

Russia & CIS Express

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Special Feature – Kazakhstan

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Welcome

While a degree of stability has returned to the global economic and financial system, the times remain turbulent and uncertain. Nowhere has the unpredictability of global events been highlighted more starkly than in Moscow, with the tragic effects of the Metro suicide bombings in late March. Our thoughts are with the victims and their families.



An equally unforeseen event was the volcanic eruption in Iceland in mid-April, which has disrupted air travel across Europe and beyond. The economic impacts will take time to play themselves out. But meanwhile business life goes on, with activity across Russia and the CIS continuing to pick up in the wake of the downturn, supported by forthcoming events such as the Sochi Winter Olympics in 2014.

A further significant landmark on the CIS calendar – albeit one being held in London rather than at a Black Sea resort – is the 2010 *Kazakhstan Growth Forum*, an event for which PricewaterhouseCoopers (PwC) is delighted to act as co-sponsor. This is the fifth annual forum, and it presents an ideal opportunity for *PwC Russia & CIS Express* to take a fresh look at one of the CIS's most developed and important economies on the global stage.

This year's forum coincides with a key period both in Kazakhstan's post-crisis bank stabilisation programme – supported by money the government wisely put aside from the high commodity prices – and also in the Kazakh authorities' longer-term drive to strengthen and diversify the country's economic base.

Following the challenges of the oil price collapse and global turmoil in the banking sector, Kazakhstan's outlook has been brightened by rising commodities prices – especially the strong run in the oil price over the past year – and positive progress in domestic bank debt restructuring.

While the resources industry remains pivotal to the Kazakh economy – an importance underlined by excitement over the giant Kashagan oil field, the world's biggest discovery of oil reserves for several decades that will come on stream in 2014 – awareness of and commercial contacts with Kazakhstan are also increasing in many others sectors.

This partly reflects the fact that Kazakhstan is coming out of the downturn in a relatively strong position, not only to restore the health of its banking sector to, but also to continue its forward-looking investment in industries such as agriculture, fund further key infrastructure projects including power generation capacity, and sustain employment levels. International confidence in Kazakhstan is further reinforced by its political stability and strategic geographical location between Russia and China, two of the biggest markets for its commodities.

All of these attributes explain why Kazakhstan is regarded by so many observers as presenting a potential model for other countries in the region, as they seek to bounce back from the impact of the turmoil of 2008 and 2009. And this

widespread sense of optimism is generating especially intense interest around this year's *Kazakhstan Growth Forum*, which boasts an outstanding roll-call of speakers and delegates.

Many of the themes in the spotlight at the event are mirrored and explored in this issue of *PwC Russia & CIS Express*. Keynote forum speaker Sir John Stuttard, Co-Chairman of the Kazakh-British Trade and Industry Council (KBTIC), presents us with his views on the current dynamics and future development of Kazakh-British commercial relations.

We are also proud and privileged to have a contribution from His Excellency Mr Kairat Abusseitov, Ambassador of the Republic of Kazakhstan to the United Kingdom. Meanwhile, other areas of interest that we examine in this issue include the wider economic climate in Kazakhstan, recent developments in the country's resources and banking industries, and the Kazakh government's new industrialisation programme – all of which are key topics at the forum.

We also have an in-depth article on the opportunities and challenges presented by Kazakhstan's Customs Union with Russia and Belarus, which became live in January 2010 with the introduction of common customs duties across the three territories. The union will take a further step forward at the start of 2012, by becoming a common economic area with free movement of people, goods, services and the capital.

Overall, these are hugely interesting times across the region in general, and in Kazakhstan in particular. Having build up significant reserves in its National fund during the recent peak in commodity prices, the government is now directing these to reinforce the country's financial system and create a platform for future growth. The early signs are that this far-sighted approach is already starting to bear fruit.

by the editor of *Russia & CIS Express*



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PricewaterhouseCoopers moving into new territories – Turkmenistan and Mongolia

The global economy is facing a severe test, after the shadows cast by the financial crisis were darkened still further by a massive cloud of volcanic ash over Europe! Fortunately, signs of recovery are appearing on the radar – but a flight to real growth will take time, and is unlikely to be at the speed that we have witnessed in the last decade.

The major economic blocs of Europe, the Americas and Asia are facing serious economic challenges. The high level of interdependence between economies exacerbates the effects of the financial crisis—and if the interrelationships are not properly managed, they could potentially lead to significant political instability in the affected countries and possibly have regional ramifications.

Tough decisions

Painful measures appear unavoidable to address the major deficits created after Government bail-outs in many countries. Europe is facing some tough decisions over the crisis in Greece, and the European Union countries must keep a careful eye on the questions currently being posed over the outlook for Spain and Portugal. European Treaties will have to be revisited to find ways of dealing with sovereign debt crisis and the colossal financial burden threatening the euro, in order to protect the very unity of the Economic Union.

A revival in M&A activity could enable organisations to

gain financial strength and prepare for a more effective response to the slowdown. Signs of this are already emerging, such as the recently-reported mergers between Continental and United Airlines and between BA and Iberian, and more mergers are likely to be seen in many sectors of the global economy.

Governments worldwide are taking steps in response to the crisis, in an effort to manage their budget deficits. If these measures are not tightly controlled, some of them – such as the recent Australian “super profit tax” in the mining and resources sector – could lead companies to seek more attractive destinations for their investments and growth strategies. This in turn could potentially threaten the competitiveness of nations, jeopardise future investments, and trigger flights of human capital.

The recent ecological disaster in the Gulf of Mexico has been a tragic reminder of the hazards and complexity of the oil industry in general, and of deep-water drilling in particular. Environmental concerns, tighter regulation, increasing costs and a slowdown in development projects are likely to push oil prices higher.

