Oil&Gas Bulletin

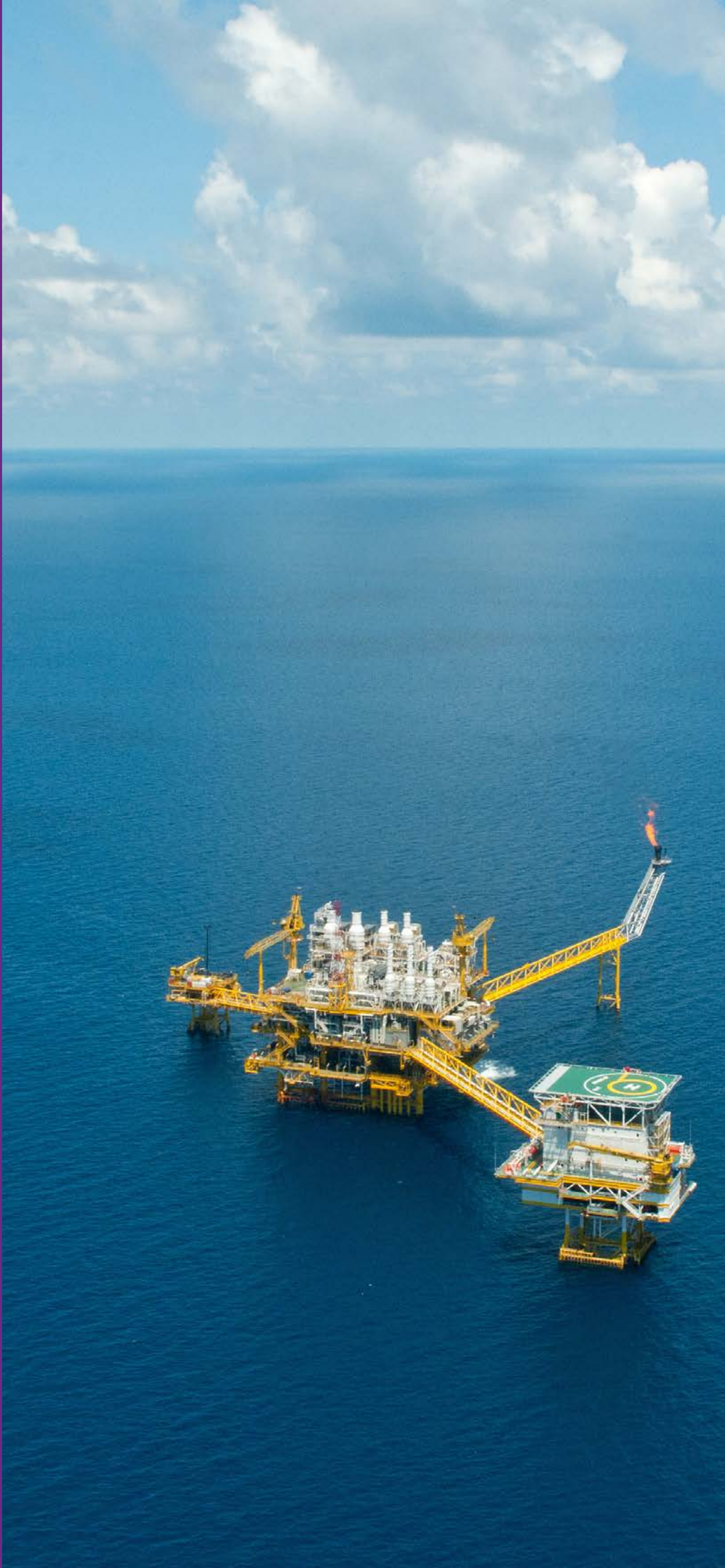
The KPMG Oil & Gas Practice
in Kazakhstan and Central Asia

