



**Risks and mitigation in emerging markets
-
based on Kazakhstan**

Andreas Thomas, 24. Windenergietage Linstow, 12. 11. 2015

Agenda

- 1 Introduction of Beaufort 8 GmbH
- 2 Risks and Mitigation in Emerging markets
 - Country profile
 - Risk mitigation – the theoretical approach
 - Risk identification and categorization
- 3 Examples from Kazakhstan

About

- Beaufort 8 is targeting CIS countries with the goal to promote local wind energy cluster by transferring expertise from different markets, like Germany, Austria, and Eastern Europe around the world.
- The Team has 20 years of experience in the wind industry sector and is active in Eastern Europe and CIS markets since 2007.
- Market developments and changes in the different regimes for renewable energies are being followed continuously.
- We are working with a substantial network of highly qualified professionals, technical experts, legal and tax consultants, banks and financing institutions and can add a significant value to your wind business.

Knowledge and experience is the key for a successful wind energy business

We provide the following services:

**Strategic
Consultancy &
Advisory**

**M&A and
Transaction
Support**

**Procurement,
Supply
Management &
Negotiations**

**Project
Development**

**Project
Implementation**

Engineering

Management Team

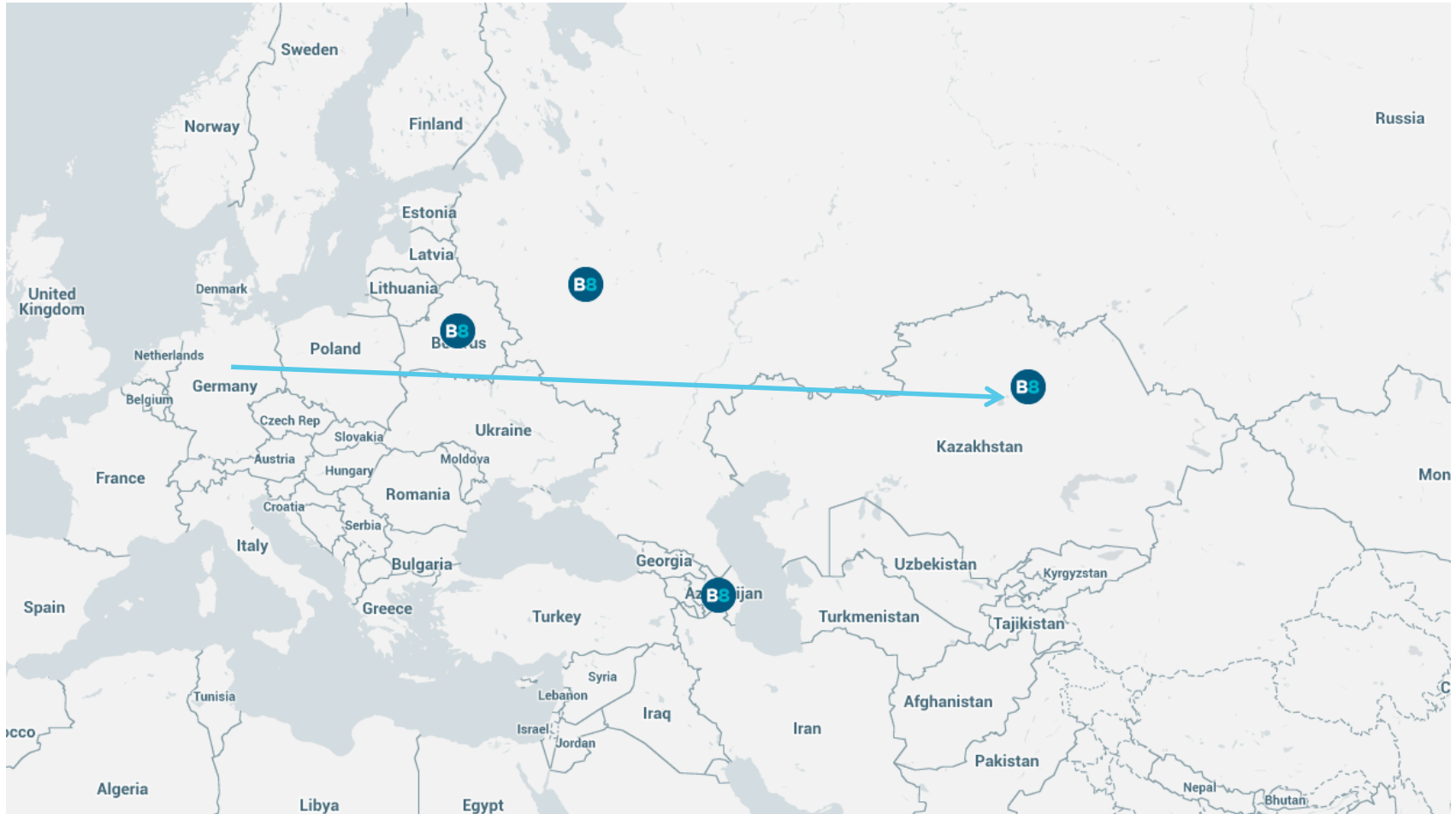
Andreas Thomas

- Founder and Managing Director of Beaufort 8 GmbH and Beaufort 9 GmbH since 2013
- has more than 15 years of professional wind industry experience from the key industry players
- spent over 7 years in top management positions
- focus areas are Sales, Business Development and Financing of wind energy projects
- extensive knowledge along the whole value-chain of wind energy projects in emerging markets, such as North Africa, Eastern Europe and especially CIS-countries

