

Russia & CIS Express

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Special Feature – Kazakhstan

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Welcome

It is a sign of the scale of the global economic crisis when the tiny republic of Moldova, an ex-Soviet backwater where many farmers still travel around in horse-drawn carts, is ranked as one of the world's safest investment destinations.



Moldova picked up the accolade precisely because, according to the respected financial publication that compiled the ranking, it was so sleepy that it has never had any of the financial markets whose troubles are now dragging down other economies.

With its Communist president and tiny stock exchange, Moldova may be an extreme example but it shows there might just be a case for cautious optimism about the economic prospects of the other 11 members of the ex-Soviet Commonwealth of Independent States (CIS).

Battered though they have been by the slowdown, economists say the CIS states should prove resilient precisely because their economies are based on a handful of solid fundamentals: abundant natural resources, strong governments, and only modest financial sectors.

“There is no question that times are hard right now for the CIS economies. They depend on exports of commodities – oil, gas, steel – and these markets have been badly affected,” said Charles Joseland, partner in PricewaterhouseCoopers LLP (UK).

“But what they have in their favour is that they are not burdened by the big financial sectors that you see in developed economies, or even in neighbouring eastern European states that are now in the European Union,” he added.

“Once demand recovers for the commodities and energy that the CIS economies export, they will bounce back faster.”

When leaders of the Group of 20 advanced and developing countries gathered for a summit in London on April 2, one of their biggest concerns was how to stem the contagion from distressed bank loans.

It is a topic that concerns CIS leaders as well, but not to the same extent as their neighbours to the West. The distinction can be seen on the border that separates Latvia from Belarus and Russia.

An ex-Soviet state that turned its back on the CIS to join the European Union instead, Latvia has been convulsed by deep recession and riots that unseated its government.

Russia and Belarus, in part because they are not integrated into the global financial system to the same extent as Latvia, have not experienced the same problems.

That is not to say the CIS states do not face stern challenges. One sure sign is that delegations from the International Monetary Fund – regular fixtures during the turbulent 1990s – are back in the region weighing up requests for emergency credit.

Ukraine, Belarus, Kyrgyzstan and Armenia have all arranged loan facilities with the fund to tide them over the crisis.

The common factor in all the CIS economies is Russia. The regional powerhouse and trading hub, Russia’s economy will contract this year for the first time in a decade and that is having a knock-on effect on its neighbours.

All are facing a sharp readjustment after their populations grew accustomed over the past few years to economic growth higher than in developed economies and to rising incomes.

Ukraine has fallen the furthest. Many of the foreign investors who rushed in after the peaceful “Orange Revolution” five years ago are leaving, scared off by a sharp fall in the hryvnia currency, government infighting and shrinking order books for the country’s metal exporters.

Azerbaijan and Turkmenistan, the region’s other big energy producers, face sharp falls in revenue as the price of oil falls to less than a quarter of what it was six months ago, taking gas prices down with it.

The pain for countries like Moldova, Tajikistan and Uzbekistan is likely to come from falls in the remittance cash their citizens send home to their families from jobs in Russia.

Kazakhstan, with Russia and Ukraine, the other big target for investors, has suffered badly from the fall in the price of oil – the mainstay of its economy – and a liquidity crunch in its banking sector.

But it is Kazakhstan too which could serve as a model for how other countries in the region are going to weather the crisis and, eventually, bounce back.

“The government has accumulated considerable reserves during the period of high oil prices. The challenge is to use the reserves in the most effective way to restore a strong financial system, to support future growth.” said Alper Akdeniz, Managing Partner of PricewaterhouseCoopers Central Asia and Caucasus.

“When global demand picks up for the oil and the metals Kazakhstan exports – and it’s only a matter of time before they do – the Kazakh economy will be ready to reap the benefits,” he added.

by the editor of Russia & CIS Express



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Special Feature

Kazakhstan

Although well known to natural resource companies, Kazakhstan is a country that is growing in UK public consciousness – through the high profile flotations of some of its largest companies into the FTSE 100, and even football world cup qualifying matches.



Affected like many countries by the financial crisis, it is now better placed than many, having put money aside from the high commodity prices into its National Fund, to help support and stabilise its major banks, develop its extensive agriculture, invest in key construction and infrastructure projects, including the power sector, with a key objective of protecting employment and building for the future.

Politically stable and situated between Russia and China (key markets for its commodity products), it has also sought to balance this with good political and commercial relations with the West.

The crisis and the government's response is a theme that runs through several of our articles on Kazakhstan, including interviews with the respective ambassadors, but also they stress the continuing investment opportunities. The warmth of hospitality offered to visitors to Kazakhstan is another common theme from the personal views of the Head of PwC Kazakhstan and the former Lord Mayor of London.

The President has clear plans for the country as it continues to grow and establish its place in the world in the next phase of its history, post Soviet independence. One is struck by the desire to learn and develop: ministers and boards of leading national companies taking time out to study and brainstorm at leading business schools, and government programmes for 3,000 Kazakhstani students to study overseas with more than a thousand in the UK.

With the world's economy forecast to begin its recovery in 2010, together with commodity prices, and Kazakhstan taking chairmanship of Organisation for Security and Cooperation in Europe (OSCE), Kazakhstan will be the country to watch, and the place to be. See you there!

by Charles Joseland, Partner
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Meeting Alper Akdeniz

Managing Partner of PricewaterhouseCoopers Central Asia and Caucasus

What brought you to Kazakhstan?

My decision to move to Kazakhstan and become Managing Partner of Central Asia & Caucasus, more than two years ago, was an aspirational one. Looking back, I could say that I was motivated by an ambition to make a difference in one of the most dynamic, and yet undiscovered, parts of the world. My professional experience of 25 years with PricewaterhouseCoopers had taken me to many continents, including Asia, and I had some inkling about the friendliness and openness of a Turkic society, such as the Kazakh one. I was also intrigued to experience whatever influence the old Soviet system had left behind.

How about your experience since your arrival in January 2007?

Kazakhstan has been full of wonderful surprises. It is a thoroughly unique, complex and sophisticated society – a fascinating mix of some 100 ethnicities and a melting pot of sorts that has been blended into an exotic civilization and that truly deserves its emblem as gateway to Central Asia.

My own learning curve has been a fast one. I had not expected Kazakh executives to be as keen on solving challenges and creating opportunities. People's appetite for sound advice designed to help transform their business is enormous. For me, it is that kind of interaction that makes a business relationship vibrant.

