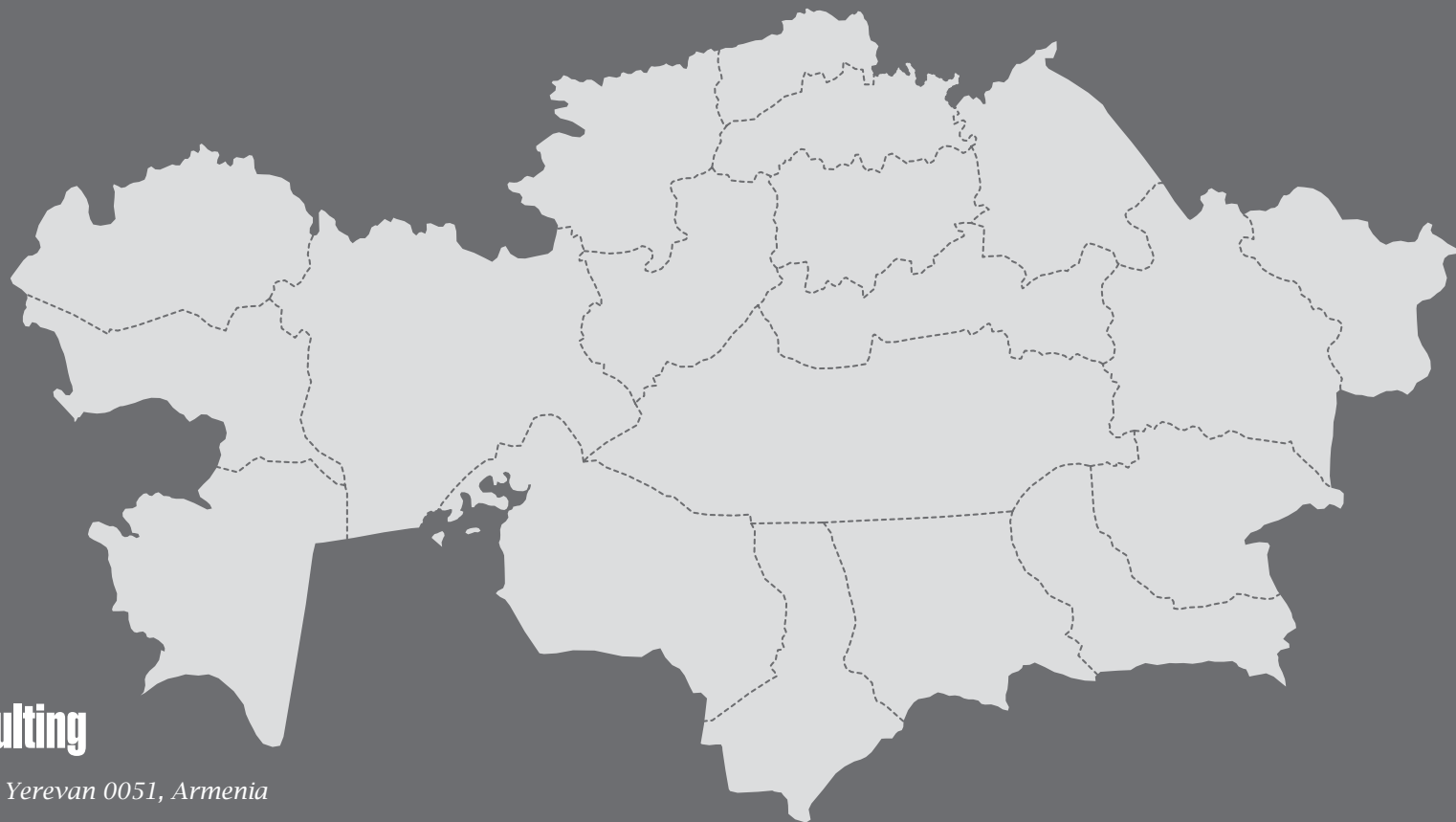


Kazakhstan

Competitive Profile



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url: www.evconsulting.com

table of contents

- ✓ *general information*
- ✓ *economy*
- ✓ *competitiveness performance*
- ✓ *sectoral performance*
- ✓ *EV Consulting profile*



General Information

- ✓ *fast facts*
- ✓ *geography & demography*



Fast Facts

Full name	<i>The Republic of Kazakhstan</i>
Population	<i>~16,400,000</i>
Capital city	<i>Astana</i>
Area	<i>2.7 million sq km</i>
Major languages	<i>Kazakh (state language), Russian, English</i>
Major religion	<i>Muslim (70.2% of the population), Christian 26.2%</i>
Life expectancy	<i>60 years (men), 72 years (women) (UN)</i>
Monetary limit	<i>Kazakhstan Tenge (KZT)</i>
Exchange rate	<i>Average for 2010: 147.4 KZT/USD As of March 9, 2011: 145.6 KZT/USD</i>
Main exports	<i>Oil and oil products, ferrous metals, chemicals, grain, wool, meat, coal.</i>
GDP, current USD	<i>\$146.9 billion (2010)</i>
GDP per capita PPP, current USD	<i>11,510 (2009, World Bank)</i>

Sovereign Country Ratings

Moody's	<i>Baa2</i>
Fitch (country ceiling)	<i>BBB- (Dec 20, 2010)</i>

Kazakhstan's Stand in International Rankings

Ease of Doing Business (The World Bank)	<i>59 (Rank, 2011, out of 183 countries)</i>
Index of Economic Freedom (Heritage Foundation)	<i>78 (Rank, 2011, out of 179 countries)</i>
Global Competitiveness Index (World Economic Forum)	<i>72 (Rank, 2010-2011, out of 139 countries)</i>
Corruption Perception Index (Transparency International)	<i>105 (Rank 2010, out of 178 countries)</i>
Human Development Index (UNDP) 66	<i>66 (Rank, 2010, out of 169)</i>

Geography

Ninth biggest country in the world with a territory of 2,727,300 sq.km.

World's largest landlocked country.

Natural Resources

Enormous fossil fuel reserves and plentiful supplies of other minerals and metals, such as uranium, copper, and zinc.

As of the end of 2009:

- 3.0% of world oil reserves;
- 1.0% of world gas reserves;
- 3.8% of world coal reserves.

Industrial sector primarily focused on the extraction and processing of these natural resources.

Labour Force

16.4 million population as of February 2011.

Almaty - the largest city with a population of 1.4 million. The second largest city of Kazakhstan is Astana - the capital city with 684.000 population.

Total labour force - 8.7 million, with 5.8% unemployment rate in 2010.

High rate of literacy (100%)

Primary education - 108% gross enrolment rate

Secondary education - 99% gross enrolment rate

Tertiary education - 41% gross enrolment rate

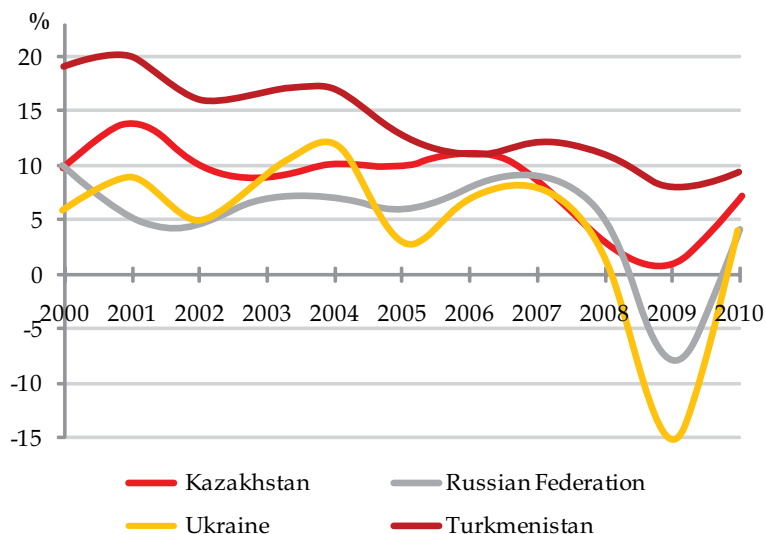


Economy

- ✓ *economic growth*
- ✓ *economy structure*
- ✓ *inflation and foreign currencies*
- ✓ *public sector performance*
- ✓ *external sector*
- ✓ *foreign trade partners*



GDP Growth (Annual %)



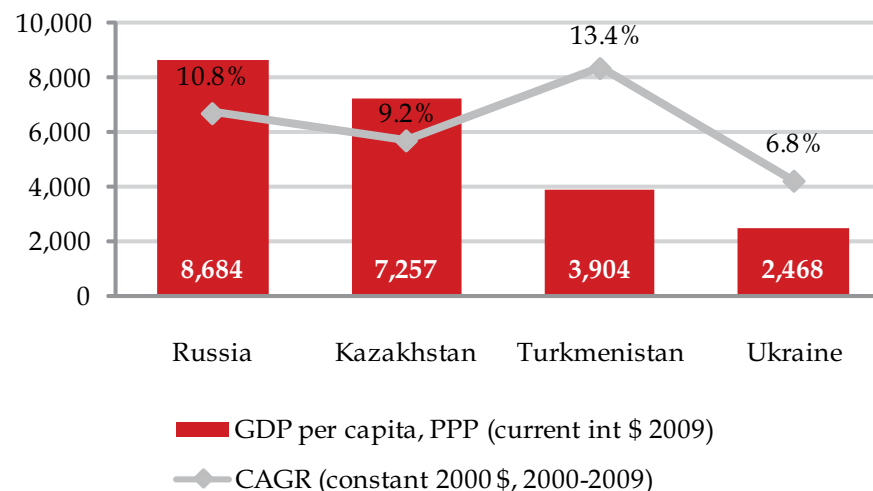
Source: National Statistical Offices

Kazakhstan has had recorded impressive GDP growth rates compared to neighboring and several CIS countries during the last decade until global financial crisis.