Vakhtang Begashvili

- Managing Director of Beaufort 8 GmbH
- brings in comprehensive experience in development and financing of cross-border investment projects
- held executive management positions in an investment company and was in charge of its wind farm developer and grid distributor companies
- headed projects during development, construction and operation with special focus on CIS countries and Central and Eastern Europe

Risks and Mitigation in Emerging Markets – based on Kazakhstan



Distance: Frankfurt – Astana 4.290km

Hard facts about Kazakhstan

Territory 2.724.900 sqkm

Population 17.541.000 (June 2015)

56,8% urban / 43,2% rural

multiethnic, 2,4% German

Government Constitutional Republic since 1995


Currency Tenge (KZT)

fx: 1€ - 202 KZT (10.08.2015)

1€ - 321 KZT (08.11.2015)

Country Rating S&P BBBnegative

Fitch BBB+

GDP 231,9 blnUS\$ in 2013, Growth 2014  6%

250 German companies are active in Kazakhstan

Ease of doing Business Rank 50 in 2014

Corruption perception Index Rank 126 in 2014

Energy Sector in Kazakhstan

- 91,6mrd kWh electricity consumption in 2014, increased by +2,2,%
- 70% of electricity is produced through coal, 10% Hydro
- 50% of the production capacity is older than 30 years
- National grid operator KEGOC operates 24.400km lines
- 21 regional power distribution companies
- KOREM operates wholesale and capacity market

Wind Energy Sector in Kazakhstan

- Technical potential: 354.000 MW (UNDP)
- Wind Atlas: 50.000 sqkm > 7 m/s on 80m
- 49 MW in operation
- Plan to operate 1787 MW until 2020 as target
- FiT for Wind Energy: 22,68 KZT for 15 years via centralized Institution for Financing or direct PPA
- Investment subsidies possible below 5 MW
- since 2014 Law to support the use of Renewable Energy sources

Risk mitigation – the theoretical approach

- 1 **Risk Identification**
 - categorize risks in different categories
 - analyse the different business phases

- 2 **Risk Analysis**
 - according to possibilities of damages and losses and classification of risks

- 3 **Risk Assessment**
 - qualitative assessment and qualitative measurement

- 4 **Controlling Risks**
 - Avoidance
 - Reduction
 - passing the risks / sharing
 - Retention (accept / budget)

- 5 **Monitoring Risks**
 - Monitoring of risks throughout the business process

How to identify and categorize the risk?

Timely:



1 + 2 What do I want to do?

Expand my Business
Export to a new country



Demand driven Business

both should be based on proper
market analysis and Due
Diligence !

Basic questions:

- Market entry barriers
- Prequalifications

Mitigation:

- Cooperation with local companies
- Adaption of budgets

How to identify and categorize the risk?

Timely:



3 Expanding business

Basic questions:

- Can I grow business?
- Which market potential is achievable for me?

Mitigation:

- Implementation of a stable network
- Market Due Diligence
- Gain know-how via local cooperations

4 Market exit (planned and immediate exit)

Basic questions:

- Retransfer of Money, Equipment, Data?
- Legal issues of an exit; Liabilities, Company closing, etc.

Mitigation:

- Legal and economical Due dilligence
- Adaption of Business model

How to identify and categorize the risk?

Risk tree

technical	planning	contractual	commercial	human resources	regulatory/ political/ environmental
system failures	milestones	ambiguity	financing	qualifications	fx-rate
unknown technologies	quantities	incompleteness	liquidity	Know-how	Laws
level of innovation	processes / procedures	solvency of contractual partner	investment	motivation	regulations
complexity	durations	unexpected clauses	payment default	identification	customs
modifications	delivery times	penalties	money transfer	acceptance	embargo
interfaces	ressources	Warranties	cost development	conflict potential	political interests
storage	free-issue parts	Liabilities	Patents & licences	cultural differences	change of government
transport	split of responsibilities	international law	Patents & licences	Sabotage	geological / climatic cond.

Risk category regulatory / economical /environmental – with a view to Kazakhstan

1 Risk No. 1: Kazakhstan is heavily depending on Oil

- Economic growth will slow down
- State budget to be re-allocated

2 Risk No.2: Devaluation of Tenge (KZT)

- since 20.08.2015 fx rate is not fixed any longer

Consequences:

- FiT decreased from 11 to 7 €ct/kWh
- Imports from € and \$ areas became very expensive, potential new competition
- Number of wind energy projects may decrease or be postponed
- Projects may be terminated

Mitigation:

- Contracting on € and \$ basis
- Cost reduction / adjusting margins
- Hedging of local currency
- Sharpen your selling point / quality

Risk category personnel– with a view to Kazakhstan

- 1 Risk: Choosing the right employees / Partners
 - lack of wind business know-how
 - less loyalty to companies
 - overestimation of efficiency and results
 - concentration on one partner

- 2 Risk: Cultural understanding
 - both ways to avoid severe misinterpretations
 - differences in business and company culture

- 3 Risk: Lack of market transparency
 - relationship based business

Mitigation:

- Background checks of potential employees / business partners
- Control and management at a distance
- Intercultural trainings
- Language training (basics)
- Establish your own network

Thanks for your attention

Despite the Risks



There are many opportunities

Contact