September 2016

kpmg.kz

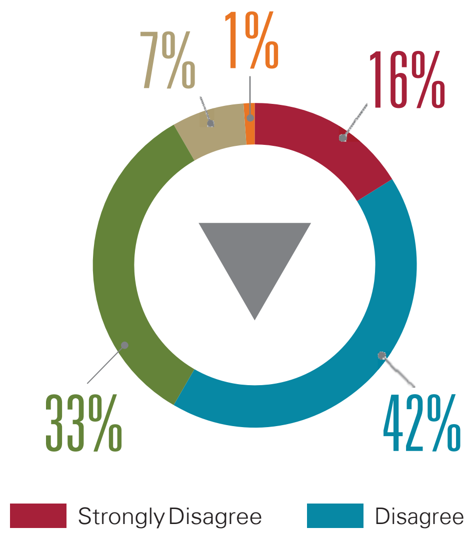
Contents

Global CEO
Talent Management

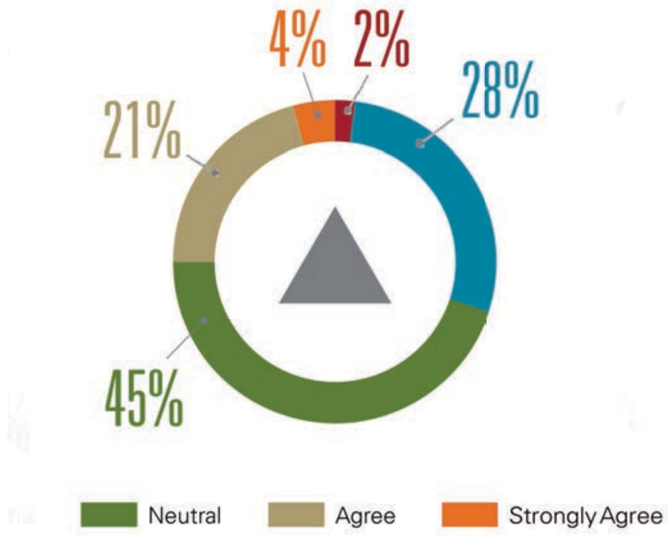


Talent Management

There are skills gaps in our business and they will worsen inthe next 3 years.



There are skill gaps now but we are working to improve the situation in the next 3 years.



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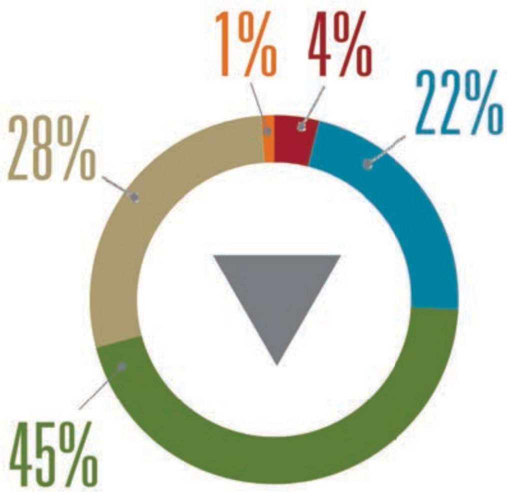
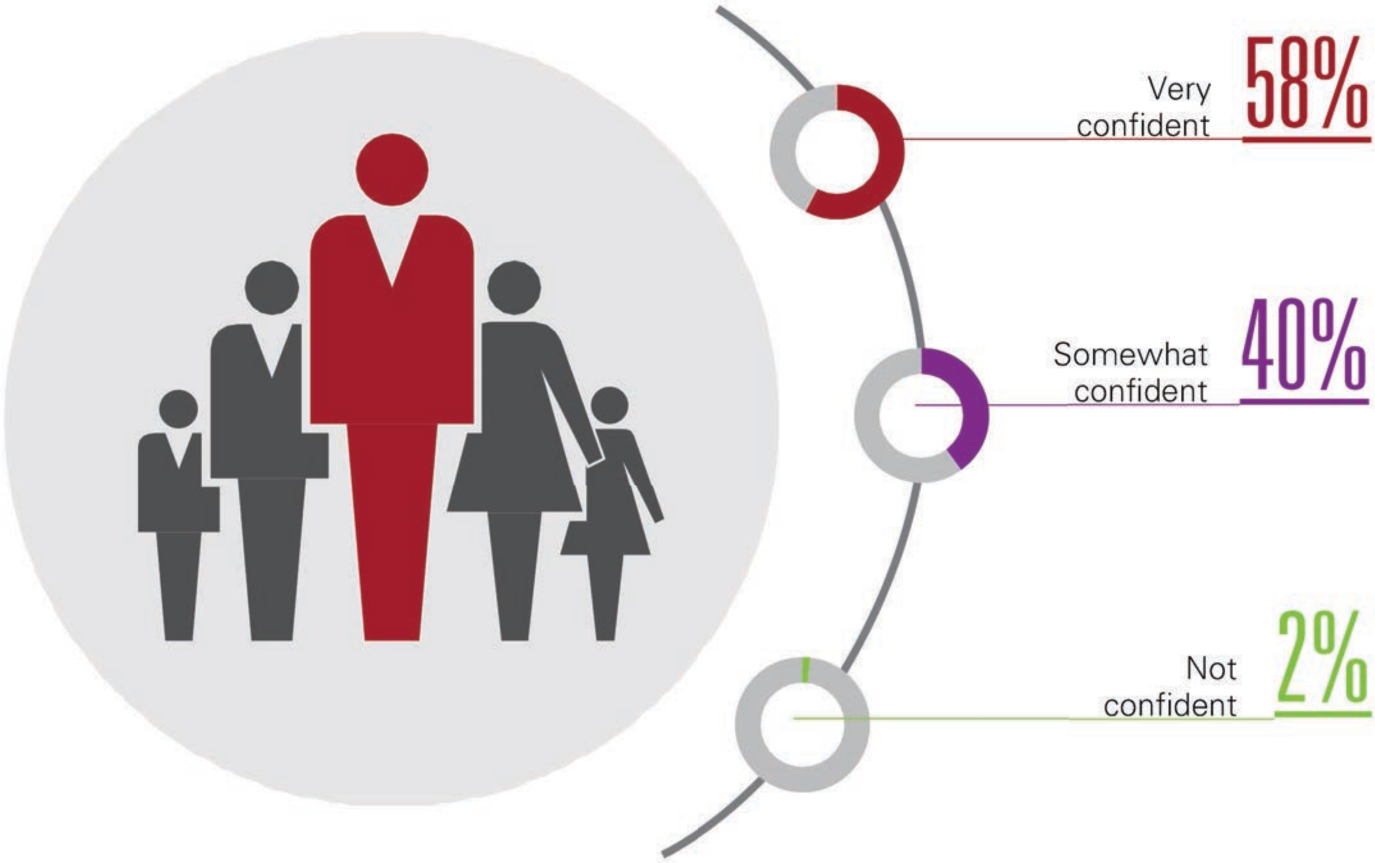