On a purely personal level, I have been consistently impressed by the purity and genuine nature of people here. There is a serenity that could help de-stress even the most intense Westerner. The art, as a result, is striking as well. I am delighted to have local photographer Zhanarbek Aman as a friend of the firm. He is one of the most talented artists I have seen. Zhanarbek has worked with us for a couple of years and captured many of our professionals or business events – and yet, every time, he has managed to give his work an extra layer of what I would call Central Asian magic (you can see one of his photos on page 5). I also admire the beauty of the unspoiled nature Kazakhstan offers – I will share with you a secret – skiing in the morning and golf in the afternoon is what Almaty offers to those who enjoy adventure!

How have you found the Business Climate?

Although we are facing turbulent times, it is important

to stay focused on our core priorities and look for the opportunities that will undoubtedly arise. Our vision is to emerge from the global economic crisis stronger than we are today, with enhanced market share, improved people loyalty and more efficient operations.

We need to remain flexible in the present environment, which should allow us to build quickly once the market improves. We need to be close to our clients, work more diligently than ever across all lines of service and be much more focused on new opportunities in the market. This will be a difficult year for us but we are committed to the long term and to emerging from the current downturn stronger than the competition.

What are among your proudest achievements?

First, I really enjoy daily working with our talented staff. Like Kazakhstan, our practice is a dynamic multicultural mix and always ready for a challenge. In addition, I am very pleased to have helped build a practice that advises the leading national institutions and helps them transform not only their businesses to compete globally but also helps transform Kazakh society.

Since my arrival, we have also developed a very special relationship with KIMEP, the leading management school in Kazakhstan. Our professionals are diligently volunteering their time to teach there, our scholarship programme is also highly regarded and, more recently, we have established a PwC Chair of Accounting here. This will be a great way of building the bridges between PwC and the academic world and make a significant contribution to the development of educational standards with focus on such core industries as Energy and Financial Services. Our mission is to develop a leading practice in Central Asia & Caucasus, with a cutting-edge knowledge base in the Energy and Mining sectors. When I wake up to Kazakhstan's blue skies, I can't help but smile thinking that we are building a clear blue sky between us and the rest.

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Kazakhstan – The Khan of the Stans



In the West, Tamburlaine The Great is better known as the title of a play by Christopher Marlowe, the Elizabethan playwright who was stabbed to death in a pub in Deptford in 1593. It was a bloody end to a colourful author whose best known work was about a fierce conqueror who tangled with religion and received divine retribution – very, very loosely following a real life story.

The character on whom Marlowe based his Tamburlaine is better known in Central Asia as Timur, who was born near Samarkand in 1336. A fiercesome warrior who conquered half of all Asia, Timur is also known as the builder of the great Bibi-Khanum Mosque in Samarkand and the equally large Khodja Akhmed Yasau Mausoleum in Turkestan (in Southern Kazakhstan), in memory of the revered 12th Century Sufi teacher and poet.

In the main chamber of this mausoleum is a vast bronze kazan – an iron pot for holy water and also a symbol of unity and hospitality. Cast in 1399, it was exhibited at the Hermitage in St Petersburg from 1935 to 1989 but is now back where it belongs, in Turkestan, and has a capacity of some 3,000 litres.

The hospitality represented by this giant kazan, and embodied in Kazakh culture, was lavished on me in March 2007 when I visited Kazakhstan in an official capacity, as Lord Mayor of London.

I was welcomed and feted by the Mayors of both Almaty and Astana, as well as by the Prime Minister and the Finance Minister. But, most of all, I was fortunate to have an audience with President Nursultan Nazarbayev at his magnificent palace in Astana. Just four months earlier we had met for the first time when he visited London for a conference and a private lunch at my then home, The Mansion House.

Since the break up of the USSR in 1991, an independent Kazakhstan has emerged as one of the world's major producers of oil and gas. The country possesses large reserves of uranium, chromium, lead and zinc, as well as manganese, copper, coal, iron and even gold. It is also a large wheat producer. With a population of just 15 million, landlocked and sandwiched between two large neighbours, Russia to the north and China to the east, Kazakhstan has sought good relations with countries outside the region. In recent years under the leadership of President Nazarbayev this new nation has prospered, with GDP growing at in excess of 9% per year. Its economic

policies have been liberal, embracing the private sector and welcoming foreign investment and participation. The President's master plan for 2030, "Half Past Eight", envisages a country where there is prosperity, security, education and social welfare. The President is a visionary and gets things done, as I found out during my visit to Kazakhstan and saw, in particular, the stunning new capital of Astana – his brainchild.

Astana has wide avenues and is imaginatively designed. Its well constructed buildings give an air of authority. The centrepiece is the President's Palace, the White House.

Situated between the Parliament and Government buildings on one side and a park and the Foster Pyramid on the other, the palace is a blend of classical western and eastern architecture. Covered in marble of different colours and in a dominant position, it looks like an Asian version of the White House in Washington, perhaps even a little grander. Inside, the vaulted reception room for foreign visitors is decorated with murals of Kazakh mythology and art. The conference room is tastefully designed and has state of the art technology. The audience halls are stunning, inlaid with marble and furnished with paintings and objects depicting Kazakhstan's nomadic and romantic past. Often, when a country's economy flourishes, national literature, architecture and art also flourish. There has been money to support the writers, the architects and the artists.

While Astana is the stunning new capital of Kazakhstan, the southern city of Almaty is still the financial heart of the country, headquarters of the Almaty Regional Financial Centre (ARFC), whose Chairman, Arken Arystanov, I have met on a number of occasions. After independence, the country has developed well, but much of the wealth is still in the hands of a few companies and there is a need to redistribute this through privatisation and public listings. There is a need to improve financial awareness and education. Building a strong financial centre in Almaty is a necessary first step. The regulatory environment needs to be established. The accounting and auditing profession needs to be developed. The UK can help, and is helping, with these tasks.

A close business relationship has developed with many large UK companies, such as Shell, BG Group, HSBC, BAe Systems, Pilkington, Group 4, De La Rue, Denton Wilde Sapte and the big 4 accountancy firms, all of whom are active in the country. The UK is held in high regard for financial services, education and training, and corporate governance. 11 Kazakh companies are listed on the London Stock Exchange and a further 12 on the junior market, AIM. Of the 3,000 students chosen to participate in the country's Bolashak (meaning "future") programme,

1,000 have come to the UK. In Astana Foster and Partners have designed the eye catching Pyramid of Peace. Voluntary Service Overseas has had over 100 volunteers in the country. The relationship with the UK spans a number of fields and is very close.