Key drivers of the growth

- The economic growth has been largely supported by the oil sector which constitutes a significant proportion of GDP.
- Revival of oil prices after global economic crisis has improved near-term growth prospects for the country.

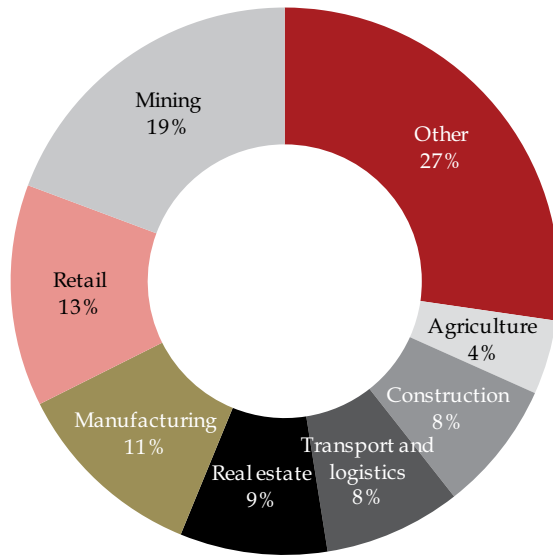
GDP per capita, PPP (current international \$, 2009) and CAGR (constant 2000 \$, 2000-2009)



Source: World Development Indicators, World Bank

- Kazakhstan is ranked quite favorably in the region by the level of GDP per capita PPP.
- According to the World Bank classification, Kazakhstan is classified in the group of upper middle income countries by its 2009 GDP volume.

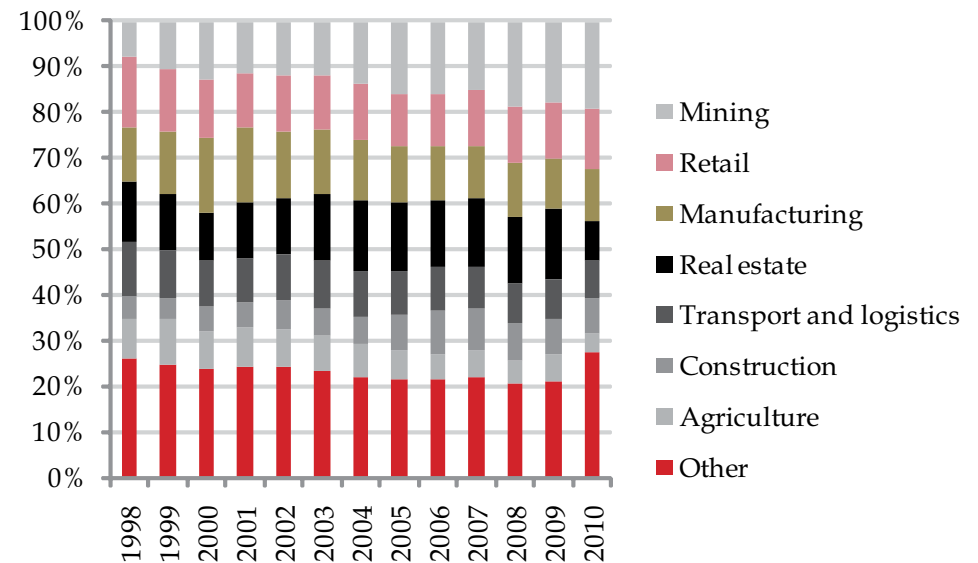
GDP by Sectors of Economy, % in GDP



Source: Agency of Statistics, Republic of Kazakhstan

- Mining and manufacturing is the biggest sector in Kazakhstan which is alone responsible for one-third of the output in the economy.
- Retail, transportation and financial intermediary services together comprise about 35% of GDP.

Change in GDP Structure, % in GDP

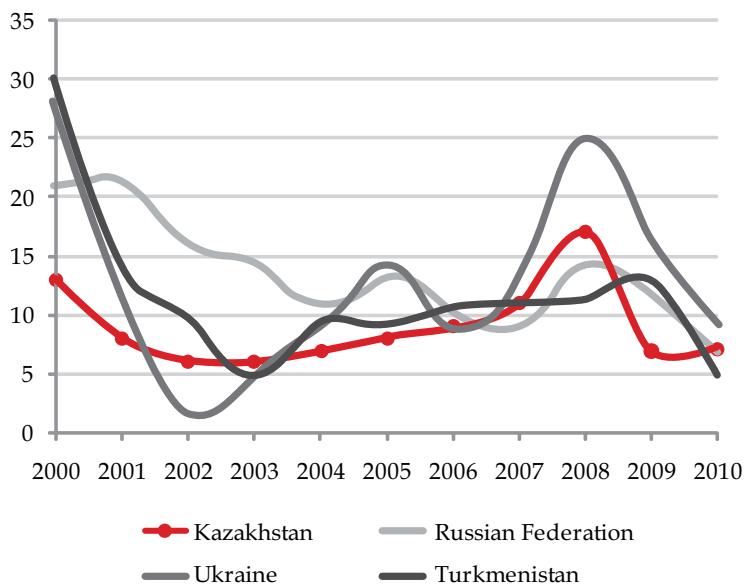


Source: Agency of Statistics, Republic of Kazakhstan

The recent trends in GDP structure in Kazakhstan are:

- Continuous increase in real estate and financial activities
- Expanding share of mining industry in GDP (by 4.9%) since 2000.
- Manufacturing industry has the opposite tendency and its share in GDP has decreased by more than 5% during the last decade.

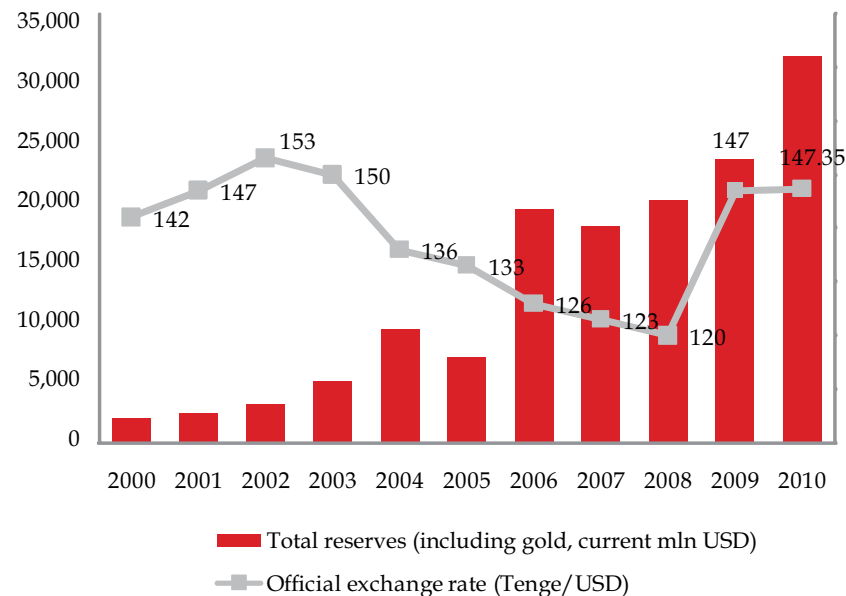
Inflation, 2000-2010, in %



Source: National Statistical Offices

- The inflation rates have been traditionally lower in Kazakhstan than in the compared countries.
- However, it has been showing stable tendency towards growing since 2002 peaking at the level of 17% in 2008.
- In 2009 prices dipped by 10 percentage points in Kazakhstan.

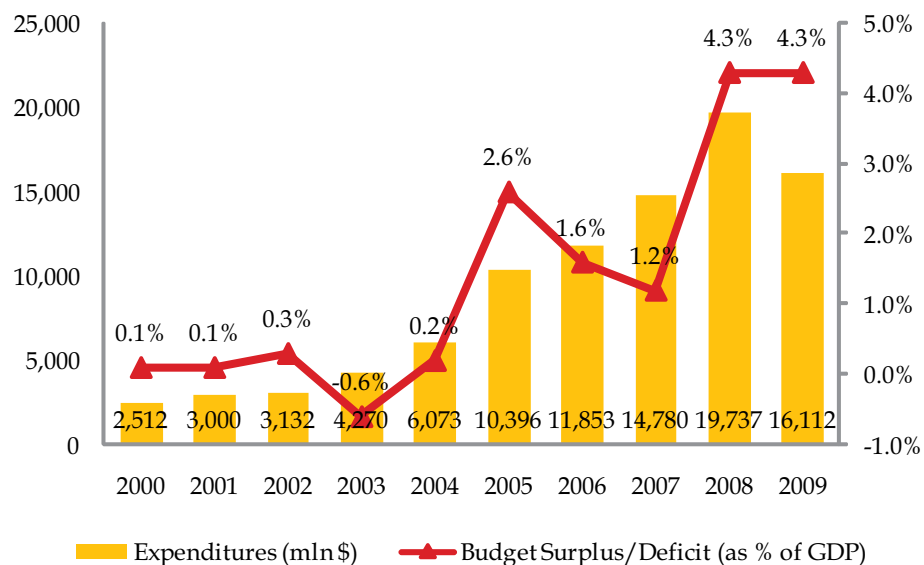
Gross International Reserves in million USD and Exchange Rate, 2000-2010



Source: Agency of Statistics, Republic of Kazakhstan

- The volume of gross international reserves has increased drastically since 2000.

