this is not the real sector, but central banks or finance ministries. This causes a lot of concern, especially for medium-term business planning. Second, there must be anti-monopoly laws to protect and expand competition. This is important for us: our market is much smaller than its Russian counterpart, and there are a lot fewer players."

Kairat Mazhibayev
RESMI Group

"The government is constantly carrying out reforms without a clear plan or learning from the experience of leading countries. There is the impression that the government is preoccupied with minor problems. The fight against corruption seems to be for show, since the laws don't apply to everyone. Deterrence and punishment have never stopped crime, and it continues to exist. It can only be stopped if the requirements apply equally to everyone, and if there is transparency in business operations – declaring income online. Creating a favourable investment environment will be difficult under the present close alliance with Russia. Kazakhstan is too strongly associated with Russia, and this causes apprehension among European investors."

Anar Dosmambetova
Unipharm

"I'm hoping for further development of digital technologies. The government system may be improved for citizens, and digital registration of real estate will become available, or a unified ID base will be created."

Askar Smagulov
Altyn Bank

"I'm expecting less regulation. We need to create opportunities for business. There has been some progress in this area. There will be improvements when young people with open minds and a clear position become ministers. People who understand the role of government will break from the classic canons of "allow-prohibit" and support improvement of the business climate."

Askar Kanafin
Ordabasy Group

"I think that in many economic sectors on small markets like Kazakhstan's, the government must protect business, at least until it reaches a certain level of development and size. In the present situation, balance is also possible in some economic sectors if there is government support through protective measures (for example, assigning quotas) and subsidies."

Dauletkhan Kilybayev
Al Falah Capital Partners

"Firstly, all decisions made by the government should be agreed with the business community, since CEOs have enormous experience and know-how. We're expecting improvement of the electronic billing system, because e-government doesn't work properly today. This causes problems with logistics, etc."

Remigijus Narauskas
Gedeon Richter

"The only way to achieve balance is by lobbying for our company's and the aviation industry's specific interests. If I want to hire pilots for our aircraft, I'm afraid that currently they have to come from abroad, because there are not enough pilots in Kazakhstan qualified on the Q400 at this time. The key thing – talking to ministries and government – is the only way to highlight your concerns and issues. Big business should connect to the government and deal with the industry's problems."

Blair Pollock
Qazaq Air

"In a real market economy, where efficiency rules the market, regulation and a lot of documents for carrying out operations impact business success. But amending all the documents at once will lead to complete chaos. Today there are signs of development of a mining code. This is a market demand, because a mining code applies to the entire exploration period. It's a very capital-intensive process. Consequently, if you make it freer, it will be easier for business. The resource base is being depleted, and developing new deposits requires major expenditures that only cover the opening of the exploration stage. If we're stopped by regulation at this stage, in the next 20-25 years, we'll use up all available resources and won't leave anything for our children."

Stanislav Ryaskov
Central Asia Gold Corporation



Significant events for Kazakhstan

Expo 2017



Hosting the Expo 2017 exhibition will be the most important event in Kazakhstan this year. The exhibition will draw the attention of the global business community to the country and to Kazakhstan's current capabilities and potential.

The vast majority of CEOs welcome the exhibition as a means of promoting the country's brand globally; however, only a sixth of respondents expect a direct, significant impact from Expo 2017 on their business. In most cases, foreign executives working in Kazakhstan have greater hopes for this event than their domestic colleagues do.

"Experience shows that hosting large-scale events, such as Expo 2017, helps develop not only the tourist industry but other areas of the economy. Kazakhstan will host delegations from over 100 countries, strengthening diplomatic relations, promoting discussions on international trade and commerce and hosting debates on key global topics. By creating a platform to showcase cutting edge technologies that could provide solutions to energy issues, the Expo will establish Kazakhstan as a global leader in the search for future energy sources and it will serve as a catalyst for Kazakhstan's transition to a "green" economy. Expo 2017 will also have a multiplier effect by increasing foreign investment, international trade and tourism."

Catalin Radu
Bayer KAZ

"It's well known that preparation for Expo 2017 is driving insurance today, because it implies various kinds of insurance. The whole market grew 30% in the past year due to this process. However, there are a lot of questions about how the market will survive after Expo. We're all hoping that reforms will help domestic production and small and medium business to grow."