The majority of energy CEOs do not think their skills gap will worsen in the future.

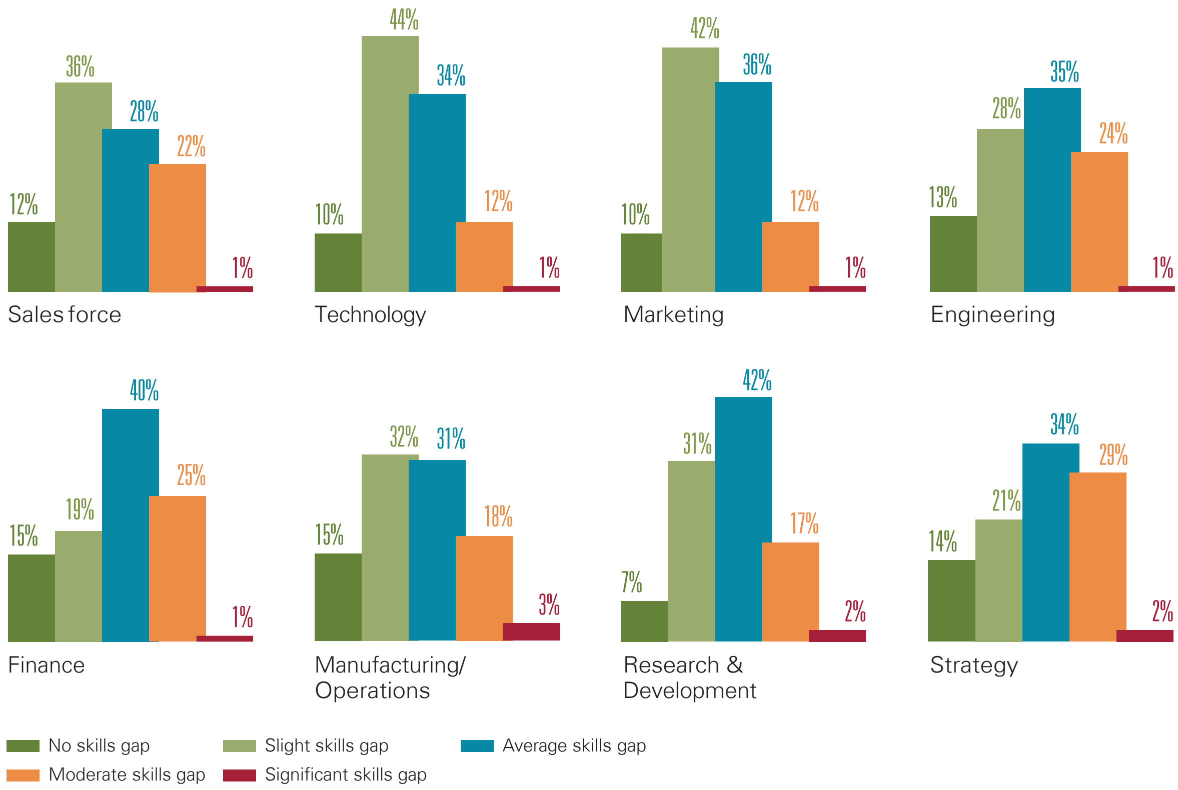
Are you confident that you have the right talent in place to drive success in your organization in the next 3 years?