Over many years PricewaterhouseCoopers has made a major contribution to Kazakhstan – acting for many companies, as well as the Government, and contributing to the development of the profession and to financial literacy in the country. Each year, PwC recruits many bright Kazakh graduates, including some from the leading business school, KIMEP, in Almaty. The firm is a major contributor to the development of the economy.

During my visit as Lord Mayor, I was pleased to meet the British Ambassador, Paul Brummell, and open the new British Embassy in Astana. I was also pleased to open the new PwC office in Astana, in a freshly constructed building. The ceremony was quite a spectacle, with Alper Akdeniz, PwC's Managing Partner, presenting me with a Kazakh costume.

In 2009, PwC will move to new, larger, premises in Almaty, so evidencing the impact the firm is having and the success it is enjoying.

At this time of global economic recession, no country is exempt from financial difficulties. Kazakhstan has also suffered in recent months. But we are all conscious of the nature of economic cycles. We know that times will get better and that conditions for economic growth will recover.

Kazakhstan is well placed for future success. With its enormous reserves of oil, gas and minerals; with its proximity to the enormous markets of China, India, Russia and the Gulf; with the vision of its leadership; with its willingness to be a global player, eschewing protectionism, terrorism and financial crime; with its spirit of enterprise; there is much to inspire confidence.

Kazakhstan has witnessed difficulties and setbacks over the centuries. It has also witnessed moments of glory. I have a hunch that, in just a few years, we shall rejoice again at the success of the Khan of the Stans.

by Sir John Stuttard, Chairman of PwC Kazakhstan's
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Kazakhstan's response to the financial crisis



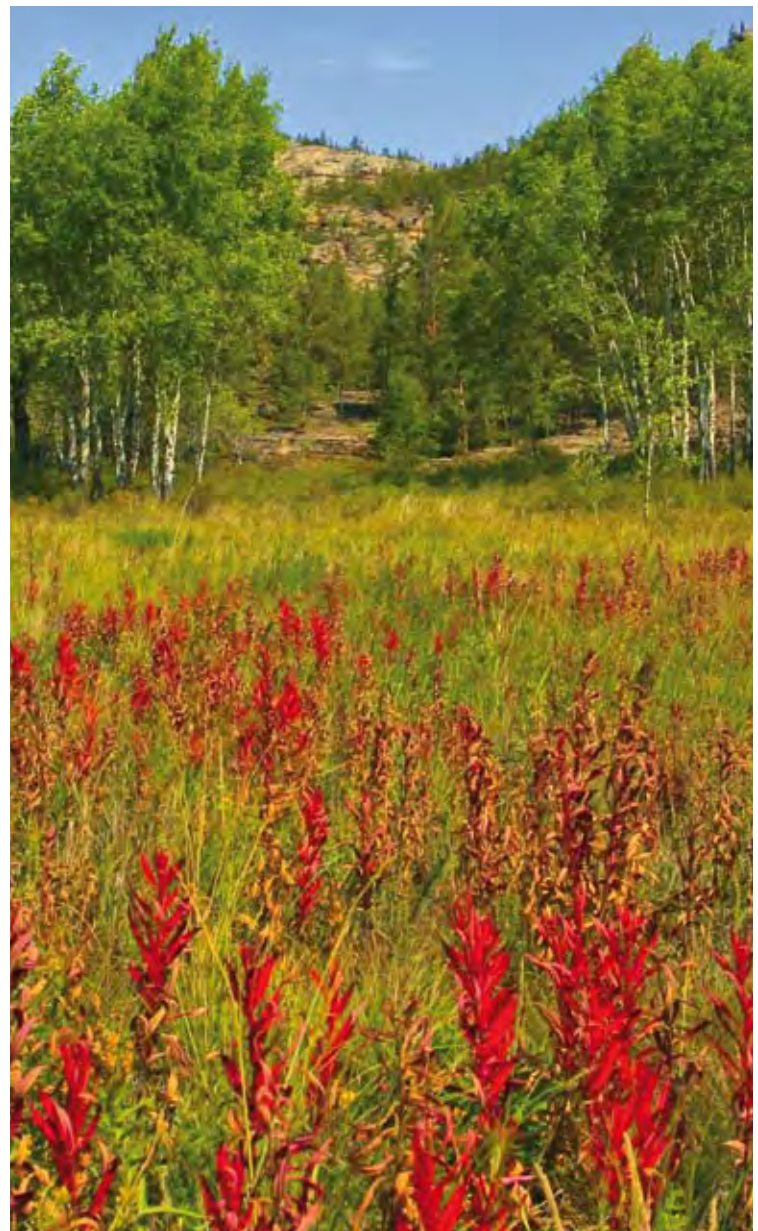
Kazakhstan's financial sector experienced extraordinary growth in 2006 and 2007, as a result of aggressive external borrowing and onward lending, and also the revenues from oil exports.

The domestic banks in particular were primarily used by the rapidly growing, but fragile, real estate and construction sectors. Since the credit crunch began in late 2007, however, Kazakhstan's exposure to international markets has led to a severe banking crisis in the country. The banks are facing US\$10.6 billion loan repayments to foreign investors in 2009 and US\$7 billion in 2010. How has the Kazakh government responded to this and what implications does this have for the country's stability?

In response to the crisis, the government is implementing a US\$15 billion stimulus plan and has committed to unprecedented spending of its reserves (Kazakhstan has around US\$45 billion in foreign currency reserves and the National Fund). As of late February, US\$7.3 billion has been transferred from the National Fund to the Samruk-Kazyna National Welfare Fund, which is managing the stimulus spending. Of that, Samruk-Kazyna transferred US\$3.8 billion to commercial banks, of which US\$2.2 billion was for stabilization of the financial sector (including the government's acquisition of bank stakes), US\$800 million for support of the real estate sector and US\$800 million for support of SMEs. Despite the government taking major steps in the banking sector, investor sentiment around Kazakhstan will take a while to recover.