Untapped potential

Against this backdrop, my view is that the economies of Central Asia & Caucasus and Mongolia remain largely untapped, and will be critical to the future economic

prospects and energy security of the global community in the years to come.

Over the past few months, I have visited Ulaanbaatar in Mongolia, Ashgabad in Turkmenistan and Baku in Azerbaijan, and have had meetings with Ministers of Energy, Finance and Economics as well as senior Government and business leaders in each of these countries. It is clear to me that these emerging countries are fast becoming important as potential players eager to play a pivotal role in the future of the global economy.

Kazakhstan – Kazakhstan has managed to weather the recent financial storms relatively well, and is poised to take advantage of the economic recovery and high commodity prices. Admittedly, there are considerable challenges facing the economy. The financial sector in particular needs recapitalising, and the Sovereign Wealth Fund, Samruk-Kazyna, plays an important role in this regard. Securing the capital needed to fund large and complex projects will continue to be a challenge, and access to capital markets will remain critical. Customs Union and WTO discussions will need careful management. Diversification of the economy, expansion of the SME sector, innovation, and entrepreneurship are important prerequisites for sustainable and broad-based economic growth in Kazakhstan.

Turkmenistan – On 15 April 2010, PricewaterhouseCoopers (Turkmenistan) opened a new office in Ashgabad, and it was my honour – together with our partners Courtney Fowler and Abdulkhamid Muminov – to host a reception for the business community to mark this occasion.



Dennis Nally meeting with the President of Mongolia, Tsakhiagiin Elbegdorj, in Davos – January 2010

Our opening ceremony coincided with the Turkmenistan Gas Congress 2010, which was attended by 500 delegates from 30 countries.

Our new practice in Ashgabad is a further demonstration of our deep commitment to the Central Asia & Caucasus region and to our clients, as the Turkmen economy gains further momentum and builds co-operation with the global business community. Turkmenistan is rich with natural resources, and its gas reserves are among the largest in the world. There is enormous potential, and we plan to support the future development of this increasingly important economy.

Over the past three years, PwC has helped its clients with their Turkmenistan projects remotely from Kazakhstan and Uzbekistan. During this time we have witnessed a continuous increase in interest among our MNC clients in doing business in Turkmenistan, primarily in the oil & gas sector. This development lay behind our decision to launch a new practice in the country. The opening of our Turkmenistan office is another important step in our journey towards helping to make this region a real powerhouse in this fast-changing part of the world. It increases our presence on the ground, and thus our capability to meet the demands of our clients for experience and expertise in a timely and professional way.

Mongolia – PricewaterhouseCoopers (Mongolia) has also started our operations in Ulaanbaatar, the capital of Mongolia. My first time in Ulaanbaatar, in January 2010, was also my first experience of life at minus 40 degrees, a temperature that was casually announced by the pilot as we descended to the capital. A breathtaking experience by any measure! The country is large and very rich in natural resources, and proud of its democratic system. With less than 3 million people, it has borders with Russia in the north and China in the south. Projects such as Oyu Tolgoi – in the south of the country, close to the border with China – with one of the largest world-class gold and copper reserves, present the country with major transformation opportunities.

The global economy is going through significant challenges. Old paradigms are coming under challenge, and new growth models are being explored to secure better visibility through the clouds of dust left behind by the global financial crisis. I am confident that the long-term potential and prospects for Central Asia & Caucasus and Mongolia present us in PwC – and the world economy as a whole – with enormous opportunities.

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Kazakhstan – The Central Asian Hub

The global economic downturn, which started at the end of 2007, has not been kind to many countries. In the UK, we have seen two of our major banks, RBS and Lloyds, suffer as the financial crisis bit deep.



A massive decrease in wholesale liquidity, falling values and lack of investment have hurt us all. Kazakhstan has not been exempt from this turmoil.

While many Kazakh banks suffered badly, this did not apply to all of the country's banks. Fortunately, the country has a welfare fund, with reserves accumulated from oil and gas exports. Samruk-Kazyna stepped in and the banks were saved. But capital was lost as foreign funds dried up and foreign investors sought refuge from the impact of global recession.

Now, over two years later, not only have we seen markets around the world recover, but confidence in investment in emerging markets is beginning to pick up. Prices and values of property and of corporate assets have reduced to such an extent that they are becoming attractive again to global investors and Kazakhstan is a beacon in Central Asia of political stability and of opportunity.

Building long-term relationships

There are, of course, some 'wrinkles' in any emerging market. With changing conditions – prices and costs – some contracts written many years ago are being revisited.

In some instances this has unnerved a number of overseas investors, including some large ones. Short-term problems exist in all emerging markets, as I discovered for myself when I headed up PwC China for five years in the 1990s.

Long-term relationships have to be nurtured and

developed over many years, supported by an acceptance by overseas companies that – as in a marriage – there will inevitably be occasional tensions and disagreements.

Impressive results

Kazakhstan also appreciates that a stable environment – political, legal and economic – is essential to attracting investment from abroad. In his State of the Nation address in January 2010, President Nazarbayev referred to the country's 2030 Strategy and focused on the 2010 and the 2020 Strategic Plans.

The results so far, since the country became independent in 1992, have been impressive. They have included significant GDP growth; rising earnings and the removal of hundreds of thousands from poverty; an increase in the number of hospitals and schools; improved housing; and an increase in the average lifespan. These are all noteworthy achievements.

Internationally, Kazakhstan's reputation has been enhanced as a result of being the first ex-Soviet state to assume the Presidency of the Organisation for Security and Cooperation in Europe in 2010.