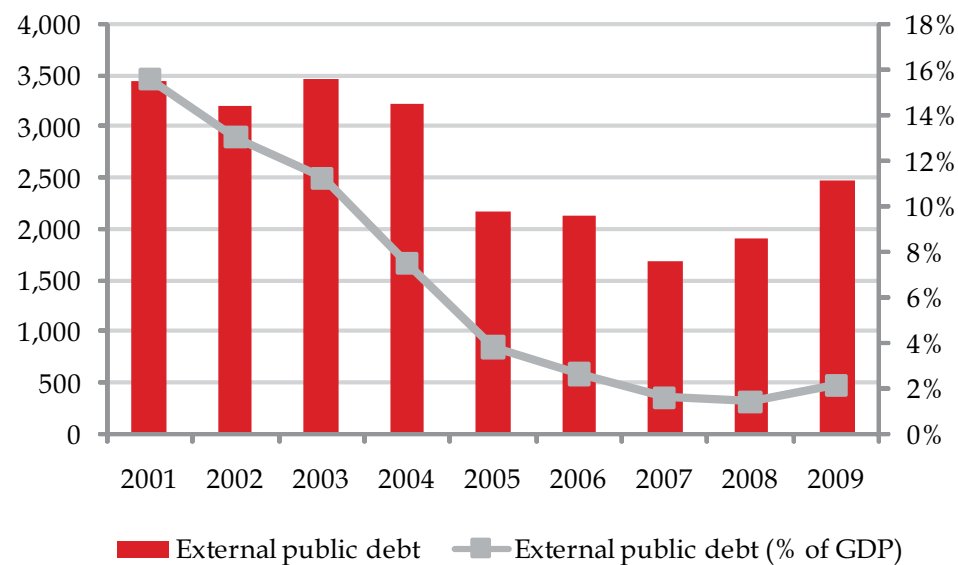
GDP by Sectors of Economy, % in GDP



Source: Agency of Statistics, Republic of Kazakhstan

- Since 2000 Kazakhstan has been maintaining surplus in the state budget. The year of 2003 was the only exception with negative budget deficit.
- Growing budget revenues allowed to increase public spending in the recent years as well.
- Main targets of public spending are social security and social aid (20%), public health service (12%), transport and communications (9%) and defence industry (5%).

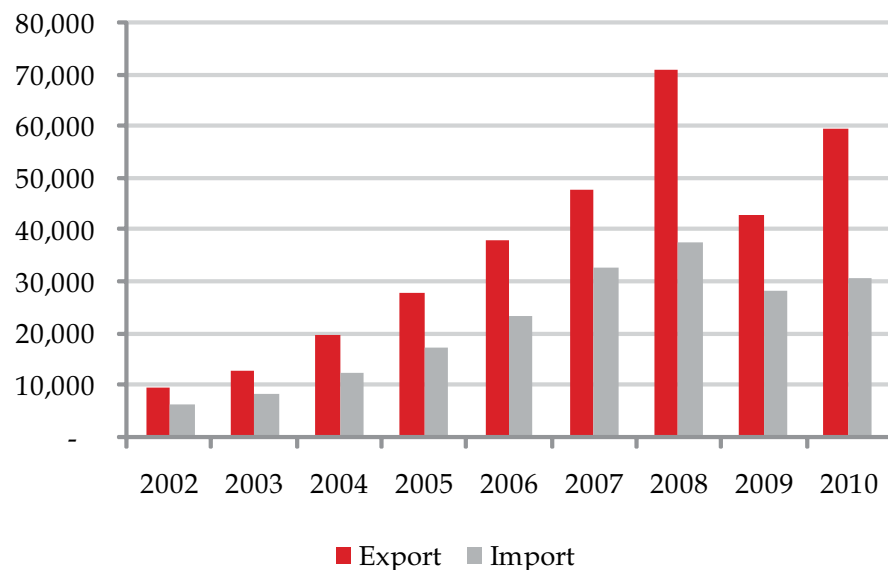
External Public Debt, in million USD and its share, as % of GDP



Source: Agency of Statistics, Republic of Kazakhstan

- Compared to 2000, in 2009 Kazakhstan's external public debt has considerably decreased both in absolute and relative to GDP terms.
- Though the volume of external public debt has increased by 46% since 2007, Kazakhstan is still considered low indebted country according to WB classification.

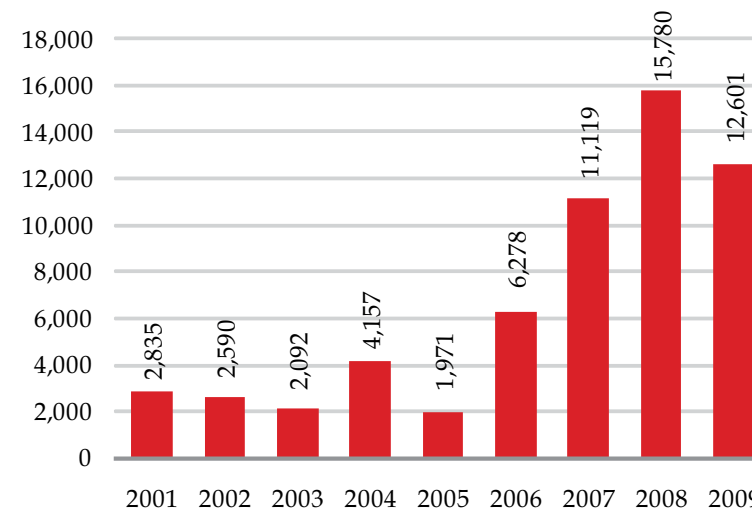
Foreign Trade, in million USD



Source: Agency of Statistics, Republic of Kazakhstan

- Continuously increasing export and import volumes were significantly cut down in 2009 as a result of global economic crisis.
- The decline was the consequence of falling prices of oil and mining products on global markets.
- The sector of foreign trade began to revive already in 2010 with positive growth of both import and export volumes.

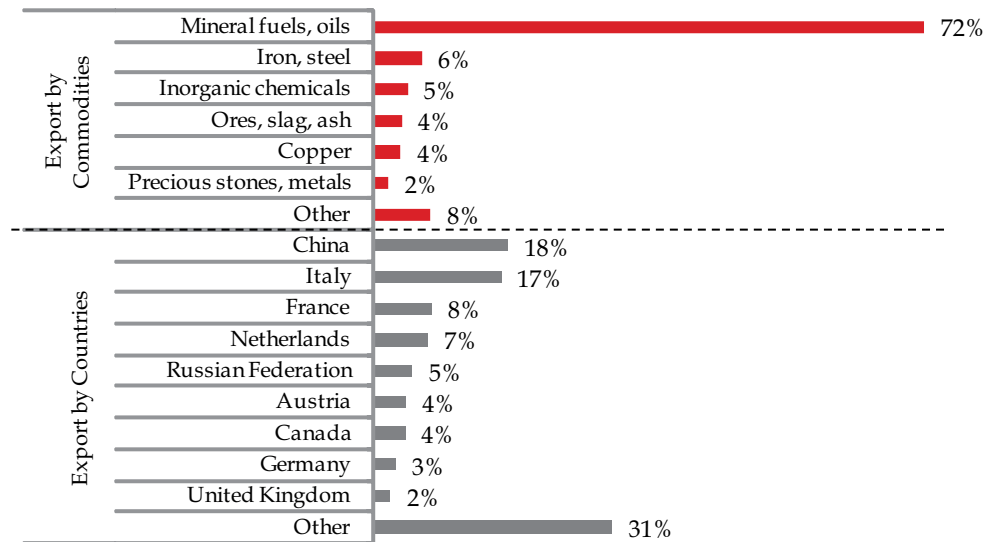
FDI Inflow, in million USD



Source: Agency of Statistics, Republic of Kazakhstan

- Kazakhstan has attracted over 80% of all foreign direct investment (FDI) into Central Asia.
- Major foreign investors in Kazakhstan's economy are Netherlands – 38% , USA – 17%, France – 7% and China – 4%.
- The main investment targets in Kazakhstan are:
 - Geological exploration activities – 56.4 %
 - Mining and quarrying – 20%
 - Manufacturing – 8.4%
 - Retail – 3.9%