The banking crises has already led to the effective nationalization of two banks – Bank Turan Alem (BTA) and Alliance (the government now has a 78.1% stake in BTA and 76% stake in Alliance) – in early 2009, and the government's acquisition of 25% stakes in two others – Halyk Savings Bank and Kazkommertzbank (KKB) – in early 2009. The government's new involvement may alter policy with regard to creditors, in particular at the heavily burdened BTA. The effective nationalization of BTA and Alliance are indicative of the banks' acute financial vulnerabilities, but it is also indicative of a two tiered approach to the banking sector. Halyk Bank and KKB also indicate that the government is pursuing a two-tiered approach toward the banking sector, where political relationships are playing an important factor. The government has also taken a tougher position on the suffering construction sector and is now more likely to seize the assets of ailing construction companies that have been unable to restructure their loans with the banks and failed to make progress on residential projects where many units have been either fully or partially pre-sold to local firms and individuals.

On the political front, Kazakhstan remains stable, to a large extent as a result of President Nursultan



Nazarbayev's public popularity as well as an informal patronage system that shares influence and wealth among the country's political and business elites. However, over the past several years high economic growth from oil revenues has been at the core of this system. A protracted economic downturn could increase levels of public criticism of the government. At the elite level, lower growth could increase competition for control over remaining lucrative assets, increasing the risk of ownership disputes at the company level. So far, public displays of discontent have been characteristically few and small-scale and we see little risk to political stability. That said, if the economic situation deteriorates markedly, there is potential for social discontent to develop into something more serious. This is a theme we see in several emerging markets worldwide, but the precise risk is difficult to quantify at this stage.

On the positive side, Kazakhstan should see a moderate economic recovery if the global price of oil increases and export revenues increase. Nevertheless, it will take longer for foreign investor confidence in the local banks to be restored – particularly with increased government ownership and possible intervention in the banking and construction sectors.



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Interview of the Ambassador of Kazakhstan to the UK HE Mr Kairat Abusseitov



How is the current global financial crisis manifesting itself in Kazakhstan and what is government doing to tackle it?

As you are aware of, instability in the global services and commodity markets has affected the rates of economic growth in all CIS countries and Kazakhstan is no exception. Kazakhstan adopted a Plan of Joint Actions of the Government, National Bank and FSA on Stabilization of the Economy and Financial System for years 2009-2010. The plan aims to stabilize the financial sector, real estate market and employment, support SMEs, agriculture, and also stipulates further diversification of the economy. US\$10 billion has been allocated from assets of the National Fund to finance the Plan. The President of Kazakhstan has also proposed to merge state assets and to establish the National Welfare Fund 'Samruk-Kazyna' (which holds stakes in entities up to 40% of the country's GDP) to become the heart of the economic activities of the Government during the economic crisis. The Government has allocated additional funding of US\$9 billion to Fund 'Samruk-Kazyna' for the realization of major industrial projects.

With respect to the Kazakh banking sector there are 6 banks that play a crucial role in the financial system; they finance more than 80% of the Kazakh non-oil sector, provide loans to small and medium businesses and hold the savings of the majority of the population. The government has taken significant equity stakes in a couple of these banks, as a temporary measure, (which it will sell when market conditions improve); Samruk-Kazyna has made US\$1 billion loans/deposits to two further

banks. The National Bank also takes measures to ensure currency stability, and the recent adjustment has improved competitive conditions for domestic goods.

How important is the UK as a trade partner to Kazakhstan?

Speaking about the economic co-operation between Kazakhstan and the UK, we have to underline that the United Kingdom is a major trade partner for Kazakhstan, especially as a source of foreign direct investment. Indeed, according to the official figures, Great Britain has been ranked third after the Netherlands and the United States in a listing of largest investors into Kazakhstan with the total investment of more than twelve billion US dollars. Our bilateral trade turnover with Britain has continued to rise in recent years. In 2007 it has reached US\$1.3 billion for the period of 9 months, while over the same period in 2008 it has increased to US\$1.6 billion. Growing inter-action of our financial services sectors gives an additional impulse to our bilateral co-operation. British investors have consistently demonstrated high interest in the Kazakh securities, seeking to attract capital through IPO's in the London Stock Exchange. There are currently 11 Kazakh companies listed on the London Stock Exchange main market including two listed at FTSE100 (Kazakhmys and ENRC), plus 12 more are listed on the LSE's Alternative Investment Market (AIM). Last year the President Nazarbayev has initiated a special program "Path to Europe" with a view to promote the cooperation with EU countries and prepare for Kazakhstan's chairmanship in the Organization for Security and Cooperation in

Europe (OSCE) in 2010. Its basic objectives focus on achieving the level of strategic partnership with a number of European countries, substantial increase of mutual trade and investments, elaboration of joint transport infrastructure projects, adoption of technical standards in accordance with EU requirements, stronger education ties and improvement of national legislation. It is worthwhile mentioning the recently established bilateral Chamber of Commerce, a non-profit making organization that will work to promote trade and cooperation between the UK and Kazakhstan, helping small and medium business in both countries to find trading partners and representing the interests of its member companies. The opening meeting of which took place in late March this year.

What are main areas of commercial development in Kazakhstan?

Priority Sectors of commercial development have recently been identified in Phase 1 of Kazakhstan Industrial and Innovative Development Strategy and include following sectors: food; oil and gas; tourism; textiles; metals; transport and logistical services; and construction materials.

What is your advice to UK companies looking to do business and invest in Kazakhstan?

I am not quite a business person, as I have spent many years serving as a government officer, however, I do believe that successful investors should have a certain level or degree of expertise in the field: researching their strategy, market analysis and risk management assessment. As for the Government support towards the foreign businesses I need to mention that we plan to reduce the corporate income tax from 30% down to 20% this year and to 17.5% and 15% in 2010 and 2011 respectively. Furthermore, the new Tax Code, which is effective since 1st of January 2009, stipulates an accelerated amortization for non-extractive sectors and double norm of amortization for the mining industry. Carrying forward of losses is extended from 3 to 10 years, and for all types of companies. SME's requirement to advance payments on corporate tax is cancelled. VAT has been reduced to 12% and the minimal turnover volume taxable with VAT increased by two times to KZT38 million. The regressive rate on social security tax has been replaced with a flat rate of 11%. The Government will continue its activity directed at lowering of the administrative barriers in order to facilitate the enterprise. Besides, Kazakhstan has adopted a "30 corporate leaders" program which currently has around 45 break-through projects (28 – production aimed, 17 – infrastructure) worth over US\$54 billion. These are ready-to invest projects based on Public Private Partnership type of cooperation and are partially budgeted financed as well as by private investor sources. I will speak about a few, just to give a scope of the variety of projects that Kazakhstan is ready to execute with foreign investors at present.