How, one asks, does a Central Asian country manage to be given this accolade and this privilege to lead a 56-country organisation? It says a huge amount for the achievements and the standing of Kazakhstan's President, Nursultan Nazarbayev, whose 70th birthday we celebrate on 6 July this year.

A further step forward

The 2020 Strategic Plan is aimed at taking the country one step further in its development, with a focus on the following areas:

- People – their training and welfare
- Diversification of the economy, in addition to the continuing benefits from natural resources such as the exploration and production of oil and gas, and the mining of uranium, copper, nickel and zinc
- Investment in major projects such as railroads, gas chemical plants, fertilizer plants, power plants and refineries
- Investment in agriculture to increase productivity and exports to neighbouring countries, not least China (on Kazakhstan's eastern border)
- Processing of agricultural produce, new equipment, new technologies and approaches in the agricultural sector
- Development of healthcare and life sciences, with a focus on research
- Development of free trade policies with a view to joining the WTO
- Tourism, particularly in the south and east of the country.

The 2020 business road map is aimed at attracting more foreign investment in the country. This will require a return to financial stability, through improved regulation. It will also require the development of a stable and reliable legal commercial environment.

Focusing on realities

In my new role as the UK Government's Co-Chair of the Kazakh-British Trade and Industry Council (KBTIC), I had the pleasure of visiting Kazakhstan for a week beginning on Easter Saturday. My wonderfully coloured Easter eggs which I found on the lunch table of the hotel I stayed at in Almaty turned out to be hard-boiled rather than full of chocolate.

While this might have come as a disappointment to my grandchildren on my return home, I found that those I met during my visit concentrated on the hard realities of Kazakhstan – not painting a image that would evaporate once the shell is peeled.

Government Ministers, the Central Bank Governor, the heads of Samruk-Kazyna and Kazatomprom and the Regional Financial Centre in Almaty were all focusing actively on the actions and outcomes that might be expected from an enhanced Kazakh-British relationship.

Exciting opportunities

Kazakhstan offers significant opportunities for British companies in a large number of areas:

- English language training, particularly for specialist activities
- Business, professional and technical skills training
- Investment in financial services and the ongoing introduction of new capital (London has become and remains the centre for financing Kazakh companies listing on a stock exchange)
- Continuing investment in energy and mining exploration and production
- Sales of nuclear safety expertise, in which the UK excels
- Investment in major projects, as listed above
- Investment in agriculture and food processing
- Collaboration in healthcare and life sciences
- Tourism.

The relationship between Kazakhstan and the UK is good. Out of the 3,000 bright students chosen to go overseas (as part of the Bolashak – meaning “future” – over 1,500 have come to the UK. Lord (Norman) Foster's company has designed the eye-catching Pyramid of Peace which hosts an opera house, reception area and congress centre. His other stunning building, which resembles a nomadic tent, is nearing completion in the new capital of Astana.

As I mentioned earlier, there are some contract issues being negotiated and there are important steps to be made to secure certainty in the legal environment. But, taking Central Asia as a whole, Kazakhstan remains a beacon of hope and a centre for trade and investment in a region which offers enormous opportunities in the years ahead.

Politically stable, it is the Central Asian hub, understanding both east and west. Pivotaly positioned between China (to the east), Russia (to the north), the other Stans (to the south and west) and of course the lucrative markets of the Gulf and Europe (not far away), Kazakhstan can take advantage of being at the centre of trade, just as it has throughout the last 2,000 years.

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The Customs Union's impact on foreign investment in Kazakhstan

The Customs Union involving Russia, Kazakhstan and Belarus attracted intense interest among the foreign investment community in June 2009, when Russian Prime Minister Vladimir Putin made a surprise announcement that the three states would proceed with WTO accession as a group.

Since then, the focus has shifted to the implementation of the Customs Union (CU), with WTO accession for the three countries becoming somewhat sidelined. And while the details of the CU are still emerging, there is no doubt that the practical effects of its implementation present both risks and opportunities for investors evaluating projects in the region.

Put simply, the intended outcome of the CU is the eventual harmonization of customs at the external borders of the three countries, and the elimination of the existing customs borders between them. The first step towards these goals, taken on 1 January 2010, was alignment of the countries' import tariffs, largely by adopting the Russian tariff scheme. For Kazakhstan, which had very low tariffs generally, this meant increasing tariffs in 92% of cases. Future adjustments to the common tariff system will be conducted by a Customs Union Commission that is comprised of the three governments.

Beneficial aspects

At first sight, the impact of the CU on Kazakhstan appears negative. But criticising Kazakhstan's decision to enter into the CU as an acceptance of higher prices and reduced control over its own borders misses those aspects of the CU that are beneficial to the country, and – hopefully – to potential foreign investors as well.

With large and expanding oil and gas production, and a relatively small population, Kazakhstan's per capita income and GDP are virtually certain to resume healthy growth over the next few years. Prior to the global financial crisis, Kazakhstan was delivering consistent double-digit growth

year after year. The country's macro-economic outlook is still dominated by the energy sector, but Kazakhstan's wealth of natural resource is not limited to oil and gas. It also has significant and diverse mineral resources and remains one of the world's largest producers of wheat.

Against this generally positive background, the new Customs Union will directly remove one of the key barriers to diversification and foreign investment. With no border to cross to access the massive Russian market, Kazakhstan is suddenly a potential location for any business aiming to tap into that market. The market scale offered by the Customs Union far exceeds that of Kazakhstan alone, and now Kazakhstan represents an alternative point of entry to that larger market. With the agreed import tariff regime, all three countries encourage investment in local production by providing protection against imports from outside the CU. It follows that Kazakhstan will compete with Russia and Belarus for foreign investment into the CU market.