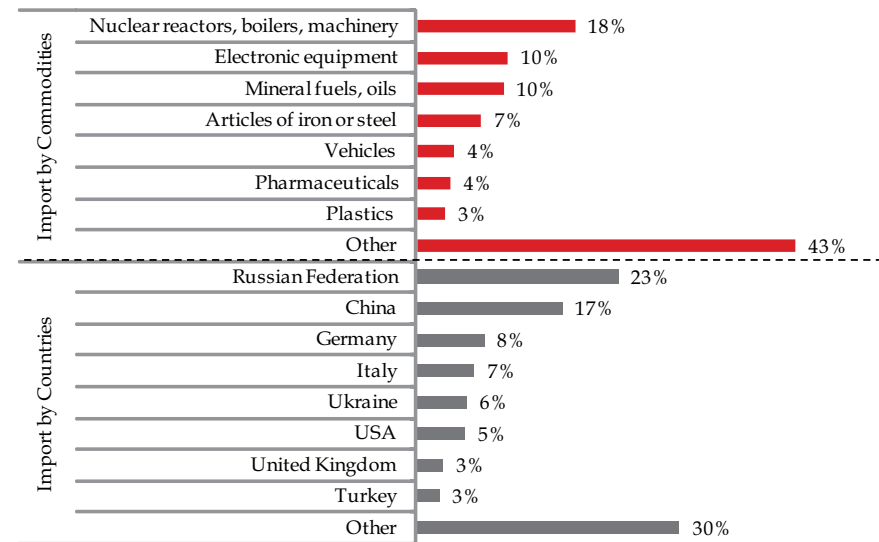
Export Structure by Partners and Commodities, 2010



Source: UN Comtrade Database

- Mineral products highly dominate in Kazakhstan’s export structure – with over 70% of share.
- Other popular export commodities are metals, inorganic chemicals, ores and copper.

Import Structure by Partners and Commodities, 2010



Source: UN Comtrade Database

- About half of the finished goods consumed within Kazakhstan are imported.
- The largest importers are Russia, China, Germany and Italy.
- Machinery and equipment represent a significant portion of European imports.

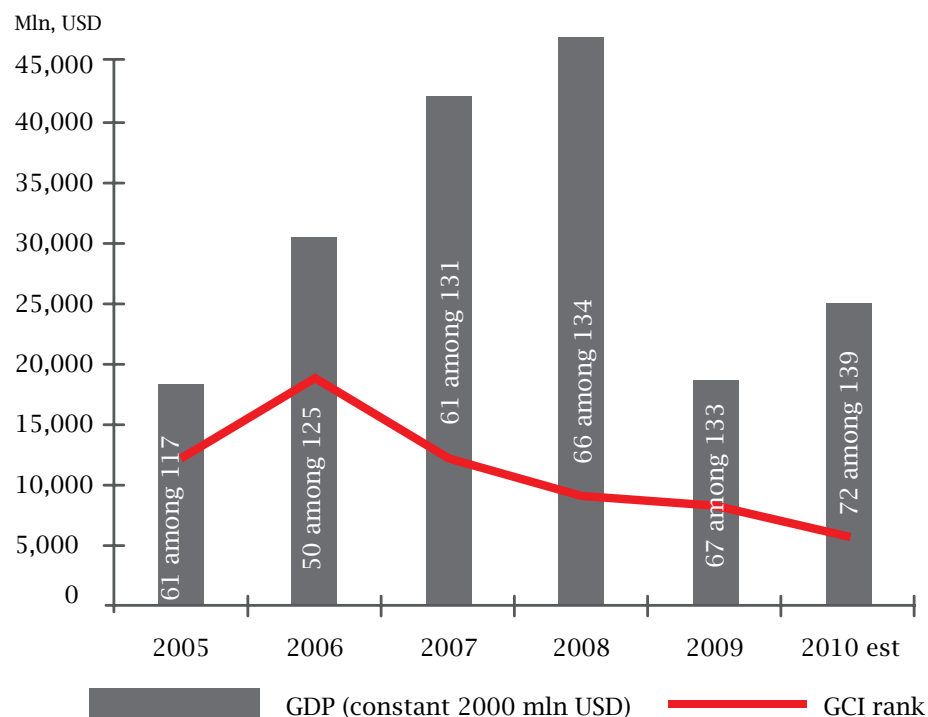


Competitiveness Performance

- ✓ *competitiveness ranking*
- ✓ *comparative economic performance*
- ✓ *economy diversification*
- ✓ *export diversification*
- ✓ *resource-intensity of exports*



GDP Dynamics and Global Competitiveness Rankings for Kazakhstan



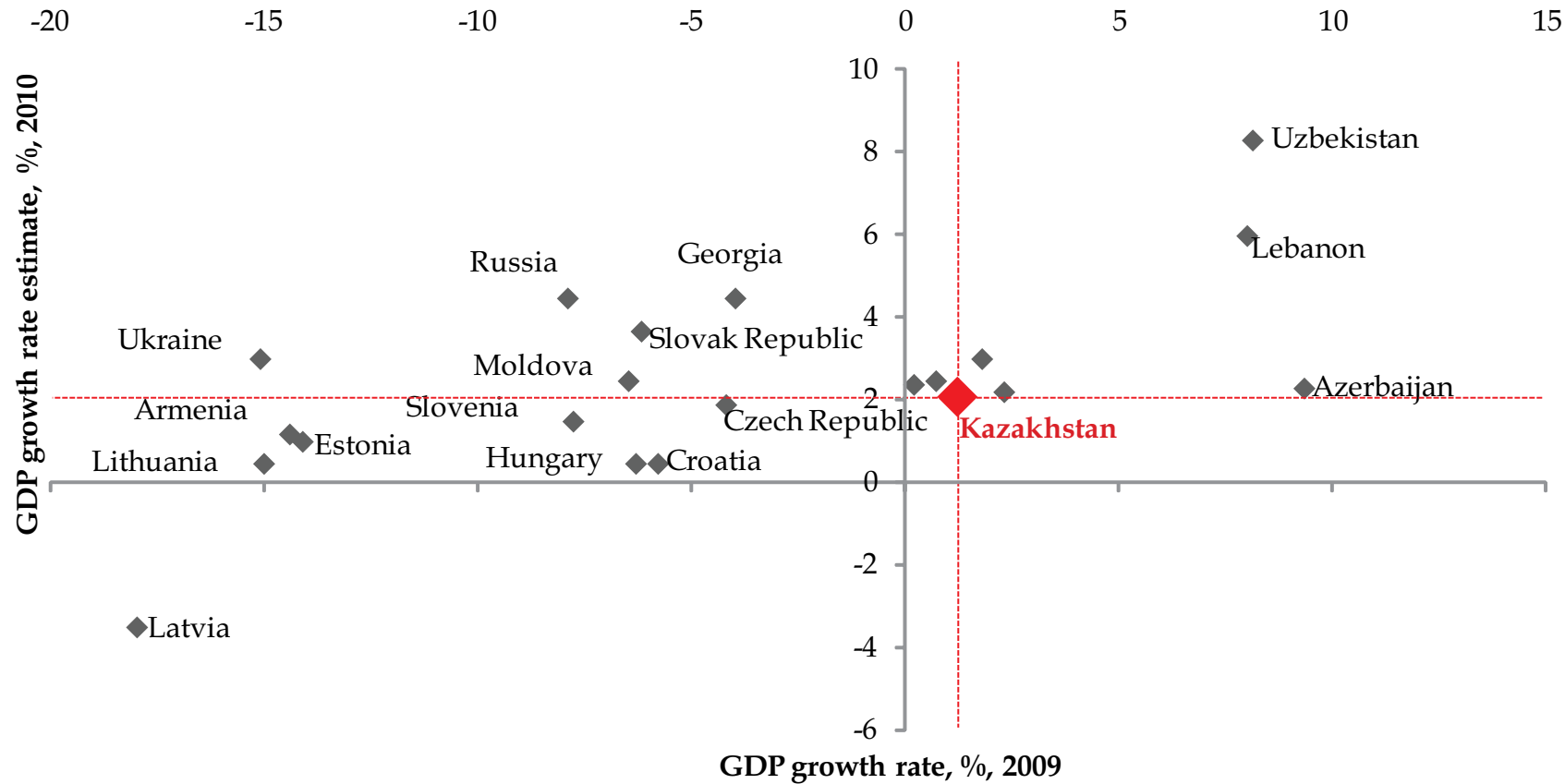
Source: World Economic Forum, Agency of Statistics, Republic of Kazakhstan

- According to the Global Competitiveness Report 2010/11 Kazakhstan is ranked 72nd by its competitive performance among 139 countries.
- Noteworthy, Kazakhstan's competitiveness stance has notably deteriorated while the country enjoyed economic growth even during the economic crisis.
- The country's key competitive advantages are effective labor market regulations and macroeconomic stability.
- On the contrary, the level of Kazakhstan's competitiveness by the indicators of institutions, innovation and business sophistication are comparably low.