1. Convergence of the telecommunications network of JSC Kazakhtelecom to the NGN (next generation network) technology. The NGN is a universal multi target network intended to provide convergent services on voice, video and data communications with application of packet switching technology. JSC

Kazakhtelecom was the first among CIS countries to implement the project on construction of long distance domestic NGN network on the nationwide scale having all the regions of the country connected thereto.

2. The Ministry of Transport and Communications of the Republic of Kazakhstan announces the holding of open competitive tenders for the realization of concession projects on reconstruction of several trans-country roads connecting Kazakhstan with Russia, China and other bordering states.
3. Development of the electricity network of the Republic of Kazakhstan.
4. Development of the export-oriented grain and livestock production. Most of the detailed information on these and other projects can be obtained from the website of the Embassy.

Talking about Kazakh companies investing abroad, what are their main drivers and what attracts them to the UK?

Well, everybody in my country believes that London is the world's leading financial services centre. When companies are looking to expand their market to the EU, first they take into consideration that the procedure to establish a representative office or set up a business is quite straight forward and takes very little time, to my knowledge it's around 2-3 working weeks. Our investors also understand that the UK is one of the most stable political environments to do business as well as one of the most transparent and least corrupt countries in the world. English is also the international business language, which makes England a natural destination.

You arrived in the UK 12 months ago, what are your impressions of dealing with the British?

My first impression was indeed overwhelming. The country has such a long marvellous history, which I'm getting to know more closely now, since I am here. As my job requires, it would be expected from me to make sure that the British would get to know Kazakhstan as well. Cooperation between two countries has several dimensions – economic, political and humanitarian – and my task is to attempt to elevate political and humanitarian aspects to the same level as the economic one. This does not mean neglecting commercial relationships –we will rather use economic cooperation as a vehicle to bring more energy to other spheres. The general knowledge of Kazakhstan in Great Britain is mostly limited to oil and gas resources, while there are yet so many astonishing things to discover. I would like the British to find out more about Kazakh culture, music, traditions, its history. And I very much hope that I will succeed in this task.

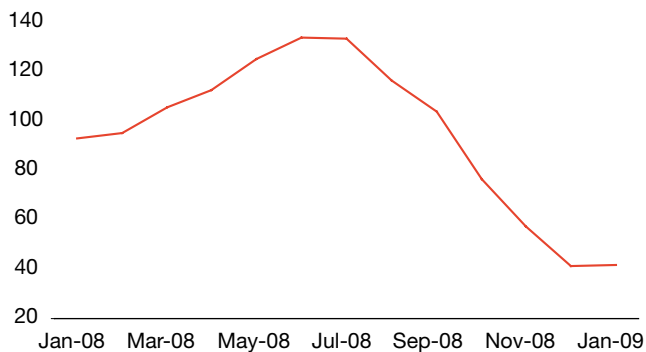
His Excellency Mr Kairat Abusseitov is the current Ambassador of the Republic of Kazakhstan to the United Kingdom; previously he was the Ambassador to Switzerland for four years. Before that he held various ministerial posts in the Foreign Affairs department.

The Kazakhstan economy: taking a step down

After seven years of rapid economic growth, Kazakhstan's economy cooled in 2008 and is expected to weaken further in the short term as the global slump and financial crisis continue to take hold.

Kazakhstan's recent economic expansion has been largely attributable to its booming commodity exports. The country has benefited from high energy prices and demand for its principal export commodities, with oil being one of the country's main sources of revenue. However, since the latter half of 2008 the price of oil has dropped significantly, reaching US\$41.74 per barrel in January 2009 (see Chart 1 below). The sharp fall in oil prices has depressed the Kazakh economy.

Chart 1: Oil prices (US\$ per barrel)



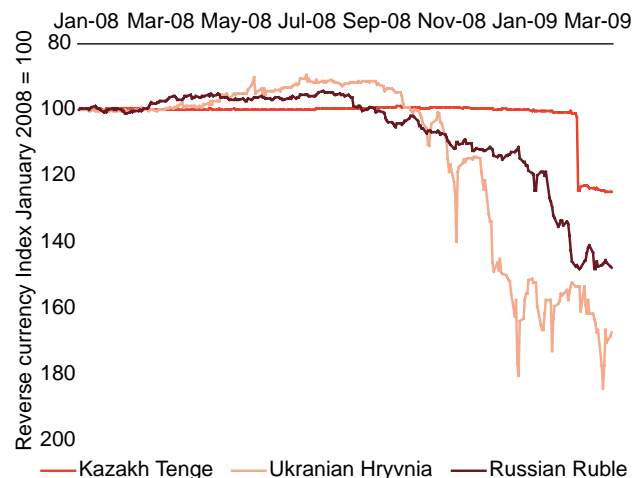
Source: IMF

The global financial crisis has left Kazakhstan's banks short of liquidity and weakened their balance sheets. In November 2008 the Prime Minister, Karim Masimov, announced a bank bailout costing around US\$4 billion. To date the Kazakhstan government has acquired shares in KazkommertzBank, Halyk Bank as well as taking controlling stakes in Alliance Bank and BTA, central Asia's second largest bank.

In an effort to improve liquidity the National Bank of Kazakhstan cut the refinancing rate by 50 basis points to 9.5% on 5 February. Further loosening of monetary policy is likely, due to the easing of consumer price inflation and slower economic growth.

Kazakhstan devalued its currency in early February 2009, reflecting a trend across the CIS. This was the first time the currency has depreciated significantly since the National Bank of Kazakhstan began managing the tenge in late 2007 (see Chart 2).

Chart 2: Exchange rate against the US\$



Source: Reuter Investor

The devaluation should help domestic producers compete



with price sensitive imports from Russia and China. However, with demand for Kazakh exports weakened due to the global recession, greater price competitiveness is unlikely to spur a significant increase in exports and economic growth in the short term.

Kazakhstan spent 6.7% of its foreign currency reserves in January alone to prop up the tenge. The devaluation should help ease the pressure on foreign reserves.