Competitive edge

Significantly, Kazakhstan has some competitive advantages over both of the other two members. The World Bank's Doing Business 2010 study ranked Kazakhstan close to Belarus, with both placed well ahead of Russia (ranked 63, 58 and 102 respectively). Kazakhstan offers notable advantages in terms of 'protecting investors', 'paying taxes,' and 'employing workers', but is disadvantaged in the 'trading across borders' category, a difficulty that may be remedied by the CU.

In February, Kazakhstani Prime Minister Karim Masimov

underlined the government's intention to compete on that basis, when he rejected calls to change the terms of the Customs Union, and confirmed that Kazakhstan would implement its own more liberal customs code to support the relative attractiveness of its market. The implication of his comments is that Kazakhstan will offer some more liberal customs practices, while still meeting the relatively conservative requirements of the CU.

The challenge for prospective foreign investors is to assess how the three governments will collaborate within the new CU structure, and how they will compete. Effectively, the government relations challenge has increased. Not only will investors now have to develop and maintain relations with one government, but potentially with all three, and with the CU organs themselves. It does not help that the formation of the CU was generally regarded as secretive and non-transparent, even by local standards. The practical operation of the newly emerging CU organs – such as the CU Commission – has been similarly non-transparent and undefined. Engagement in open dialog with business communities has only just begun. The overall effect is that where previous challenges already existed, the Customs Union has only served to add further uncertainty.

Power and influence

The delicate question of how power and influence among the three countries will evolve inside the Customs Union adds further risk. Against the backdrop of three drastically different WTO accession histories, uncertainty remains about future progress on key WTO issues such as tariff regimes, intellectual property rights, and the impact of new legislation in one member state on the others. Trade concerns will continue to arise among the three countries, such as the recent gas and dairy disputes between Russian and Belarus, and Russia's fears over Kazakhstan's porous southern borders.

However, while these issues add risk and complexity, the member states are committed to the realization of the CU. And out of all this uncertainty an opportunity is arising for foreign investors. In Kazakhstan, most of the media and analytical coverage of the CU has been decidedly negative in tone. While the government quietly proceeds with CU implementation, the popular media, consumer interest groups and domestic businesses have stoked fears of dire consequences: Russian goods flooding the market; domestic businesses losing competitiveness, and closing as a result; and the unleashing of painful price inflation. Indeed, some evidence of the last of these outcomes has already emerged.

The overall result of this negative coverage is that investors who can support the government's justifications

for entering into the CU will find a receptive partner. Businesses that invest in operations in Kazakhstan, and that help to drive employment and diversification in the Kazakhstani economy, would have received a warm welcome in Astana even before the CU. But now the advent of the CU has quickened the urgency of Kazakhstan's efforts to develop its economy, and demonstrable successes are needed.

Opportunities and pitfalls

For foreign businesses exploring investment in Kazakhstan, the evolution of the CU presents new angles on the opportunities and pitfalls of market entry. On the one hand, Kazakhstan may now provide a more attractive business environment for locating operations to serve a market of 170 million people. On the other, the details of the CU's implementations and operations remain unclear and will result in additional layers of bureaucracy, requiring radical changes in investors' government relations strategies. The main reason Kazakhstan pursued the CU is to become a more attractive target for investment to diversify its economy. Prospective investors will watch with interest the development of the CU, and how well Kazakhstan competes for investments, to assess the result.

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Kazakhstan in 2010

In 2010, Kazakhstan is emerging slowly from the previous year's economic crisis. The country closed the first quarter of 2010 with clear signs of positive momentum on the economic front, after a difficult 2009.

Following a year of crisis brought on by the oil price collapse and a credit crunch that plunged the overexposed banking sector into turmoil, rising commodities prices and domestic bank debt restructuring will help stabilise the country's economic outlook. However, this economic environment will also see an intensification of resource nationalist policies.

Bank restructuring: Alliance completed, BTA moving along

The finalisation of the debt restructuring process for Alliance Bank and the new deal signed between BTA Bank and the creditor steering committee are positive milestones, both for the two banks and also for the Kazakh banking sector as a whole. On 26 March 2010, Alliance Bank, the second-largest bank to default in 2009, announced the completion of its US\$4.6 billion debt restructuring. Alliance is the first Kazakh bank to successfully restructure its debt, with BTA Bank, Temirbank and Astana Finance still in negotiations. In February 2009, the government acquired a 78% stake in BTA in the form of newly issued shares, and a 76% share of Alliance. These banks soon went into default. Despite some complications, the restructuring plans of both BTA and Alliance have largely stayed on schedule.

The trigger for the new debt restructuring deal signed on 17 March between BTA Bank and the creditors' steering committee was the demand from the Kazakh side to amend the terms of the deal reached in December. Nevertheless, the new arrangement was still welcomed by the markets – a response that reflected the background to the agreement. Several weeks earlier, it had become clear that the government was seeking to convert its own holdings of BTA bonds into preferred equity, with an annual guaranteed dividend of about US\$170 million. Then, in the weeks running up to the deal, there were widespread

concerns that no agreement would be reached, given that the creditors appeared unlikely to agree to these new terms. However, ahead of the 23 March deadline set by the financial regulator, a revised deal was agreed under which the government will get about half of the US\$170 million per year it was demanding through a guarantee fee.

Less uncertainty in future

Going forward, there is likely to be much less market uncertainty about the restructuring process. The BTA restructuring is now on schedule to be finalised by the summer. And while the terms could still change – the trigger for the new terms was the demand from the Kazakh side to amend the terms – there is less risk of this happening now that the government has been able to extract more cash from the deal for itself. Moreover, the Samruk-Kazyna Fund, which controls the government's shares in BTA Bank, is eager to finalise the BTA restructuring, with the end goal of selling its stake. As the process winds down, speculation about a potential Sberbank acquisition is likely to increase. Sberbank may eventually buy a stake in BTA, but the Russian bank is not in a hurry and will not make a decision until the restructuring process is completed.