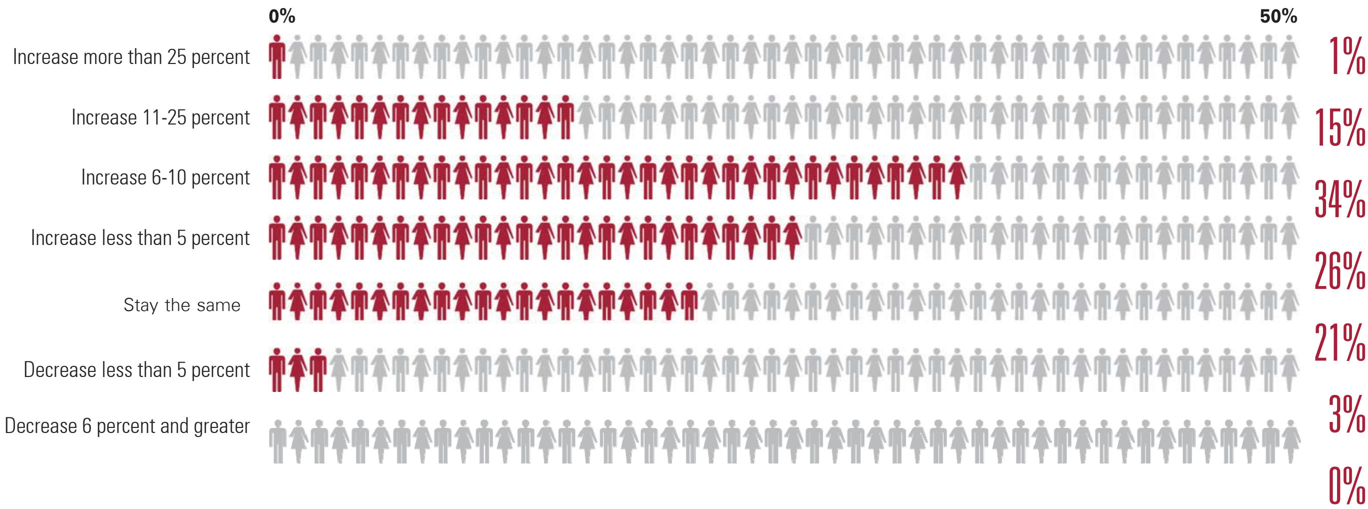
Ninety-eight percent of CEO are confident they have the right talent in place to drive success.

Talent Management (continued)

Please rate the following functional areas with respect to your skills gap.

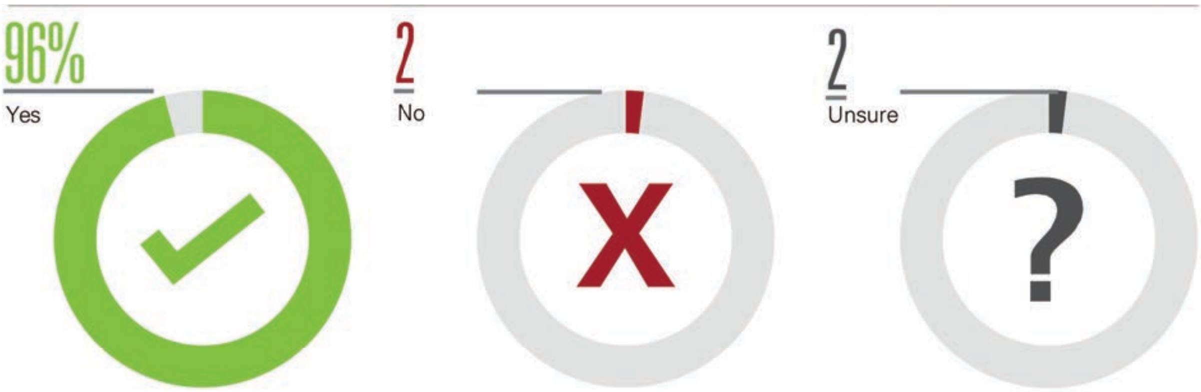


How do you expect your organization's headcount will change over the next 3 years?



Organizational headcount will increase over the next 3 years.

Do you feel your company has a high performance culture?



Companies have a high performance culture based on 96 percent of CEOs.

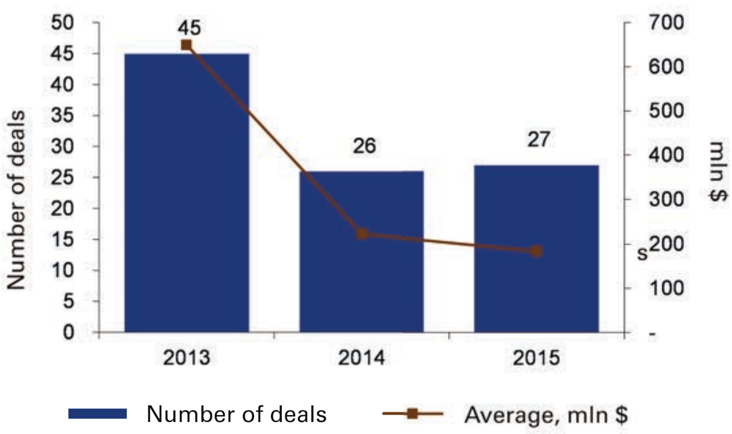
Kazakhstan M&A market: doing deals in insecure times

Kazakhstan M&A market: doing deals in insecure times

Notwithstanding at what phase of economic development (recovery or recession) the economy of one or another country is, mergers and acquisitions, in theory, continue taking place even in the times of crisis. Kazakhstan seems has not become an exception to this rule. Beneath our eyes, the local M&A market is rapidly turning from a sell-side marketplace existing for a few last years at the times that seems absolutely fantastic now, with oil price as high as USD 100 per barrel, into a buy-side market. Is it really so?