Zhanar Kaliyeva
Kompetenz

"I don't think it will have a significant effect on our business; however, there will be an effect on Kazakhstan in terms of awareness of the country. This could ultimately result in certain advantages for our company in future."

Ranga Welaratne
Sanofi Kazakhstan

"We're expecting a lot of Expo visitors in Astana, which will naturally be good for our business. Astana is becoming a more important city for us due to its growing population."

Mikhail Bazanov
Mars Kazakhstan

"The exhibition will have a strong effect on us, because as a hotel industry leader, we will obviously be one of the key market players. Increased sales will benefit the entire sector. And this will definitely increase business overall."

Philippe Mahuas
Astana Marriott Hotel

"I'm under no great illusions about Expo. There will probably be a bit more awareness of Kazakhstan in the world. It may even create a positive opinion, but I don't think the exhibition in itself will be a driver of economic growth."

Askar Kanafin
Ordabasy Group

"It's very difficult to predict the impact of Expo. We expect some growth in Astana, but I think the majority of visitors will be citizens of Kazakhstan and the CIS region. Thus, as we are a global player, there will mainly be movement of customers from one region to another."

Renaud Chamonal
Danone

"We'll be taking part in the Expo, and we hope the exhibition will make Kazakhstan even more recognisable worldwide."

Andrey Kurilin
Citibank Kazakhstan

Astana International Financial Centre

A very small percentage of respondents said the Astana International Financial Centre (AIFC) had immediate impact on their business. Overall the respondents mentioned the following positive effects of opening the AIFC in the longer term: direct support for business, benefits from implementing English law, and an improved investment climate.



"We don't see any direct impact yet. There may be an increase in business activity and capital inflow, which will be an extra incentive for all businesses."

Roman Volodin
Tele2

"There might be a slight positive impact from the AIFC through the shift from Kazakhstan to English law. However, this won't be easy, because details are of the essence, and there are a lot of them: labour law, internal integration, and so on. The idea itself isn't bad, but it requires enormous amounts of effort, resources and time."

Eldar Abdrazakov
Centras Securities

"If the AIFC actually becomes an international hub for finance in a region with a trusted rule of law and if it's successfully implemented, of course it will have a major

positive impact on the country and will attract more foreign investors. English law will be extremely beneficial for doing business in Kazakhstan. We are sometimes forced to work with offshore jurisdictions, not always for tax reasons as many assume, but because of the acceptance of English law there."

Blair Pollock
Qazaq Air

"I think this is a very important project. It will be difficult to implement, but it will help boost development, and is already doing this. Thirty years ago, no one knew about Kazakhstan, but today, all of Central Asia is gathered around it. Kazakhstan is very skilfully using its geographical position to connect Asia with Europe. This is a smart move by the government."

Dmitry Zabello
Bank VTB Kazakhstan

“The AIFC is an island of dreams. It’s incredibly important for us to have this kind of legal environment, where there is a clear, comprehensible judicial system and taxation, so I have great hopes for the government’s good intentions and goals on this issue. However, there is concern that this could become another haven for the elect.”

Zhanar Kaliyeva
Kompetenz

“KASE recently made a proposal to establish a start-up exchange. This interests us, because today there is a lack of transparency between those who want to attract resources and those who are ready to provide them. When we start thinking about attracting capital, large investors who have already shown interest in this industry usually come to mind. Having an exchange will ease communication between businesses and investors and will ensure greater transparency and discipline. Furthermore, if you are on the exchange, you don’t pay value increment tax. This is important for investors.”

Ramil Mukhoryapov
Chocofamily Holding

“It’s hard for me to predict how this will affect business, because there are both potential pros and cons. I still don’t understand how it will operate and how English law will be implemented. Maybe it will be legislated in some way, but who will hold court? If a zero or preferential tax regime is created there, we can consider options for opening a business.”

Yerlan Ospanov
Verny Capital

“If it’s implemented as intended, the AIFC will have a positive effect on the whole business climate, on creating a stable macroeconomic environment and on the country’s investment attractiveness, among other things. The AIFC is a major government initiative. What’s important now is how it will be implemented, to what extent and when. We’re prepared to support it, and we think it’s a smart follow-up to the initiatives of Expo 2017.”