Resource nationalism: Attacks on PSAs, Karachaganak, new Oil and Gas Ministry

The recovery in oil prices coincides with reaffirmed resource nationalist inclinations towards the hydrocarbon sector. President Nursultan Nazarbayev made it clear in January that the government is looking to abolish tax exemptions for subsoil users. His statements, which imply annulling long-term production sharing agreements (PSAs), have since been reaffirmed by Minister of Oil and Gas Sauat Mynbayev (previously Minister of Energy and Natural Resources

prior to the 12 March government reorganisation) and the Finance Ministry, which is looking into the legality of existing oil and gas contracts.

While it is unlikely that the government will annul PSAs outright, these statements are an indication that the attacks on tax exemptions for IOCs will be significantly ramped up. Since the 2007 Kashagan dispute, the government has worn down the PSA protections in various ways, challenging contract sanctity. In the most obvious attack on tax exemptions, the government forced the Karachaganak consortium to pay the oil export duty when it was briefly adopted in 2008. Essentially, the government has been testing the waters with its attitude towards PSAs for some time.

Meanwhile, the government has made it clear that it is seeking to acquire a stake in the Karachaganak deposit, one of the world's largest gas condensate fields. The government's desire to see state company Kazmunaigas (KMG) become an equity stakeholder in the project does not come as much surprise. The Karachaganak Petroleum Operating (KPO), which controls the project, is the only major oil and gas operation in Kazakhstan in which the state does not have a stake – and private companies have recently come under significant regulatory pressure. In the light of past cases (Kashagan), and an ongoing tax dispute between KPO and the government, it is likely that the state will manage to carve out a stake for KMG. Until a new deal is reached and as negotiations drag on, the Karachaganak consortium will remain under heavy pressure from the government.



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Prior to moving to Eurasia Group's London office, Ana worked in the New York office. Before joining Eurasia Group, she worked in Belgrade and New York. She has conducted research and analysis at Columbia University's Harriman Institute, Freedom House, the International Center for Transitional Justice, and the Open Society Institute on a range of issues including human rights, conflict prevention, and political and economic development in transitioning countries.

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The Kazakhstan Ambassador to the UK, HE Mr Kairat Abusseitov, shares his thoughts with PwC Russia & CIS Express

What progress is being made in Kazakhstan in addressing the aftermath of the global financial crisis in sectors such as banking?

Our Government has protected the country's financial system, saved the backbone banks and supported small and medium-sized businesses.

In order to stabilise the financial sector, the National Bank and the Agency of the Republic of Kazakhstan on regulation and supervision of the financial markets and financial organizations (FSA) has taken a number of legal steps aimed at strengthening the regulatory and supervisory functions of the state in the financial sector. Since last year, the minimum reserve requirements on domestic liabilities have been reduced from 5% to 1.5%, and on other liabilities from 7% to 2.5%.

In order to maintain confidence in the banks, legislation was introduced to increase the amount of guaranteed compensation for individuals' deposits from the previously provided 700,000 tenge (e.g. US\$4,760) to 5 million tenge (e.g. US\$34,000). This increase will take place over three years to 2012.

From 1 January 2009 a new Tax Code was introduced which provided a significant reduction in the tax, especially for the non-oil sector.

During the global financial crisis, four main Kazakh banks received support from the Government, with the total funding amounting to 476.09 billion tenge (e.g. US\$3.2 billion):

- BTA Bank - 212 billion tenge (e.g. US\$1.44 billion)
- Kazkommertzbank - 120 billion tenge (e.g. US\$0.816 billion)
- People's Bank - 120 billion tenge (e.g. US\$0.816 billion)
- Alliance Bank - 24 billion tenge. (e.g. US\$0.16 billion)

A proportion of these funds was used to buy shares in banks.

How strongly has the Kazakh economy as a whole emerged from the crisis?

The global financial-economic crisis has had an impact on rates of economic growth. Over the past three years, economic potential has been generated to provide sustainability in the efforts to manage the crisis.

Unprecedented assistance was rendered to the agro-industrial complex; the proportion of "Kazakhstan content"

was increased in the state procurements of the national and transnational companies. The state also settled the problem of equity holders in participatory construction. And under the government programme "The roadmap - 2009", 862 projects to reconstruct housing in the communal sphere were implemented in the regions. Other repair projects under the programme included 737 km of electric power grids, 1029 km of water supply pipelines, 283 km of roads, and hundreds of schools as well as hospitals, social, sport and cultural assets.

Economic growth in 2009 was 1.1%, and 1.7% in industry. As a result we've been included in the "breakthrough group" with positive rates of growth. The National Fund's assets and gross international reserves exceeded KZT 50bn, (e.g. US\$0.34 billion) having increased 25-fold in the past decade. The Fund enabled the country to launch the bailout program and return significant assets to state ownership – including Ekibastuz GRES-1 and the Bogatyr mine, as well as our shares in Kashagan, Mangistaumunaigas and all three oil-processing businesses which we had to sell in difficult times.

The unemployment rate in 2009 was 6.3%, which is lower than before crisis; over 400,000 jobs were created under the Employment Strategy. Overall, we've withstood the crisis, and now President Nazarbayev has launched the Development Strategy - 2020.

What are the main commercial developments currently under way in Kazakhstan?

As mentioned above, Kazakhstan has launched the Development Strategy -2020. This aims to prepare the economy for post crisis development, achieve sustainable economic growth via accelerated industrialisation and development of infrastructure, invest in increasing the future competitiveness of our human capital, provide our citizens with good social and housing-communal services, and enhance international concord and national security.