The Competitiveness Performance of Kazakhstan by Competitiveness Pillars

Pillar	Rank		
	2010	2009	Change in ranking (points)
Institutions	91	86	-5
Infrastructure	81	75	-6
Macroeconomic stability	25	59	34
Health and primary education	85	80	-5
Higher education and training	65	59	-5
Goods market efficiency	86	84	-2
Labor market efficiency	21	18	-6
Financial market sophistication	117	111	-6
Technological readiness	82	69	-13
Market size	55	55	0
Business sophistication	102	88	-14
Innovation	101	64	-37

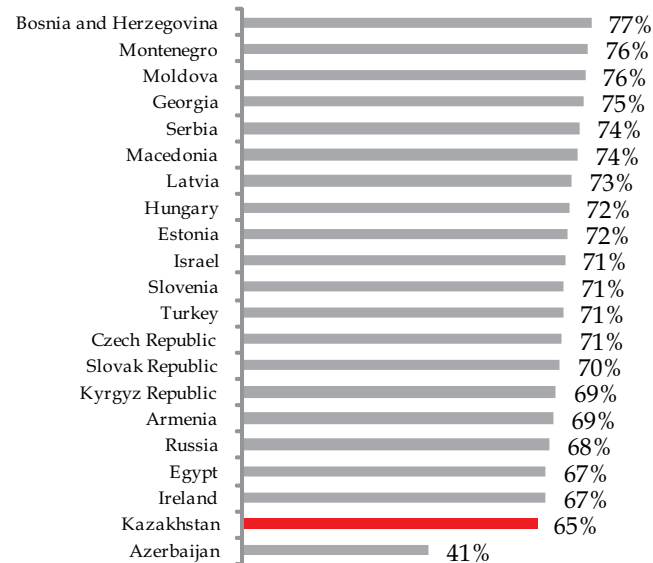
Comparative Decline and Recovery of GDP in Benchmark Countries, 2009-2010



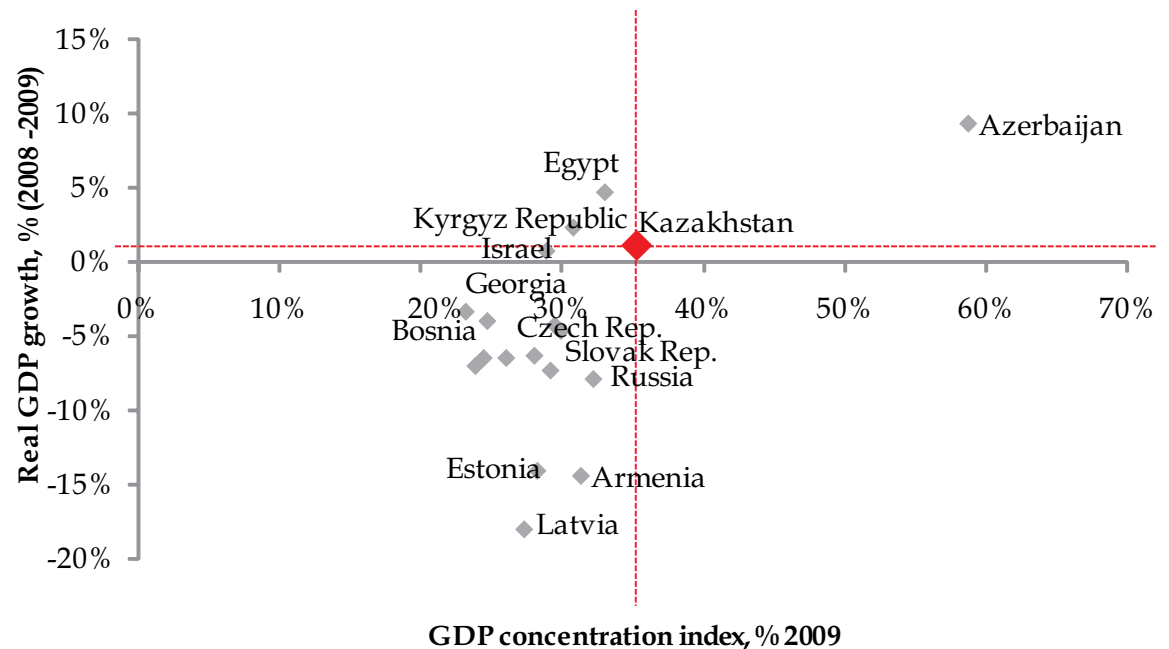
Source: WB, WDI-Online; National Statistical Offices of Benchmark Countries

- The economic performance of Kazakhstan has been quite competitive in comparison with benchmarked countries.
- Even during the global financial crisis the country maintained positive dynamics of gross output. Meanwhile, the majority of the benchmark countries suffered from severe economic crisis with GDP decline reaching up to 15% in several countries, such as Lithuania, Ukraine, Armenia and Estonia.

GDP Diversification



Real GDP Growth and GDP Concentration in Benchmark Regions, 2009

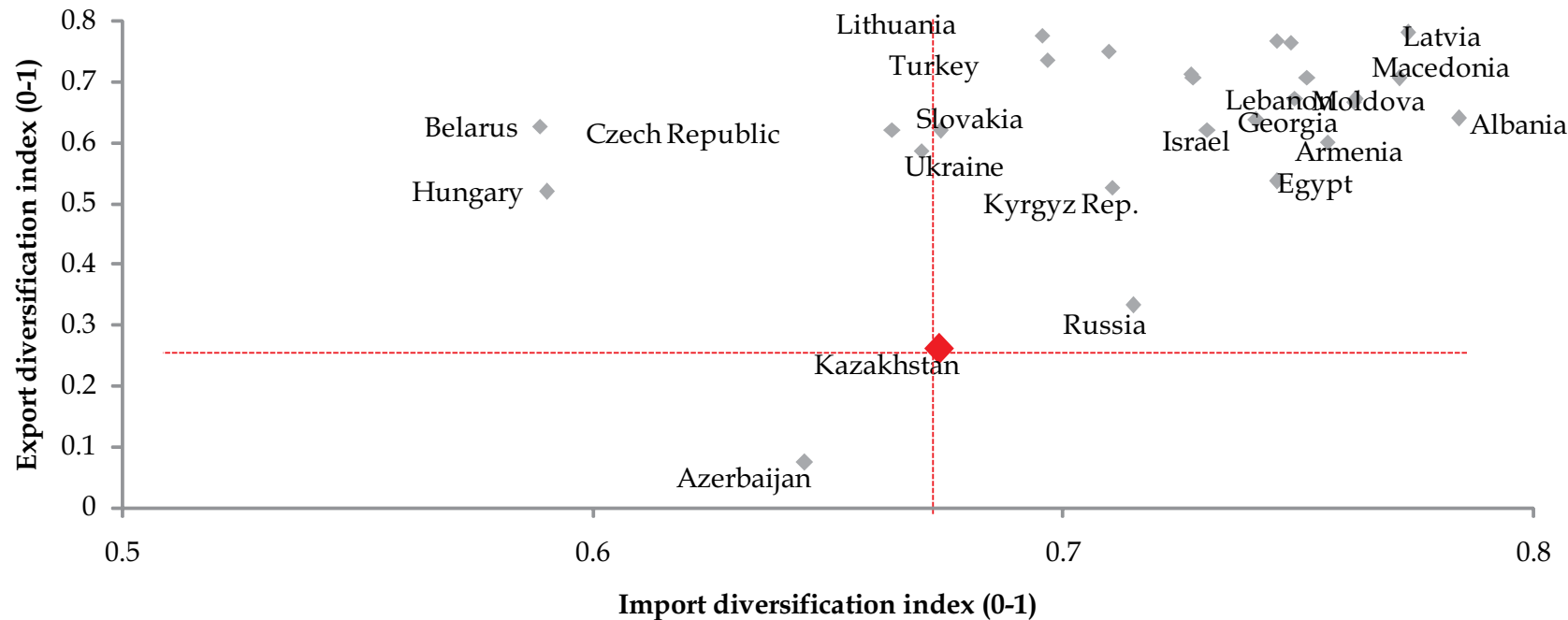


Source: WB, WDI-Online; UN Comtrade; National Statistical Offices of Benchmark Countries

Note: Diversification is calculated as the square root of normalized Herfindahl index - $\sqrt{1 - \frac{\sum s^2 - 1/n}{1 - 1/n}}$, where "s" is the share of the given sector/commodity group in total, "n" is the number of sectors.
GDP diversification is calculated based on 11 sectors.

- The low diversification of economy (the concentration of value-creation activities in certain sectors) is one of the main impediments on the way of improving Kazakhstan's competitiveness.
- Several highly dominating industries significantly undermine the country's opportunities to develop diverse income sources.
- The biggest industries rely on the extraction of fossil fuels and natural resources.
- Kazakhstan is one of the least diversified economies among the benchmarked countries measured by sectoral concentration of GDP.
- Despite very low diversification level Kazakhstan and several other countries rich in fossil fuels performed quite well even during the global economic crisis.