In fact, it may look that if you intend to buy assets in Kazakhstan for a very low price, you should do so right now as your time has come. However, if you look more intently, the real situation is not that straightforward: a number of factors has influenced lately the behavior of investors and sellers, turning the current Kazakhstani deal field into "observers" market, which could be characterised as follows: "We are sitting and waiting to see what will happen next".
Last year and current year we have witnessed a number of factors that affected the ongoing decrease in the number of deals in Kazakhstan, as well as decrease in the size of deals that actually took place; moreover, at times the M&A market has been even in a standstill state.

Closed M&A deals in Kazakhstan in 2013-2015



Note: an average amount of a deal was calculated on the basis of a number of deals with disclosed sizes: 24 in 2013; 20 – in 2014 and 22 – in 2015.

Source: Deal Watch

Drop in oil prices from their historic maximum of USD 100+ per barrel during 2010-2013 down to less than USD 30 per barrel early in 2016 has become one of the key drivers causing the 76% devaluation of tenge in the period from 1 August 2015 to 29 April 2016. Devaluation was expectedly followed by the overall country downgrading by all leading rating agencies and individual downgrading of some local companies, especially local banks that had funding mostly denominated in USD and loan portfolios denominated in KZT. Obviously, in the investors' viewpoint, it is a "red light" for investments in any business where cash outflows (in terms of both operating costs and interest charges) are denominated in hard currency while inflows are tenge-denominated. In addition, the uncertainty, including uncertainty in expectations over the future tenge exchange rate, has resulted in the situation where the investors and sellers lost a fundamental sense of deal value pricing, i.e. rather often the amount at which an investor has evaluated an asset and is willing to pay differs greatly from the amount for which a seller is willing to sell. This could have been referred to normal price trading practice, if not the fact that previously the parties had reached consensus during the negotiations, while currently we see the otherwise situation. In such circumstances, the process of deal planning and especially the deal negotiating becomes more and more unpredictable, which have caused many deals to be ruined at the early stages. Moreover, the current decrease in the level of liquidity has forced many investors (both local and foreign) to put aside their M&A plans.

In parallel with the drop in oil prices, the western world had imposed a wide array of sanctions on Russia, one of Kazakhstan's key political and trade partners. Sanctions have caused the sharp drop in the Russia's GDP, which has been demonstrating a negative growth rate since mid-2014 till present and historic minimum of FDI. Although many expected certain redirection of investments flows from Russia to Kazakhstan, up until today the reality has failed to confirm this expectation. Russian investors' focus seems to be mainly directed at investments within their country, while foreign investors who have left Russia do not yet rush to reinvest in Kazakhstan.

At the same time, investors on Kazakhstani market are already preparing for a new round of privatisation, announced in late 2015. Although all players of the Kazakhstan M&A market have immediately raised their hopes that this process would "wake-up" the silent deals field, it looks like the timeline of new privatisation program would actually take longer than expected. This undoubtedly increases further the uncertainty in the eyes of potential investors. The delay can be partially explained by the fact that just a few months have elapsed from the privatisation announcement date and that the early parliamentary elections were announced to be held in March 2016. "M&A market silence" before any state-level elections is, in general, the specific feature of Kazakhstani M&A market (though to a certain extent, it is characteristic of any other country worldwide): almost no deals ever take place during just a few months before and after the elections. You might remember that similar situation was observed before the presidential elections in spring 2015. Now the hopes of market players are high for the rest of 2016 and 2017-2020, as a long list of the public assets subject to privatisation has been announced.

Interesting enough is the fact that during the last year the investors' behavior changed significantly - cautious Americans and Western Europeans are just looking in the direction of Kazakhstan and hesitate to enter its market. However, this fact does not stop our eastern neighbors, primarily from China, that may become one of the key foreign investors and, therefore, the key M&A market players in the foreseeable future.

Along with the change in the geographical profile of investors, the industry focus of investors has also changed significantly: the "love" for Kazakhstani ENR sector is gradually falling against the background of growing interest to such sectors as production of consumer goods (processing industry and agriculture).