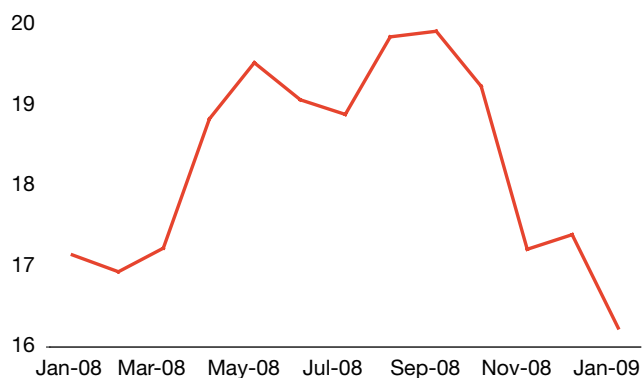


Chart 3: Falling foreign currency reserves (US\$bn)

Source: IMF

The global slowdown and the vulnerability of the Kazakh economy to the global credit crunch have caused a significant deterioration in the short term economic outlook for Kazakhstan. The Kazakh economy is estimated to have grown by 3% in 2008, significantly lower than the 10.1% growth rate it averaged between 2000 and 2007.

The economy is expected to grow by 0.9% in 2009 and 2.4% in 2010. However, in the medium term we expect Kazakhstan's economy to strengthen, as global demand recovers thus boosting demand for the country's key exports.

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Note: Reference to reserves of c.US\$45 billion elsewhere in this publication refer to the sum of foreign currency reserves and the National Fund.

Kazakhstan and the United Kingdom: A durable partnership

The commercial relationship between the United Kingdom and Kazakhstan has developed impressively in the eighteen years since Kazakhstan's independence from the Soviet Union. Britain's engagement in the oil and gas sector provides a fine example of this. British firms are represented in depth. Major operators are active, with BG a joint operator of the Karachaganak condensate field and Shell a partner at the exciting Kashagan development. Engineering contractors such as Amec and Wood Group are developing their business in Kazakhstan, and a wide range of smaller suppliers and service providers are bringing to Kazakhstan the skills and technologies used in developing our own North Sea fields. The activity of British companies is very much about partnership with Kazakhstan. The attention given to the training and development of a new generation of Kazakhstani oil and gas professionals is impressive, and there are many fine examples of joint ventures between British and Kazakhstani companies which serve to harness the best from each side. The British government has been keen to support the flourishing of such partnerships. Thus, our trade and investment office in Kazakhstan's "oil capital" of Atyrau supports British firms new to the region through a range of market information work.

Our commercial partnerships with Kazakhstan are not just restricted to the oil and gas sector. The Kazakhstan government has long stressed the need for diversification of its economic base, and the presence of British companies in a wide range of sectors is testament to our engagement across the board. The financial services industries are an obvious area of collaboration, given the position of the City of London as a financial world leader, and firms represented in Kazakhstan include HSBC and Denton Wilde Sapte. In transport, Kazakhstan's national airline, Air Astana, is a collaboration between the government of Kazakhstan and BAeSystems. Both Air Astana and BMI offer direct flights between Almaty and London. The impressive modern buildings of Kazakhstan's new capital, Astana, draw on British architectural and artistic flair. Thus the pyramidal Palace of Peace and Harmony is a design of Foster and Partners, which features some remarkable stained glass by Brian Clarke.

Kazakhstan felt the effects of the global financial and economic crisis early, through a combination of the relatively high external indebtedness of its banks and the coincidence of a domestic construction boom, especially in Almaty and Astana. Already in 2007, silent and motionless cranes on the skylines of both cities were a symbol of the emerging difficulties, though the then high prices for many of Kazakhstan's key commodity exports, especially oil, cushioned the wider economy. A fall in these commodity prices from mid-2008 heralded a second phase of the crisis in Kazakhstan. The government has reacted to the growing difficulties through a series

of measures, including the allocation of US\$10 billion from the national oil fund, whose establishment in easier economic times was an astute move, for a programme of bank recapitalisation and support for the wider economy. As the effects of the crisis have deepened in Kazakhstan, as elsewhere, further measures have been needed, including a greater degree of intervention in the banking sector than was originally envisaged, and a devaluation of the tenge in February, resulting in part from the prohibitive costs of supporting the currency at its previous level, in part from the desire to promote the competitiveness of Kazakhstani exporters.

The economic situation continues to look difficult, in Kazakhstan as across the globe. The employment picture is for example a cause for particular concern. But the partnership between the United Kingdom and Kazakhstan is not just about collaboration in the boom times. In this period of economic difficulty there is just as much for our businesses and governments to do together. Our developing collaboration in the field of vocational training serves as just one example of this. The Kazakhstan Government's State Programme on Technical and Vocational Training and Development, approved in July last year, is a core part of efforts to bolster the employment opportunities for young Kazakhstanis, and more broadly develop a workforce equipped with twenty-first century skills. These tasks are even more crucial where economic growth rates slow and growing unemployment threatens. The United Kingdom is well placed to support Kazakhstan realise the goals set out in the State Programme. To this end, TVET UK signed a memorandum of understanding with the Kazakhstan Ministry of Education and Science in August 2008 and there have since been follow-up visits.

The bright Kazakhstani students attending British universities as part of the Kazakhstan government's Bolashak programme, learning the skills which will enable them to play their role in the further development of the country, the British engineers in the west of Kazakhstan, imparting a lifetime of experience to the Kazakhstani colleagues working alongside them in the major oil and gas fields which are so vital to the prosperity of the country, and the British financial services experts helping to realise the dreams of Kazakhstani entrepreneurs are all part of two important features of the partnership between the two countries: that it is about people working together, and that it is here to stay.



Paul Brummell

HM Ambassador to Kazakhstan,
and concurrently non-resident
Ambassador to Kyrgyzstan

Doing Business in Kazakhstan: A personal view

Newcomers to Kazakhstan and Central Asia may wish to know that the British-Kazakh relationship is long, wide, deep and dynamic. Formalised as a Strategic Partnership by then Prime Minister Tony Blair and President Nursultan Nazarbayev in 2006, in both countries it finds expression at all levels and in all areas of human endeavour.

From the British side, examples range across the country-wide business promotion efforts of HRH the Duke of York, Lord Foster's soaring work in Kazakhstan's capital Astana, the massive investments of BG Group and Shell in western Kazakhstan and the critical role of a myriad of SMEs in Kazakhstan's economic development, as well as the vital contribution of professional services in realising the full potential of Kazakhstan's human resources.

On the Kazakh side, 'blue-chip' resources companies have flocked to the London Stock Exchange while the London-based EBRD plays a critical investment role. More than 1,000 Kazakhs are enrolled in higher education across the UK – lively companions and an invaluable asset for "UK PLC" in the region. The cultural impact is strong, not least in music where – among others – the West Kazakhstan Orchestra in association with Carl Jenkins have made a deep impression.