Recently our President signed new state programme of accelerated industrial-innovative development and a detailed Map of Industrialization for the Republic. These two documents represent an action plan for the next five years. To date the focus is on 162 projects with total investment volume of KZT 6.5 trillion (e.g. US\$0.04 trillion) – over 40% of the national GDP, implying 200 new vacancies in the coming three years.

And in next five years a range of big projects will be commissioned: a gas-chemical complex, mineral fertilizer businesses, electric power stations and others. The aim is that each industrial project in each region will be under the control of the local authorities and public community.

What types of Kazakh companies are investing abroad in general, and in the UK in particular?

The first major Kazakh investment projects within the territory of the European Union were in Romania. In July 2009, a branch of the joint-stock company NC KazMunaiGaz – “The Trading House of KazMunaiGaz” – signed an agreement to acquire an additional 25% of RomPetrol Group NV. This meant that NC “KazMunaiGaz” became the 100% the owner of Rompetrol, with a marketing network of 900 petrol stations in six countries across Europe, Romania, Bulgaria, Georgia, Ukraine, France and Spain.

Further investment projects in Romania are planned, and Kazakh companies also have many projects in CIS countries.

Since the visit by the President of Kazakhstan, Nursultan Nazarbayev, to the London Stock Exchange in November 2006, eight Kazakh companies have listed on the Main Market and four have joined the Alternative Investment Market. As a group these companies have raised US\$6.3 billion, and have generated more than US\$25 billion in trade volume.

In 2008 there were two Kazakh IPOs in London – Zhaikmunaj on the Main Market (GDR) and Sunkar Resources Plc on AIM. In combination they raised US\$155 million, accounting for 4% of the total amount raised by international companies through IPOs in London in 2008.

How closely does PwC work with the Embassy, and Kazakh government as a whole, in encouraging commercial understanding and trade in both directions?

PricewaterhouseCoopers (Kazakhstan) contributes in many ways to the development of bilateral cooperation, acting for many companies in Kazakhstan. I am pleased to say that PwC is investing in local staff and recruiting young graduates from KIMEP, the leading Kazakh business school. The Embassy appreciates PwC’s commitment to our projects, including supporting the annual international conference, the ‘Kazakhstan Growth Forum’, in London.

I should note that Sir John Stuttard, Vice Chairman of the PwC advisory board, has become the Co-Chairman of the Kazakh-British Trade and Industry Council (KBTIC) from the UK side. The next KBTIC meeting will take place in London in June 2010 the day before ‘Kazakhstan Growth Forum’, which will be held on 15-17 June.

A further area of diversification is the development of the agro-industrial complex in three directions. First of all, the emphasis will be on increasing labour productivity, which has been low to date – about US\$3,000 per employee annually, while in developed countries this index reaches around US\$50,000 to US\$70,000. The goal is to at least double labour productivity in AIC by 2014.

Another current priority is realising the potential to improve transport links, primarily via the markets of the Customs Union, Central Asia, Caucasus and Near East. We are constructing railways to do this – including Zhetygen-Korgas and Uzen-state border with Turkmenistan, opening up access for our domestic goods to the markets of China and the Persian Gulf states.

Three new scientific centres will be established in Astana. The Centre for Science on Life will concentrate on research in organ transplantation jointly with scientific institutes worldwide. The Centre for Energy Research will be involved in the development of renewable energy sources, research in physics, and developing advanced technologies. The Inter-Disciplinary Instrumental Centre will be comprised of a laboratory base and design bureau. All three centres will be established by the end of 2010.

Going forward, what importance does Kazakhstan attach to the UK as a trade partner? You’ve now been in the UK for two years. How have your impressions of dealing with the British evolved during that time?

Both our Governments have consistently demonstrated their shared solid support for continued and mutually beneficial cooperation in trade and investments between our countries. Obviously, this has become even more important during the global economic crisis. The legal framework to support the cooperation between our countries was set up in 1995 by the signing the Agreement between Kazakhstan and the United Kingdom for the promotion and protection of investments.

HRH The Duke of York, in his capacity as the UK’s Special Representative for International Trade and Investment, visited Kazakhstan in April 2010. He held a series of meetings with the President of the Republic of Kazakhstan Mr Nursultan Nazarbayev, top government officials, business leaders, and British firms operating in Kazakhstan.

I am pleased to note that prior to the recent global crisis, the degree of bilateral economic cooperation between Kazakhstan and the United Kingdom reached new heights. In my opinion, this confirms the existence of a solid foundation that will eventually support future growth in the post-crisis period. Britain continues to be a major trade and investment partner of Kazakhstan. British businesses have invested US\$7.2 billion, or 5.3% of the total accumulated foreign investment in Kazakhstan as of 1 October 2009. Bilateral trade turnover in 2009 naturally decreased by 22.5 per cent due to the economic conditions, and stood at US\$1.9 billion. Despite the slowdown in trade, the number of UK firms with a presence in Kazakhstan increased last year from 450 to over 500. These ranged SMEs to global players including HSBC, BG, Shell, BAE Systems, De La Rue, Denton Wilde Sapte and the big four accountancy firms. Many of these firms, of course, operate in the oil and gas sector, but

others are in mining, manufacturing, energy, and financial and professional services.

What are the current levels and types of commercial activities between Kazakhstan and the UK? What factors tend to attract Kazakh companies to the UK?