The active participants in that small number of deals that have taken place during the last three years are the large investors – direct investment funds and partially those foreign investors that changed their sphere of interest with regard to Kazakhstan and left the market. The result was a temporary revival of activity in the M&A market. However, just the fact of "big" names leaving Kazakhstan in search for more lucrative markets deepens further the uncertainty in the eyes of those foreign investors that intend to invest in Kazakhstan and, of course, have money to do so.
An old Chinese saying, to which the potential players on Kazakhstan's M&A market obviously follow, states: "A wise monkey is sitting on a tree and watching a tiger fighting a dragon". Let us all wait and see when the investors decide that the time has come to go and play again a large-scale M&A game in Kazakhstan's wide steppe.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Corporate responsibility reporting in the Oil & Gas sector

Key findings from the KPMG Survey of Corporate Responsibility Reporting 2015

Corporate responsibility reporting in the Oil & Gas sector

About this research

This briefing contains key findings on the Oil & Gas sector from the KPMG Survey of Corporate Responsibility Reporting 2015 (published November 2015). The research is based on two samples:

— The G250: the world's 250 largest companies by revenue as defined by the Fortune 500 2014 listing. Oil & Gas companies account for 12 percent of this sample (31 companies).

— The N100: the largest 100 companies by revenue in each of 45 countries – a total of 4500 companies worldwide. Oil & gas companies make up approximately 5.5 percent of this sample (268 companies).

Download the full report at www.kpmg.com/crreporting

Number of oil & gas companies reporting on CR has increased significantly

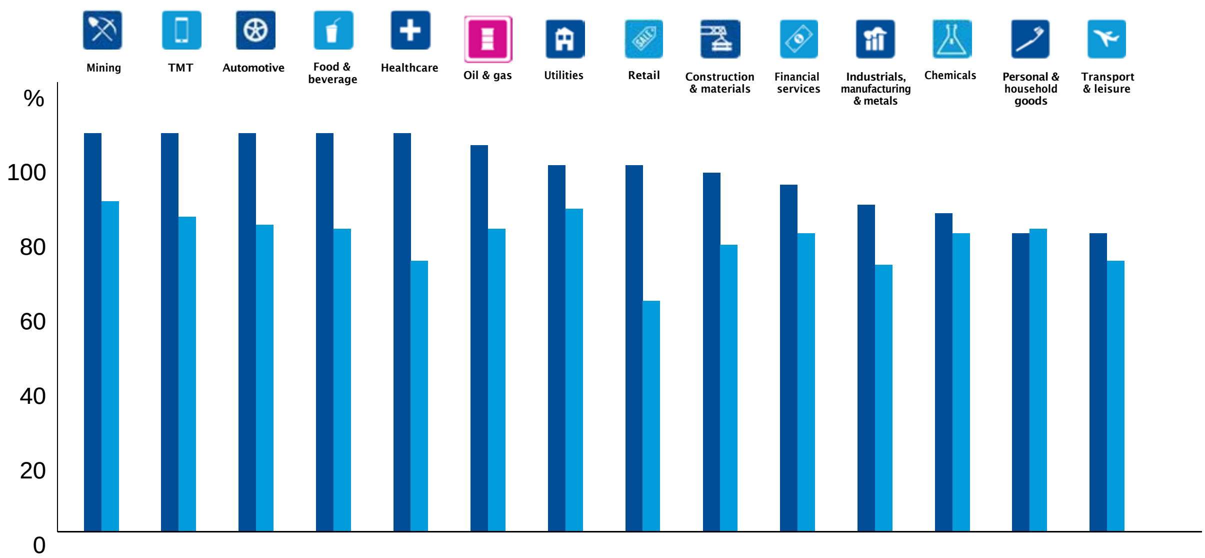
In KPMG's 2013 survey of G250 companies, Oil & Gas had the lowest rate of CR reporting (85 percent) of all the sectors studied. In 2015, almost all the largest oil & gas companies (97 percent) report.

This trend for increasing CR reporting among oil & gas companies is also reflected among the N100 sample where the reporting rate has increased to 76 percent.

These results suggest that the Oil & Gas sector is increasingly recognizing the value of communicating non-financial information to the business and to stakeholders.

Sample	Oil & gas reporting rate 2015	Global average reporting rate 2015
G250	97%	92%
N100	76%	73%

CR reporting rates by sector



Base: 250 G250 companies and 4,500 N100 companies
Source: KPMG Survey of Corporate Responsibility Reporting 2015

Oil & Gas leads in reporting CR information in the annual financial report

Companies in the Oil & Gas sector are among the most likely to publish CR information in the annual financial report. Over three quarters (77 percent) of the world's largest oil & gas companies do this. However, this does not translate into a high rate of 'integrated reporting' as only 10 percent of both G250 and N100 oil & gas companies state their report is integrated (in line with the global cross-sector average).

Oil & gas companies also recognize the importance of assuring stakeholders that the information they provide is accurate and credible. Almost two thirds (63 percent) of large oil & gas companies seek third party assurance for CR reports.

Quality of reporting is slightly above average but could improve

The majority of oil & gas companies are publishing data on their CR and sustainability performance, but how does their quality of reporting measure up against the other sectors?

KPMG analyzed the quality of CR reporting among the G250 against a framework of 7 quality criteria (see breakout box). Researchers awarded each company a reporting quality score out of a maximum of 100.