Currently, pursuant to the Kazakhstan State Programme "The Road to Europe", links are being strengthened.

In each country a considerable knowledge and expertise in the other have been developed, along with substantial institutional ties. These academic, commercial and official links and expertise are readily accessible to business aspiring to enter Kazakhstan, whether for resources, markets or as a production centre. It is noteworthy that the more successful British ventures across all sectors invest heavily in their market research, in their personnel (local and expatriate) and in the management time they devote to their operations there. Professional services companies such as PwC as well as the resources companies exemplify this approach.

For potential market entrants including those of more modest means, the expert services of UKTI and the Kazakhstan Embassy can provide a strong start while many regional Chambers of Commerce – e.g Aberdeen & Grampians, Birmingham, Leeds, Teesside – are actively engaged. Universities from Aberdeen to Southampton with many points in-between – Dundee, Heriot-Watt, Reading, LSE, Imperial College, UCL/School for Oriental and African Studies – are committed to commerce with the region. Physical connections are good, thanks to the Kazakh/British JV "Air Astana" and BMI, as well as the freight forwarding industry.

Attention to costs is particularly important in this land-locked market, as is diligence in "networking" in a highly-personalised business environment. There can be no substitute for a trusted and well-connected local partner. Further, appreciation of differences in the business culture and regulatory systems is critical. In this context professional

advice – private sector and official – on the modalities of operating in a society regulated principally by codes rather than by common law is invaluable. For example, the concept of binding precedent in legal decision-making is largely absent. Thus, in my own long-term involvement with Tax and Customs, where the Codes differ in key respects from more familiar, OECD-type models, one has found decisions on similar appeals and disputes varying case-by-case.

It is a personal honour to have been selected by the Astana authorities as one of Kazakhstan's Honorary Consuls in UK, working in and with the devolved administration of Wales and charged with developing Welsh-Kazakh commercial relations. In this role I have focused on opportunities in agriculture and in services particularly higher education, reflecting my assessment of capabilities and demand in the respective jurisdictions. My Honorary Consul colleague in Aberdeen has tended to focus on cooperation in the multi-faceted oil & gas sector. Other 'hot-spots' include the professional services of the City of London and the heavy engineering capability of the North-East and North-West. Geographical distribution is somewhat relative: almost everywhere in the UK can be found some Kazakh connection and viceversa for Kazakhstan. In all these activities, high-level support has been forthcoming from First Ministers, Lord Mayors and Lord Provosts.

So what does the global downturn imply for this business relationship? As with others, the Kazakhstan Government plans among other things a major public investment programme, in its case with particular attention to the energy infrastructure and the agriculture sector. These are areas where "UK PLC" is well-placed to contribute directly and also to bid for some of the additional support likely to be forthcoming from the International Financial Institutions and Inter-Governmental Organisations. These potential opportunities may not be realised until the medium-term. Nonetheless, they need to be planned for now.

Douglas Townsend is Senior Advisor to the International Tax & Investment Center (www.iticnet.org), which was founded in 1993 to promote pro-business regulatory reform in transition economies particularly in the CIS. PwC was a founder member of ITIC and remains a key partner. Townsend is also a Director and founding member of the British-Kazakh Society (www.bksoc.org.uk), the Honorary Consul of Kazakhstan in Wales and a former Australian Ambassador to Kazakhstan. He may be contacted at dat.temas@btinternet.com.

Taking the plunge

My wife and I visited Kazakhstan in August last year, when my transfer here first came up. One of the best things about my career with PwC has been the variety in terms of roles and work experience, and working in this part of the world offered the opportunity to explore a new challenge.

I was based in London office as part of the Financial Services Assurance team and more recently I had combined my responsibilities as a client service partner with the role of Global Financial Services Risk Management Partner.

We immediately liked Kazakhstan and the people we met during our initial, short visit. Central Asia and Caucasus is a region of enormous diversity in terms of geography, history and culture. I instantly knew we would enjoy as a family the experience that our time here would afford us.

Given that I am an avid reader, I headed for London's specialist book shops to learn more about the region.

One purchase was a travel book on Kazakhstan authored by Christopher Robbins, a Brit who spent some time living here. From it I learned, for example, that both apples and tulips come from Kazakhstan. My favourite piece was a theory that the legend of King Arthur and the knights of the Round Table was based on Kazakh light cavalry, fighting as troops of the Roman Empire. Robbins was based in northern England, close to my home town, and we met him at a series of lectures on Kazakhstan at the British Museum.

At the same time I met another character with a link to this country – Alex Meredith, a young Welshman who cycled from Astrakhan to Almaty last summer and raised money for SOS villages in Almaty. For a further contribution to SOS, he agreed to speak at my UK farewell party. He gave all of us an entertaining lecture about the trip, the people he met and the vodka forced upon him by friendly Kazakhs.

Another plus is Almaty's spectacular location at the foot of the Tian Shan mountains as I love mountains and outdoor pursuits. Unfortunately, I have not seen much of them since our arrival in December but will explore them in the spring. My wife, however, managed to ski three days last week and fit in a game of tennis, so she has told me all about it. However, I do enjoy looking at them every day, as I walk to work.

The region, like the rest of the world, is struggling to cope with the global economic crisis. And yet, while this the worst downturn I have seen, I have no reason to believe that PwC won't come through it in good shape. I believe that this region, and Kazakhstan in particular, will be one of the first to recover in part due to its mineral wealth but also because of the quality of the people I have met here.



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Doing Business in the UK

View from the top: The UK economy in recession

The UK economy moved into a technical recession during the course of 2008 as GDP contracted for the second consecutive quarter in the fourth quarter of 2008. Recent business surveys point to a marked decline in GDP in Q1 2009. Consumer spending and business investment are estimated to fall further in 2009.

This year, the UK economy is forecast to contract by just over 3% with a gradual recovery over the course of 2010, as seen in the adjacent Table. The UK government, like those across the world, is implementing fiscal stimulus measures in an attempt to dampen the impact of the slowdown. However, the global financial system remains fragile and the normalisation of the financial system is a prerequisite of a sustainable economic recovery.

Indicator	2008	2009 ^f	2010 ^f
GDP growth	0.7%	-3.3%	0%
Inflation	3.8%	0.5%	1.8%
Base interest rate	2%*	▼ ^	◀ ▶
General outlook		Negative	Negative/ Stable

Source: Office for National Statistics (ONS); Bank of England; PricewaterhouseCoopers forecasts (f)

*End of period ^Rate as of March 2009 is 0.5%

Going West...