The financial services industries are an obvious area of collaboration, given the position of the City of London as a world leader in the financial sector. The Lord Mayor of the City of London, Alderman Ian Luder, visited Kazakhstan in July 2009, accompanied by a delegation of prominent business people. The visit was aimed at further strengthening of the links between the City of London and the Regional Financial Centre Almaty (RFCA), and widening business partnership across range of sectors. Within the framework of this visit, the 13th meeting of the Kazakh-British Trade and Industry Council (KBTIC) took place in Astana.

At the time of the first Lord Mayoral visit, in May 2007, some 17 Kazakh companies were listed on the London Stock Exchange; today they number 22, consisting of 11 on the Main Market and 11 on the Alternative Investment Market (AIM). A good example of a huge Kazakh company listed on the LSE is Eurasian Natural Resources Corporation (ENRC), which raised £1.5bn in 2007 the largest offering by a Kazakh company to date. All Kazakh companies that have conducted international IPOs have done them in the UK rather than in America or Hong Kong.

What advice would you give to UK companies looking to do business and invest in Kazakhstan?

I would encourage any UK businesses who have not yet been to Kazakhstan to go and see the opportunities available there. In my opinion, the most important things that businesses especially SMEs need is information and a platform to facilitate contacts between the business sectors of our two countries, helping them to understand each other and become partners. Therefore, the Embassy's current emphasis is on attracting small and medium-sized businesses to work in those sectors that are below the radar of multinational companies. In line with this, the Kazakh-British Chamber of Commerce, a non-profit making organisation established last year, operates to promote trade and cooperation between the UK and Kazakhstan, helping SMEs in both countries to find trading partners and representing the interests of its member companies.

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.





Doing business in the UK

Then called 'Regional Trends, April 2010



Key trends and observations in this report include:

- Uncertainty remains over the outcome of the general election
- Business confidence gradually improving; cautious optimism prevails
- Initial signs of loosening of credit availability
- Public expenditure key growth driver recently
- Unemployment rate highest in London
- Housing market on the rise but below the 2007 peak

To access this report please visit:

http://www.pwc.co.uk/ni/publications/regional_trends_april_2010.html

IPO Watch Europe – Review for the year 2009

PricewaterhouseCoopers **IPO Watch Europe – Review of the year 2009** is compiled by the Capital Markets Group and collates and builds on the findings of our quarterly surveys tracking the volume and value of IPOs on Europe's main stock exchanges.

IPO activity across the European exchanges has continued to suffer in 2009 largely due to the worldwide loss of investor confidence and global economic crisis. As a result the IPO markets experienced further significant declines in both value and volume compared to 2008 which was already a dismal year. The fourth quarter of 2009 did show some early signs of recovery, with a distinct upturn in IPO volume and value compared to the first three quarters.

The European exchanges continued to be outperformed by both those in the US and in Greater China for the second consecutive year, illustrating the fact that investor confidence in the European markets is lagging behind those two regions. NYSE Euronext became the most successful European market in 2009 with a market share by offering value of 27%, despite a fall in both the volume and value of IPO activity.

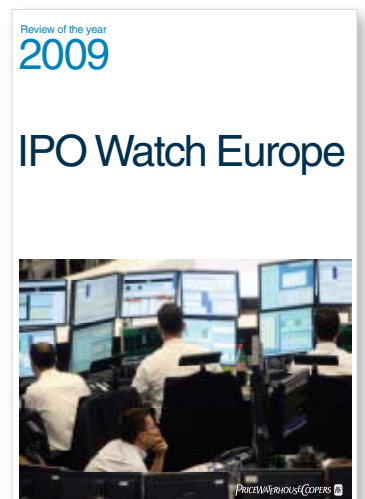
The current economic background across the European markets remains fragile making it difficult to firmly predict

when the IPO market will fully reopen for business. Our prediction of the IPO market reopening in the second quarter of 2010 may have to be put back six months unless confidence returns and market conditions improve shortly. In any event, it is likely to remain a buyer's market for some time as investors look carefully for good quality companies which are sensibly priced.

If you would like to speak to one of our listings experts please get in touch with Tom Troubridge at tom.troubridge@uk.pwc.com.

To read the full report, please visit:

http://www.pwc.co.uk/eng/publications/ipo_watch_review_2009.html



Key facts and figures: Turkmenistan



Geography

Central Asia, bordering the Caspian Sea to the West; Iran and Afghanistan to the South; and Kazakhstan and Uzbekistan to the North and East. The low-lying western and central areas of Turkmenistan make up the great Garagum (Kara-Kum) desert, which occupies over 80% of the country's total land area of almost 470,000 sq km.

Climate: subtropical desert. Average summer temperature of 24°C. The climate is continental, with hot, dry summers and winters that are generally mild and dry, although occasionally cold and damp in the north

Capital

Ashgabat

Population

4,884,887 (July 2009 est.)

Language

Turkmen (official) 72%, Russian 12%, Uzbek 9%, other 7%

Currency

Turkmen Manat (TMM)

Foreign trade

The country's main trading partners (as they were in 1990) were Russia, Kazakstan, and Uzbekistan in the CIS and Germany and countries in Eastern Europe outside the CIS.

Leading industry sectors

Natural resources: petroleum, natural gas, sulphur, salt
Imports and commodities: machinery and equipment, chemicals, foodstuffs

Tax rates

Turkmenistan has low tax rates. The tax income is 10%, and top corporate tax rate is 20%. Other taxes include a VAT and an excise tax

Good to know

Turkmenistan is made up mainly of desert and has the smallest population of the five former Soviet republics in Central Asia. The country claims to possess the world's fifth largest estimated reserves of natural gas.

For further information about doing business in Turkmenistan, please contact Alina Listopad at the Russia & CIS Business Centre.