The quality of reporting by large oil & gas companies is only slightly above the global cross-sector average. The sector average score is just 59 out of a possible 100.

KPMG's quality assessment criteria for CR reporting

1 **Stakeholder engagement**
The report should explain how the company identifies and engages its stakeholders and how their views inform CR strategy.

2 **Materiality**
The report should demonstrate a clear, ongoing process to identify the issues that are most significant to the company and its stakeholders.

3 **Risk, opportunity and strategy**
The report should identify environmental and social risks and opportunities, and explain the company's strategic response.

4 **Targets and indicators**
The report should declare time-bound and measurable targets.

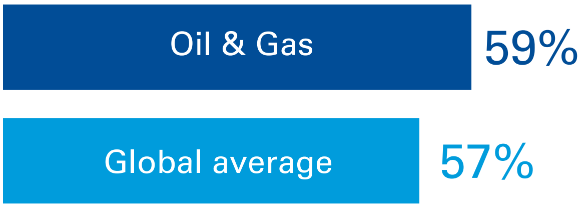
5 **Transparency and balance**
The report should be open about the CR challenges the company faces, as well as its achievements, and should communicate both effectively.

6 **Suppliers and value chain**
The report should show how the company's CR strategy and targets address the material social and environmental impacts of its suppliers, products and services.

7 **Corporate responsibility governance**
The report should detail how CR is governed within the organization, who has responsibility for it and how CR performance is linked to remuneration.

Corporate responsibility reporting in the Oil & Gas sector (continued)

Overall CR quality score



Base: 230 G250 companies that report on CR
Source: KPMG Survey of Corporate Responsibility Reporting 2015

Improvement is needed in supply chain reporting

One of the areas in which oil & gas companies can make a significant improvement is the reporting of CR and sustainability in their supply chains. Over three quarters (77 percent) of oil & gas CR reporters do not report the social and environmental impacts of their supply chains in detail and almost half (47 percent) do not explain the systems in place to measure andmanage these impacts.

Oil & gas companies among the most likely to discuss financial risk

However, the Oil & Gas sector is one of the most likely to discuss the financial impact of sustainability risks in their CR reporting. Almost half (43 percent) of oil & gas CR reporters do this compared with the global cross-sector average of 31 percent.

Around one in five reporters (17 percent) quantifies at least some of that risk in financial terms.

While it is still a minority of companies that does this, the number of oil & gas companies quantifying financial risk exceeds the global average (8 percent) by almost ten percentage points.

This is an issue of increasing importance as investors look for better quality information on how sustainability risks and opportunities will affect the companies they invest in. The recently launched Financial Stability Board Task Force on Climate-related Financial Disclosures is just one example of high profile initiatives in this area.

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Most oil & gas companies report on carbon, but the quality of reporting is low

Companies are under increasing pressure to cut their carbon emissions, as the global economy shifts towards a low-carbon, and ultimately zero-carbon, model. With this in mind, KPMG has analyzed the carbon information published by the world's 250 largest companies (G250) in their CR and annual financial reports, using the following 3 principles:

1 Reporting should be clear about whether the company sees carbon as a material issue and, if so, what data is covered and why. Carbon datanshould also be assured to ensure accuracy.

2 Where carbon is seen as material, reporting should show that the company has set clear targets to reduce its carbon emissions and how it is performing against those targets.

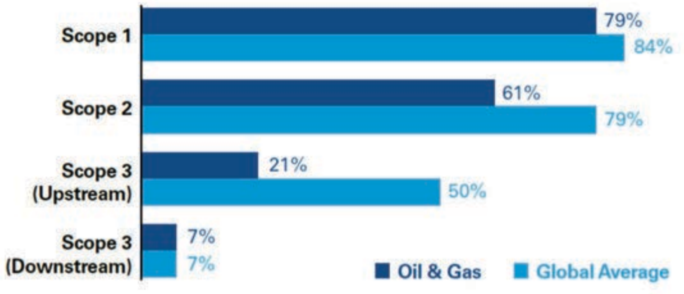
3 Reporting should communicate carbon data clearly and explain how carbon reduction helps the business.

The Oil & Gas sector has one of the highest rates of carbon reporting at 90 percent. However, the quality of reporting is the lowest of all sectors at just 35 out of 100. The global average quality score is 51 out of 100.

Less than one third of large oil & gas companies (29 percent) set targets to reduce carbon emissions. The sector lags the global average (53 percent) by almost 25 percentage points and the leading sector, Technology, Media & Telecommunications (73 percent), by over 50 percentage points. Additionally, of the companies that do set targets, only around 1 in 5 (22 percent) provide a clear rationale for why those targets were selected.

Another key area for improvement is the disclosure of emissions data. Of all the large oil & gas companies that report on carbon, around 1 in 5 (18 percent) do not include any data on carbon emissions. The scope of emissions that oil & gas companies report on is also limited. Only around 1 in 5 (21 percent) reports on emissions in the supply chain (Scope 3 upstream) whereas the global average is 50 percent.