Askar Kanafin
Ordabasy Group



Best in 2016

Best CEO in Kazakhstan in 2016

Just as last year, Peter Foster, the CEO of Air Astana has been declared the leader of the Kazakhstan's business community. He had more votes from colleagues in other industries than anyone else in response to our question regarding the best Executive in Kazakhstan. As the country's economy adapts to tough conditions, under Foster's leadership, the company is showing steady growth and is at the top in every sense of the word. However, without detracting from Foster's talent, we'd like to mention that there is only a small gap between him and the "pack". It's also easier for him than for others to "put on a good show": the national carrier's achievements are obvious, since business people frequently use its services.

Close behind Peter Foster are Umut Shayakhmetova, CEO of the National Bank of Kazakhstan, which says a lot about being able to navigate in a financial storm, and Janet Heckman, the former Managing Director for Kazakhstan of the European Bank for Reconstruction and Development (EBRD). Janet succeeded in getting through the complex bureaucratic labyrinth to finance a series of projects in Kazakhstan.

A number of other names were mentioned, including some of our Survey participants. They won praise from their colleagues for qualities such as adaptability, an innovative approach to business, commitment to improving services, and involvement in charitable activities even in hard times.

Best company in Kazakhstan in 2016

No clear winner emerged among the best national and private companies in Kazakhstan based upon achievements in 2016. Air Astana was first, just like last year; Kazpost was second; and the National Bank of Kazakhstan was third. There was only a small gap among their ratings, similar to the ratings for best CEOs. Respondents especially praised the success of these companies in overcoming difficulties, the high quality of their services, reliability, stable growth and improved performance.

Achievements of Kazakhstan business in 2016

A large proportion of CEOs of companies operating in Kazakhstan think the past year was so difficult that the mere fact of survival of business in the country was their main achievement. As one respondent said, "being able to avoid a catastrophic crisis was an achievement". Even under the impact of financial and economic adversity, national entrepreneurs were able to continue developing many economic sectors.

So despite the market trend, oil production started at the Kashagan field, and Kazakhstan CEOs said this was one of the country's greatest achievements.

"To have survived 2016 was a great achievement for everyone. Given the economic environment in 2016: the devaluation of the Tenge, the global economic crisis, with low commodity prices, the absence of international investors and high interest rates, Kazakhstan survived this period and will benefit greatly from the recovery that we are now seeing."

Blair Pollock
Qazaq Air

"In 2016, business in Kazakhstan once again showed its resilience and ability to adapt to changes in the external environment. Last year was a defining one for many companies in Kazakhstan. A slump in production, waves of devaluation and the subsequent liquidity crisis in the banking sector all put a lot of

pressure on the business environment. However, the National Bank's effective policy has had a positive influence on the banking sector."

Alexander Kamalov
Sberbank

"The long-awaited launch of the Kashagan oilfield was a major event for Kazakhstan's economic growth. GE is proud to have played an active role in the project. In addition to supplying turbines for power generation, we delivered two turbocompressor lines featuring innovative materials that were specially customised for Kashagan."

Bela Ferenczi
General Electric





Skills in demand by Kazakhstan's business leaders

The answers to the question about the essential qualities that modern CEOs must have in the current tough conditions weren't surprising. More than half the respondents said adaptability was the most important quality. They also named the ability to be guided not only by the short-term, but also by strategic thinking. Kazakhstani CEOs also gave a high ratings to professionalism and leadership qualities, along with teamwork skills. In addition, the respondents agreed that a CEO must inspire trust in both employees and business partners, show maturity and critical thinking and follow ethical standards.

"Flexibility, ability to handle stress, knowing how to listen and learn continuously, make discretionary decisions, and make sure they are carried out."

Magzhan Auezov
ForteBank

"A CEO must be a leader, be creative and forward thinking, and know how to manage risks. Have open relationships with employees, and know how to listen and take criticism. A CEO must be able to predict. Relationships between subordinates and the Executive must be built on respect and trust. Emotional stability, confidence, knowing how to set the pace and motivate success are also important components."

Orazkhan Karsybekov
Kusto Group

"Knowing how to work with people and motivate them, to work on a team are all related to team management. The ability to think logically and adapt to internal and external changes. Self-acceptance and knowledge of your own strengths and weaknesses."