Maximising success with Western European vendors

Mergers and Acquisition (M&A) activity by Emerging Market (EM) entities in Western Europe has increased dramatically over the last six years. During this period, EM entities made some 844 acquisitions or investments in the region with a combined value of nearly €120 billion.

As result of the 'credit crunch' and the global economic slowdown, 2008 was a weak year for global M&A activity. Despite this, 2008 was a record year for M&A transactions conducted by EM acquirers or investors, with 256 completed deals.

Whilst we expect the overall slowdown in the global M&A market to continue in 2009, there will be an abundance of attractive transaction opportunities in the mid-market segment for EM buyers.

The falling valuations of some Western European companies, and the distressed position of others, could provide imminent acquisition opportunities. While it

is important to tailor your decision-making process in order to respond quickly to such accelerated opportunities, it is equally important to be selective in your investments or acquisitions and identify quality companies that will help you meet your long-term strategic goals.

What do you need to know about doing deals in Western Europe and how can you present your investment proposition in the best possible light, in order to ensure you are perceived as a credible and valuable bidder?

Whereas the transaction lifecycle will be broadly similar to dealing with other EM targets, there are notable differences that will need to be addressed in order to make the deal work for both parties, especially around bridging cultural differences.

To find out more, read the full report, available at pwc.co.uk/emergingmarkets or e-mail Russia@uk.pwc.com for a hard copy



Key facts and figures: Uzbekistan



Geography	Uzbekistan has an area of 447,400 sq km, bordering Turkmenistan to the southwest, Kazakhstan and the Aral Sea to the north, and Tajikistan and Kyrgyzstan to the south and east. Uzbekistan also shares a short border with Afghanistan to the south.
Capital	Tashkent
Population	26.4 million
Language	Uzbek
Currency	Uzbekistan som (£1=UZS 2.133 on 20 April 2009)
Foreign trade	The country's traditional trade partners are the CIS countries, notably Russia, Ukraine and Kazakhstan, which in aggregate account for over 40% of its exports and imports. Non-CIS partners have been increasing in importance in recent years, with Turkey, China, Iran, South Korea, and the EU being the most active.
Leading industry sectors	Uzbekistan is now the world's fourth largest producer and the world's second largest exporter of cotton and the seventh world major producer of gold. It is also a regionally significant producer of natural gas, coal copper, oil, silver and uranium.
Inbound Foreign Direct Investment (FDI)	US\$262 million in 2007
Tax rates	The standard rate of VAT is 20%, which applies to all taxable sales of goods, works and services. Corporate Income Tax: 10% Personal Income Tax: varies from 13% to 25% depending on income level
PricewaterhouseCoopers presence	Tashkent

Source: PricewaterhouseCoopers (Uzbekistan), UNCTAD, Embassy of the Republic of Uzbekistan

For further information about doing business in Uzbekistan, please contact Nadia Blinova at the Russia & CIS Business Centre.

This section features a different CIS country each time.

Next edition: Belarus



News from the Russia & CIS Business Centre

The Russia and CIS Business Centre has been active in the last quarter and the following is a brief summary of selected activities.

High notes

On the 6th Feb, PwC sponsored the invitation of 50 UK based CEE and EU Ambassadors and guests to a piano concert, which took place in Royal Festival Hall. The Pianist, Simon Trpceski is a Macedonian national and is regarded as one of the greatest concert pianists of his generation.

PwC is proud to sponsor **KAZAKHSTAN GROWTH FORUM**, Europe's largest international forum on Kazakhstan, which is taking place 17-19th June in London.

"Russia: a journey to the heart of a land and its people"

PwC sponsored a lecture by Jonathan Dimpleby titled "Russia: a journey to the heart of a land and its people" on 2nd April at the Great Britain – China Centre, 15 Belgrave Square. The lecture was organised by the Great Britain – Russia Society (of which PwC CEE is a member) and coincides with the paperback launch of Jonathan Dimpleby's book on Russia. This was originally published alongside his highly-acclaimed TV series "Russia: A Journey with Jonathan Dimpleby".

Tax Planning for 'Wind of Change'.

On the evening of 3rd June the Russia and CIS Business Centre will be hosting a seminar at Embankment Place for 80 to 100 professional intermediaries (bankers, lawyers etc) that work with private clients in the Russia/ CIS markets. The event will feature presentations by PwC partners, and a Q&A session followed by networking drinks.

Recent publications



Balancing Risk & Reward

The PricewaterhouseCoopers EM20 Index 2009 Interim Update

Given the significant shifts in financial and economic conditions around the world, we have updated the PricewaterhouseCoopers EM20 Index, which provides an indication of the relative attractiveness of different emerging markets for foreign direct investors over the long term.



Transform

Transform is the quarterly magazine of PwC in Central and Eastern Europe (CEE). It covers the latest business trends in 25 markets across the region, from the Czech Republic to Kazakhstan.

The Spring 09 issue features a special report on the economic downturn, giving a snapshot of business events and sentiment in CEE economies, plus local perspectives from PwC partners on the ground.

For more information please email russia@uk.pwc.com or contact:



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PwC Russia & CIS Business Centre

The Russia & CIS Business Centre is part of PwC UK's Emerging Markets programme; other territories/regions with dedicated Business Centres are Central & Eastern Europe, China and India.

The objective of the Business Centre is to be a central contact point and information source for UK clients wishing to explore business opportunities in Russia and the CIS, and for companies and individuals from the region wishing to conduct business in the UK. The Business Centre is actively involved in business networks in London and around the UK focused on Kazakhstan, Russia and Ukraine.

For more information, please email russia@uk.pwc.com



PricewaterhouseCoopers is proud to sponsor the 4th annual international **Kazakhstan Growth Forum** that will take place 17-19th June 2009 at the Marriott Grosvenor Hotel, London.

Speakers from PwC will be:

Sir John Stuttard, Chairman of PwC Kazakhstan's Advisory Board
Alper Akdeniz, Managing Partner of PwC Central Asia and Caucasus
Peter Wilkin, Head of Assurance of PwC Central Asia and Caucasus.

We are looking forward to greeting you at our stand at the Forum.

For further information and to register, please e-mail the organisers at kazakhstan@adamsmithconferences.com.

pwc.co.uk/emergingmarkets

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