Scope of emissions reported

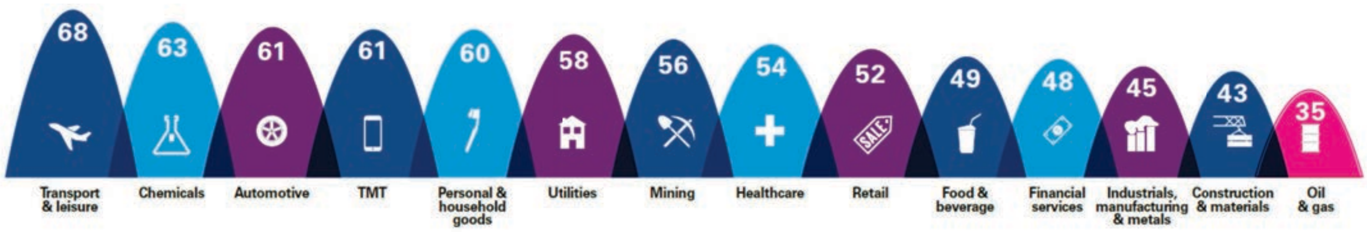


Base: 205 G250 companies that report on carbon
Source: KPMG Survey of Corporate Responsibility Reporting 2015

Furthermore, large oil & gas companies are less likely than companies in many other sectors to invest in third party assurance of their carbon data. Just over half of oil & gas companies do so (54 percent) compared with a G250 global average of 62 percent.

As stakeholder scrutiny in this area grows it will become increasingly important for oil & gas companies to report more transparently on their carbon performance.

Oil & gas companies score lowest for quality of carbon reporting (scores out of 100)



Base: 205 G250 companies
Source: KPMG Survey of Corporate Responsibility Reporting 2015

KPMG member firms can provide you with a bespoke assessment of the quality of your corporate responsibility reporting and a benchmarking report that compares your reporting with sector or country peers, and the global cross-sector average. For further information, contact your local KPMG member firm professional listed on page 6 of this briefing.

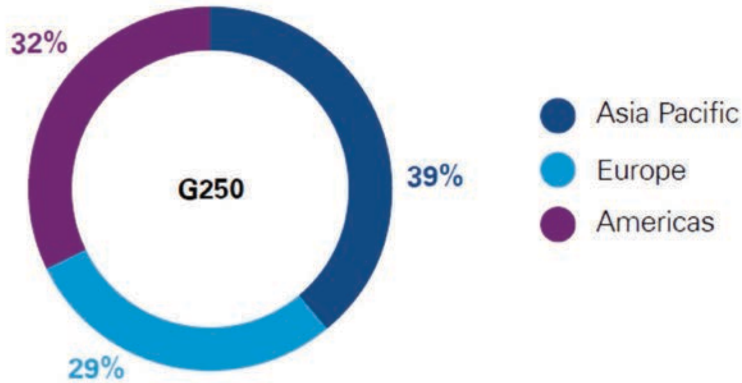
Corporate responsibility reporting in the Oil & Gas sector (continued)

About the KPMG Survey of Corporate Responsibility Reporting 2015

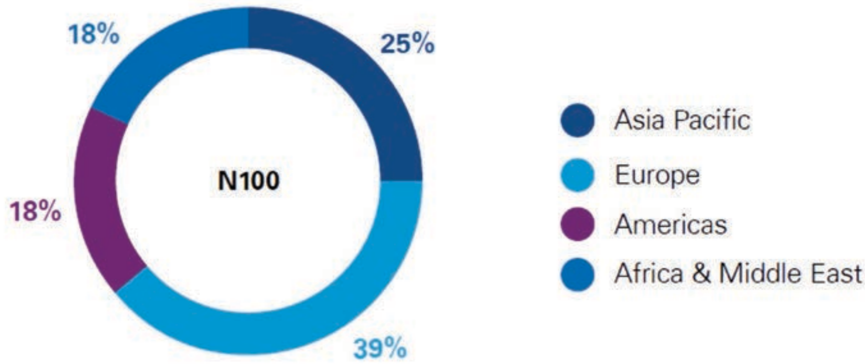
KPMG has been tracking corporate responsibility (CR) reporting trends for 22 years and The KPMG Survey of Corporate Responsibility Reporting 2015 is the ninth edition. It is one of the largest surveys of CR reporting trends globally.

Definition of the Oil & Gas sector

In the KPMG Survey of Corporate Responsibility Survey 2015, the Oil & Gas sector was classified in line with the International Classification Benchmark (ICB) system and includes Exploration & Production and Integrated Oil & Gas.



Base: 30 G250 oil & gas companies
Source: KPMG Survey of Corporate Responsibility Reporting 2015



Base: 268 N100 oil & gas companies
Source: KPMG Survey of Corporate Responsibility Reporting 2015

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