Diversification in Exports/Imports and GDP in Benchmark Regions, 2009



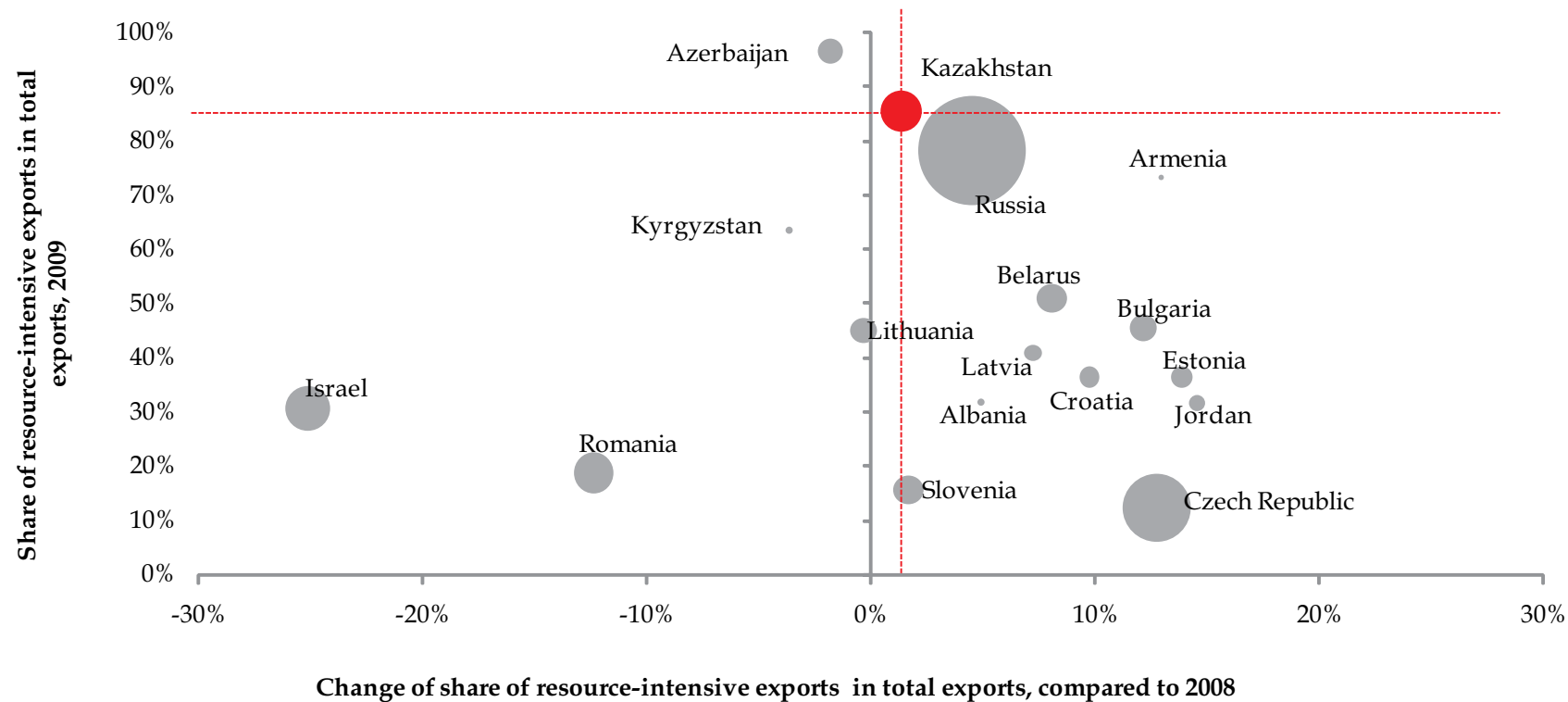
Source: WB, WDI-Online; UN Comtrade; National Statistical Offices of Benchmark Countries

Note: Diversification is calculated as the square root of normalized Herfindahl index - $\sqrt{1 - \frac{\sum s^2 - 1/n}{1 - 1/n}}$, where "s" is the share of the given sector/commodity group in total, "n" is the number of sectors.

Import and export diversification is calculated based on 21 commodity groups.

- Conditioned by the high concentration of economic activities in a few sectors, the export and import bases are also very narrow in the country.
- By the indicators of export and import diversification Kazakhstan is among the outsiders in the list of benchmark countries.

Resource-Intensity of Merchandise Exports, 2009



Source: UN Comtrade; National Statistical Offices of Benchmark Countries

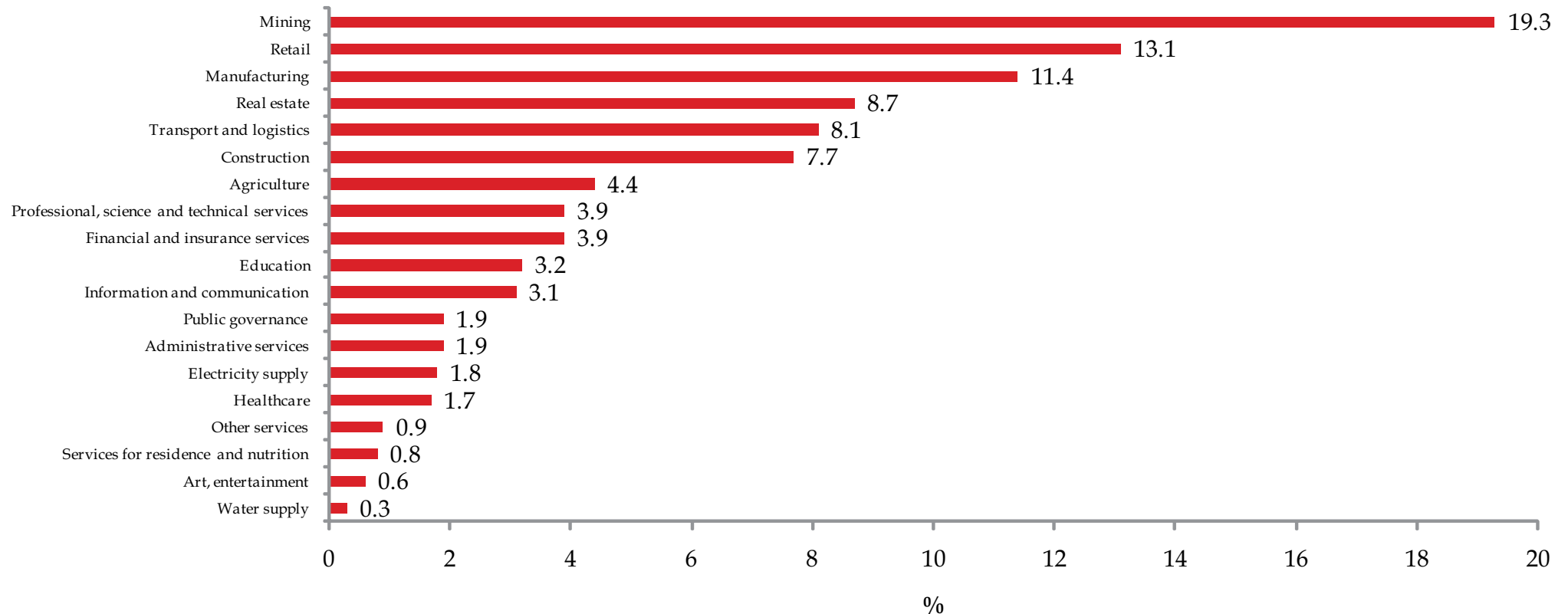
- The highly concentrated exports are dominated by natural resources and other resource-based commodities.
- Exports of Azerbaijan, Kazakhstan, and Russia are the most resource intensive in the observed region.
- Kazakhstan's export resource-intensity has the tendency to escalate in the recent years.

Sectoral Performance

- ✓ *economy structure*
- ✓ *industry*
- ✓ *trade*
- ✓ *construction and real estate*
- ✓ *agriculture*
- ✓ *financial sector*



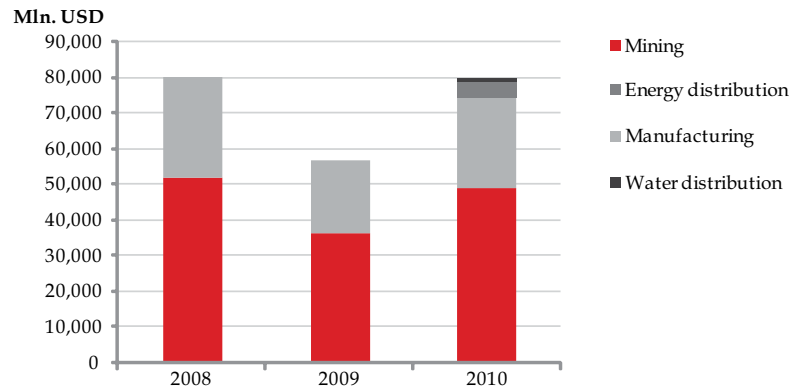
GDP Structure, % of Total



Source: Agency of Statistics, Republic of Kazakhstan

- The dominating economic sectors - mining and manufacturing industries together account for over one-third of the gross output in the country.
- A number of state initiatives are currently underway and target the diversification of the economy. The development programs aim at attracting investments, particularly FDI, into non-traditional sectors and support export growth in these sectors.
- A recent competitiveness strategy elaborated by OECD suggests a few sectors for prioritization, including the clusters of agriculture and IT and business support services.