Key facts and figures: Mongolia



Geography	<p>Northern Asia, landlocked between China and Russia.</p> <p>Area total: 1 566 500 sq. km. (604 103 sq. mi.); Terrain: vast semidesert and desert plains, grassy steppe, mountains in west and southwest; Gobi Desert in south-central; almost 90% of land area is pasture or desert, of varying usefulness; 1% arable; 9% forested</p> <p>Climate: Sharp continental, marked by four seasons. Average summer temperature +17°C, average winter temperature -26°C</p>
Capital	Ulaanbaatar
Population	2.7 million (UN, 2009)
Language	Mongolian, Kazakh, Russian, and English
Currency	Togrog/Tugrik (MNT)
Foreign trade	The country's main trading partners are Russia, China, USA, Japan, South Korea, UK (2004)
Leading industry sectors	<p>Natural resources: Oil, coal, copper, tungsten, phosphates, tin, nickel, zinc, gold, silver, iron</p> <p>Imports and commodities: machinery and equipment, fuel, cars, food products, industrial consumer goods, chemicals, building materials, sugar, tea.</p>
Good to know	<p>The Mongolian State was founded in 1206 by Genghis Khan. From 1691 Mongolia was part of the Manchu Empire. After the fall of the Manchus in 1911, the area formerly known as 'Outer Mongolia' declared independence. With Soviet help, a revolutionary government seized power in 1921 and in 1924 the Mongolian People's Republic was established. Stalinist one-party rule by the Mongolian People's Revolutionary Party (MPRP) lasted until 1990 when, following a popular campaign of mass demonstrations calling for political and economic reform, the first multi-party elections took place.</p>

For further information about doing business in Mongolia, please contact Alina Listopad at the Russia & CIS Business Centre.



News from the Russia & CIS Business Centre

As the global economy picks up, it's been another busy quarter for our Russia & CIS Business Centre. Here's a round-up of recent developments.

Our Russia & CIS Business Centre is expanding



Gaziza Nurtuganova
gaziza.nurtuganova@uk.pwc.com

A warm welcome to Gaziza Nurtuganova

Gaziza has recently joined us from PricewaterhouseCoopers Kazakhstan, where she was in charge of the office of the Managing Partner. More recently, she was a Senior Marketing Consultant in the Marketing and Communications team. Gaziza brings valuable experience to our initiatives and strengthens the links between PwC in the UK and Kazakhstan.

PwC's presence in CIS is expanding

PricewaterhouseCoopers (Belarus) was registered on 30 April 2010 – and soon to open in Minsk, ready to service local and overseas clients in the region.

We wish the new team all the success.

Law Firms – Doing Business in Russia: 31 March 2010

With presentations from key experts across the UK and Russian PwC firms, including Alex Bertolotti (UK) and Alan Broach (Russia), the seminar gave law firms an insight into what it takes to do business in Russia and what the future might hold for this growing economy.

The Russian economy saw steady growth before the recent financial downturn. It is already experiencing a strong recovery.

GDP is projected to hit 4% by the end of 2010 and 4.6% in 2011, and there is, understandably, interest from clients and investors in this market.

Rupert D'Cruz, Secretary of the British Russian Law Association, provided an overview of recent legal changes in the region. This event saw attendance from some of the biggest law firms in the UK, including Clifford Chance, Allen & Overy, Linklaters, Slaughter & May and Lovells.

This seminar is part of PwC's wider programme of events aimed at helping our clients and contacts understand how they can benefit from doing business in Russia and also help identify the opportunities available to them

For more information on this event or if you would like to explore business opportunities in Russia and the CIS please contact **Alina Listopad** or email to **russia@uk.pwc.com**



PwC in the market place

PwC has recently supported and sponsored:

- Britain in Azerbaijan, A Trade & Investment Forum, held on 8th March 2010 at Mansion House
- Russia Business Week “Modernisation of the economy in a post crisis environment”, held on 20th March 2010 at London School of Economics and Political Science

If you were unable to attend these events and would like details of what was discussed, please get in touch with the Russia & CIS Business Centre.

Diary dates

- Ukrainian Investment Summit, an annual investment gathering – 17th-19th May 2010
- Annual International Kazakhstan Growth Forum – 15th-17th June 2010
- RBCC Forum “Russia-New Opportunities for Business” – 23rd-24th June 2010

For more information on past and future events please contact **Alina Listopad** or email **russia@uk.pwc.com**

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PricewaterhouseCoopers is proud to sponsor the **5th Annual International Kazakhstan Growth Forum**, the largest and most influential investment gathering on Kazakhstan.

The Forum will take place on 15th-17th June 2010 at the Renaissance Chancery Court Hotel, London.

For further information please email Adam Smiths Conferences at kazakhstan@adamsmithconferences.com

The PricewaterhouseCoopers global network of member firms is well established in Kazakhstan, Azerbaijan, Georgia, Armenia, Turkmenistan, Mongolia, Uzbekistan and Kyrgyzstan, and is continuing to expand in this dynamic part of the world. The client base has grown along with PwC and covers all sectors of the economy, including oil and gas, mining, financial services, consumer and industrial products, telecommunications and business services.

Whatever your business, we're here to help - investing in Kazakhstan, or setting up operations in Europe - PricewaterhouseCoopers will help turn your aspirations into reality.

pwc.co.uk/emergingmarkets

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PwC Speakers



Andrew S. Nevin, PhD

Director, Strategy Group

Andrew will participate in the session "Kazakhstan a year on - key strategies going forward" with specific focus on the Financial Sector reforms



Clement Walsh

Director, Corporate Finance

Clement will participate in the session "Government update on the new industrialisation programme" commenting on PPP matters.



Katya Kuznetsova

Director, Capital Markets

Katya will participate in the session "Access to Funding through international private investors", to share views and experiences around listing of equity capital on international stock exchanges.