Mikhail Bazanov
Mars Kazakhstan

"A successful leader must be able to adapt quickly to changing conditions, while also combining world-class business expertise with a deep understanding of the local market he's working in."

Bela Ferenczi
General Electric

"A leader can expand the boundaries of his business and push the boundaries by constantly developing innovative new products. This makes it possible to constantly create something new, gain satisfaction from work and pleasantly surprise customers."

Mikhail Lomtadze
Kaspi Bank

Meet the CEOs



Aytug Can
Ramstore



Alexander Kamalov
Sberbank



*Anar
Dosmambetova*
Unipharm



Andrey Kurilin
Citibank Kazakhstan



Askar Kanafin
Ordabasy Group



Askar Smagulov
Altyn Bank



Bela Ferenczi
General Electric



Blair Pollock
Qazaq Air



*Daulet Khan
Kilybayev*
Al Falah Capital Partners



Dmitry Valishev
EuroChem



Dmitry Zabello
Bank VTB Kazakhstan



Eldar Abdrazakov
Centras Securities



Yerlan Ospanov
Verny Capital



Yerlik Balfanbayev
Alina Group



Zhanar Kaliyeva
Kompetenz



Zhanat Umarov
Medservice Plus



Kairat Mazhibayev
RESMI Group



Catalin Radu
Bayer KAZ



Konstantin Kulinich
Mary Kay Kazakhstan



Magzhan Auezov
ForteBank



Marat Seitkulov
Caravan Resources



Mikhail Bazanov
Mars Kazakhstan



Mikhail Lomtadze
Kaspi Bank



Nurlan Saurambayev
Sat&Co



Orazkhan Karsybekov
Kusto Group



Ramil Mukhoryapov
Chocofamily Holding



Ranga Welaratne
Sanofi Kazakhstan



Rakhmet Khairullayev
KazPetroDrilling



Remigijus Narauskas
Gedeon Richter



Renaud Chamonal
Danone



Roman Volodin
2



Serik Tolukpayev
Aitas Group, UKPF



Stanislav Ryaskov
Central Asia Gold Corporation



Farrukh Makhmudov
Avtodom



Philippe Mahuas
Astana Marriott Hotel



Sholpan Nurumbetova
Bank Kassa Nova

Research methodology

Fifty-six CEOs participated in the Kazakhstan edition of the Survey, including 39 who gave extensive, detailed interviews. Top executives of national companies in Kazakhstan did not participate in this Survey. 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, pharmaceuticals and insurance. 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 for their opinion on the government's priorities and the impact of important events like Expo 2017 and the AIFC on their business. The interviews took place in Kazakhstan between mid-January 2017 and mid-March 2017. All the quotes by Kazakhstan CEOs cited in this Survey have been checked and confirmed by the respondents.





Working group and key contacts

PwC:

Dana Inkarbekova, Konstantin Yeliseyev, Marina Karpova, Alexandra Shingaryova, Mariya Krasnoyarova.

Editorial support:

Aizhan Suleimenova, Forbes Kazakhstan

Portrait photographer:

Stanislav Antonov

For further information on the survey content, please contact:

Dana Inkarbekova

Managing Partner

PwC Kazakhstan

dana.inkarbekova@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

Business Center "AFD", building "A", 4th floor

34 Al-Farabi Avenue

Almaty, Kazakhstan, A25D5F6

: +7 (727) 330 32 00

Astana

Business Center "Q2", 4th floor

Kabanbay Batyr Avenue 15/1

"Yesil" district, Astana, Kazakhstan, Z05M6H9

: +7 (7172) 55 07 07

Atyrau

Renaissance Hotel, 3rd floor

15 B Satpayev street

Atyrau, Kazakhstan, E02M0M8

: +7 (7122) 76 30 00

www.pwc.kz



© 2017 PwC. All rights reserved. Not for further distribution without the permission of PwC. "PwC" refers to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), or, as the context requires, individual member firms of the PwC network. Each member firm is a separate legal entity and does not act as agent of PwCIL or any other member firm. PwCIL does not provide any services to clients. PwCIL is not responsible or liable for the acts or omissions of any of its member firms nor can it control the exercise of their professional judgment or bind them in any way. No member firm is responsible or liable for the acts or omissions of any other member firm nor can it control the exercise of another member firm's professional judgment or bind another member firm or PwCIL in any way.