Industrial Output in Kazakhstan



Source: Agency of Statistics, Republic of Kazakhstan

Key players	Sales, mln USD, 2009	Change in sales 2009/08	Ranking in 100 largest companies
Tengishevroil	12,013	3%	1
Kamunayzag	10,714	-15.7%	2
ENRC	3,831	-31%	3
Kazakhmys Plc	3,680	-12.3%	4
PetroKazakhstan	3,489	12.7%	5

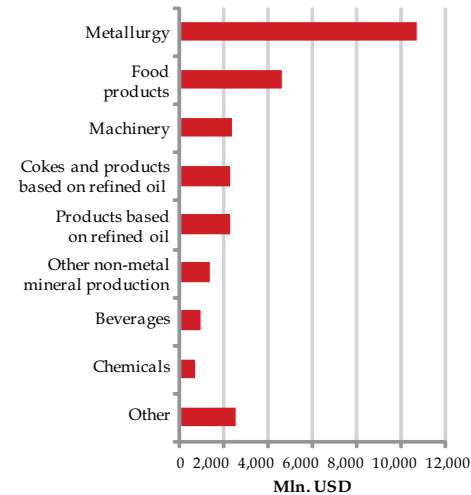
Key issues of the sector

- Prevalent corruption practices
- Poor accounting and audit practices
- High domestic prices for export-oriented products

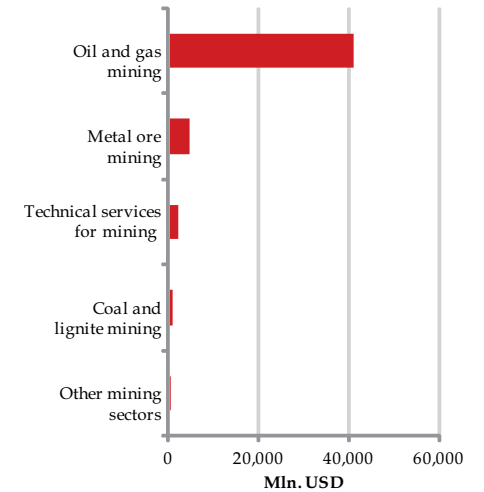
Key opportunities

- Abundant natural resources
- Low production costs
- Extensive opportunities in diversification and promoting new processing sectors

Mining Industry Output

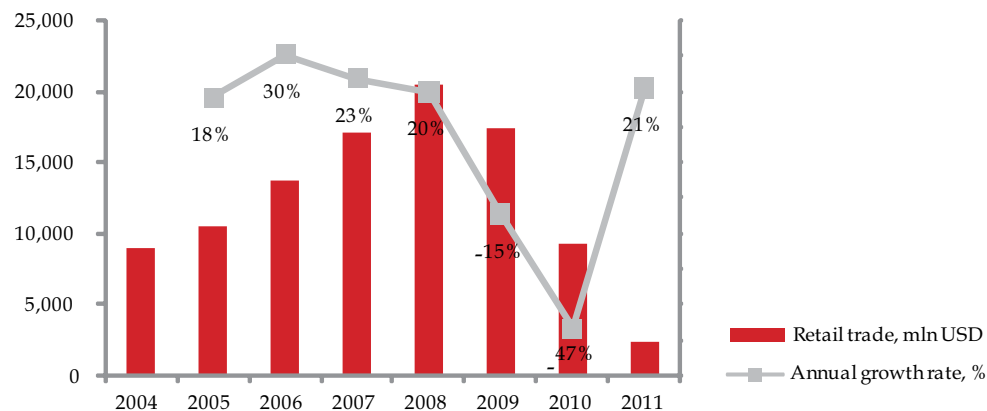


Mining Industry Output



- The independent Kazakhstan, as many post-Soviet countries, found itself in a deep economic recession after the collapse of the Soviet Union.
- Only within 5 years from 1990 to 1995 the industrial output decreased by over 50%.
- Signs of rehabilitation were noticeable only at the end of 1990s. The increasing interest of international investors led to extensive FDI especially in mining industry.
- The increasing presence of foreign capital supported the development of sophisticated business practices in the sector and multiplied export opportunities.

Retail Turnover



Key players	Sales, mln USD, 2009	Change in sales 2009/08	Ranking in 100 largest companies
Helios	1,489	-20.1%	11
Astana	287	200.6%	34
Anvar	171	4.9%	42
Meloman	83	-2.6%	61
Abdi company	50	2%	73

Source: Bulletin 2010, "Expert Kazakhstan" Rating Agency

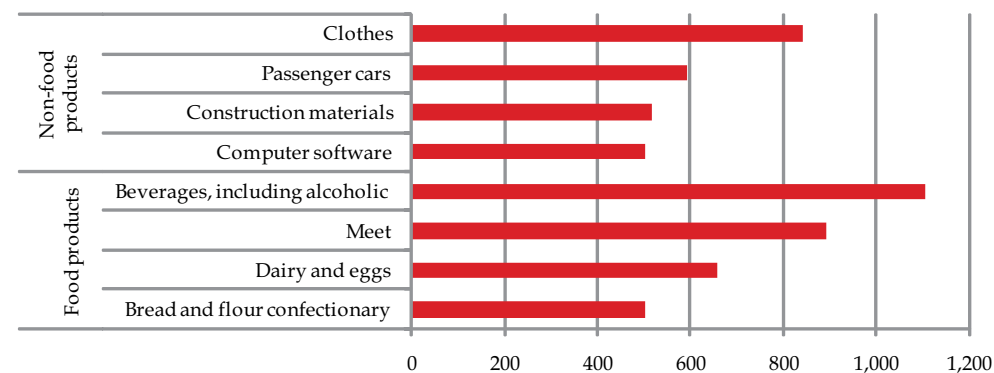
Key issues of the sector

- Decreasing labor productivity
- Slow progress in the expansion of export markets
- Increasing tariffs on imports leading to low profitability of importing companies
- Diluted distribution of consumer base

Key attractiveness of the sector

- Favorable geographic location for international trade
- Increasing income levels boosting local demand
- Rapidly expanding retail chains and opportunities to attract international brands

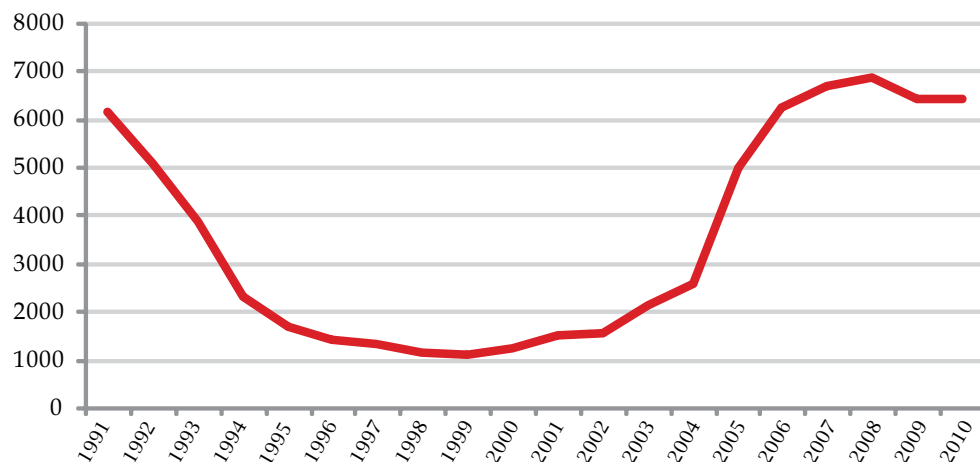
Most Tradable Consumer Goods, mln USD



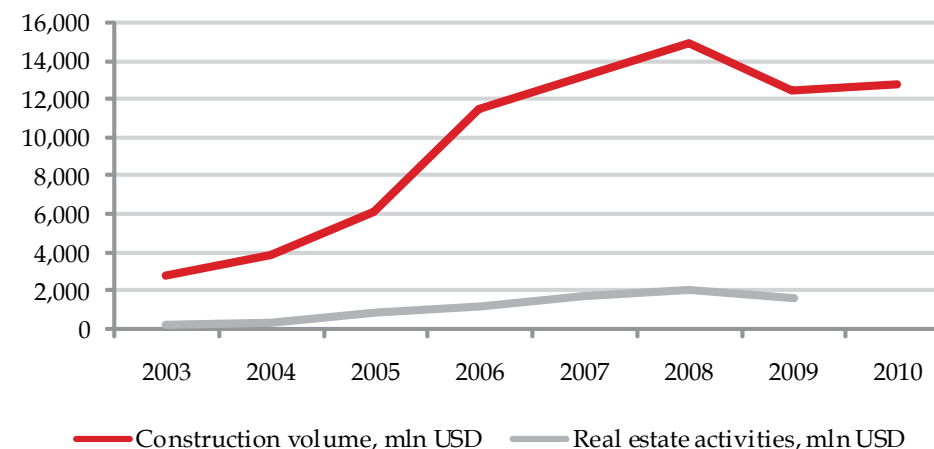
Source: Agency of Statistics, Republic of Kazakhstan

- Retail is one of the most stable sectors in Kazakhstan's economy.
- The sector has grown by an average annual growth rate of about 20% within the period of 2004-2011.
- This is one of the few sectors which maintained although small but positive growth even in the period of the global economic crisis.
- Non-food products dominate in the consumption basket of Kazakhstan's population. The structure of retail consumption by the shares of food and non-food remained quite stable over the time.
- Modern supermarket chains and retail networks rapidly expand in Kazakhstan.
- The sector is expected to see the entry of well-known international chains and consolidation of the market.

Residential Construction, thsnd sq.m.



Construction Volume and Real Estate Services, mln USD



Source: Agency of Statistics, Republic of Kazakhstan

- After the steep decline in the post-independence period the construction sector has been reviving in Kazakhstan since 2003.
- The sector's further development was largely fuelled by state investments and urban development projects particularly large-scale new construction in the new capital city – Astana.
- The construction of residential spaces continuously decreased in the decade of 1991-2000. The contraction accounted for 80% of the output.
- 2000s saw growth in the volume of residential construction at 25% average annual growth rate. The financial crisis in 2008-09 affected the sector development non-significantly.

Key players	Sales, mln USD, 2009	Change in sales 2009/08	Ranking in 100 largest companies
Kazstroyervice	1,010	279.5%	16
Imstakon	210	-7.4%	39
Akmola Kurlys Materialdary	20	-51.4%	99

Source: Bulletin 2010, "Expert Kazakhstan" Rating Agency

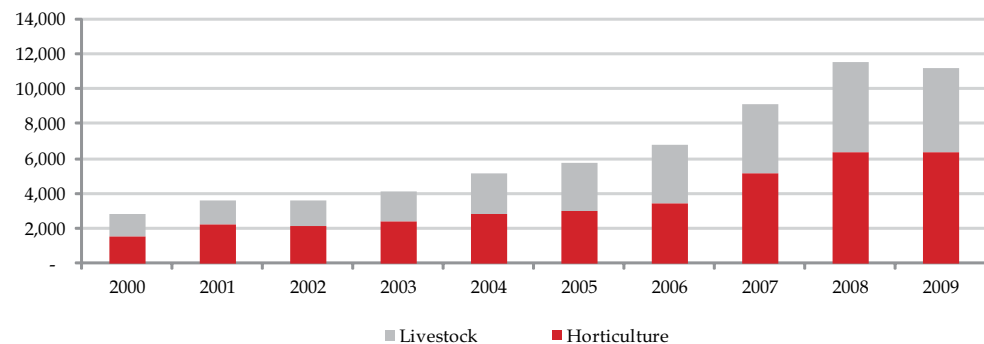
Key issues of the sector

- Extensive shadow sector, conditioned by a great number of self-employed persons
- Tax evasion due to the prevalence of unregistered construction and unregistered employees
- Insufficient production of construction materials and high dependence on imported materials

Key attractiveness of the sector

- Lucrative development prospects driven by the need for large scale infrastructure and urban development projects
- Accelerating demand for commercial property

Agriculture Output, mln USD



Source: Agency of Statistics, Republic of Kazakhstan

Key players	Sales, mln USD, 2009	Change in sales 2009/08	Ranking in 100 largest companies
Holding Kazexportastyk	401	72.6%	28
APK-Invest	392	-18%	29
Food contract corporation	382	61.6%	30
Asia-Sugar	93	730.8%	57
Almaty sugar	90	186.7%	59

Source: Bulletin 2010, "Expert Kazakhstan" Rating Agency

- With decreasing share in GDP agriculture remains the largest employer of the country. About one-third of the labor force is working in the sector.
- Kazakhstan's agriculture sector is distinguished by its high level of productivity both in the Central Asian region and on the global scale.
- Horticulture accounts for the majority of the agriculture output. This sector expressed strong growth dynamics not only recovering but also exceeding production levels before the collapse of the Soviet Union.
- Grain sector with its major cultivation being wheat is the largest agricultural sector in Kazakhstan. The growth of the agricultural sector was mainly driven by favorable climate and large harvest volumes due to which Kazakhstan became one of the biggest exporters of grain in the world.
- Meat and wool production are the next biggest agricultural subsectors.
- The sector has undergone a number of stages of reforms. The slow progress in privatization hindered the rapid development of small-scale farms.

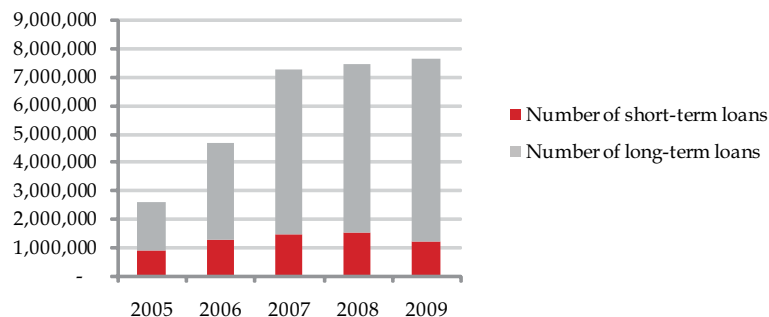
Key issues of the sector

- Fragmentation – lack of vertically integrated agro-complexes
- Limited financial resources
- Low usage of advanced technologies for sophistication of the processes
- Need of upgrade of physical infrastructure
- High unemployment in the sector leading to high urbanization rates

Key attractiveness of the sector

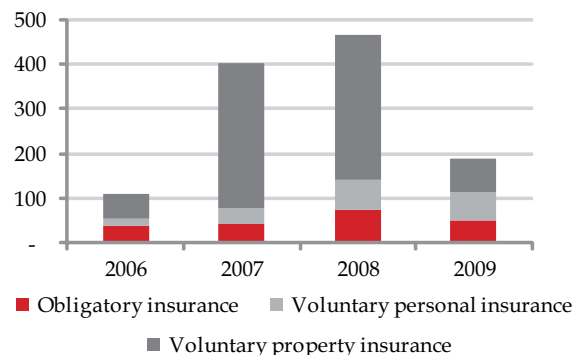
- Highly productive land resources
- Immense local consumption market
- Low production costs

Number of Short-Term and Long-Term Loans

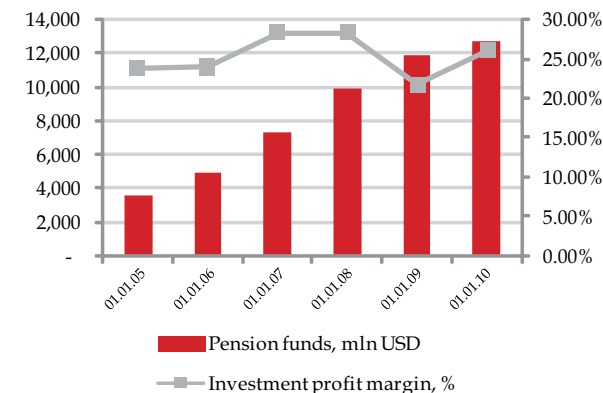


Source: Agency of Statistics, Republic of Kazakhstan

Insurance Premiums, mln USD



Pension Funds



Key players	Sales, mln USD, 2009	Change in sales 2009/08	Ranking in 100 largest companies
Kazcommercebank	2,655	-2.1%	7
National Bank of Kazakhstan	1,575	6.3%	10
BTA Bank	1,422	-50.6%	12
ATF Bank	856	-0.4%	19
Bank CenterCredit	844	-1.2%	20

Source: Bulletin 2010, "Expert Kazakhstan" Rating Agency

Key issues of the sector

- High burden of external debts by commercial banks
- Need for restructuring in the banking sector
- Underdeveloped stock market

Key attractiveness of the sector

- Rapidly expanding credit markets
- Increasing demand towards more sophisticated financial products
- Expected upheal in the stock market

- Reforms in the regulatory field of Kazakhstan's banking sector, initiated by the National bank in 1995 significantly supported the sector's further development.
- Stringent regulations, applied in the field diminished the number of operating commercial banks from 130 in 1995 to 38 in 2009.
- Backed with economic revival the consumption of loans was increasing at accelerated rates until 2008. During and after the financial crisis the growth in the number of loans provided by commercial banks considerably slowed down.
- Loan products are mostly demanded by companies in industrial, construction and retails sectors.
- The insurance sector, mainly driven by voluntary property insurance, has a deep contraction in the volume of turnover in 2009. The volume of insurance premiums decreased twice only in one year after 2008.
- Investment profit margins in pension funds fluctuate in the range of 25-30%.

EV Consulting Profile

- ✓ *service lines*
- ✓ *expertise*
- ✓ *advisory practice leaders*



STRATEGY ADVISORY

Designing mid to long-term strategies; comprehensive competitive analysis; crafting and installing strategy execution tools based on balanced scorecards; linking strategy to operations through operational dashboards

PUBLIC POLICY & DEVELOPMENT ADVISORY

Helping public sector organizations effectively design, implement and monitor sector development strategies and large scale, high impact projects. Sector strategies, impact analysis, complex studies, development support, etc.

INVESTMENT ADVISORY

Investment strategy formulation, investment proposals, business plans and feasibility studies, M&A advice; business valuation; capital attraction; deal structuring and negotiation support

MARKETING ADVISORY

Market studies and analysis by using quantitative and qualitative research tools (customer segmentation, customer loyalty and satisfaction assessment, brand health tracking etc.); commercial due diligence; development of market entry and expansion strategies etc.

PERFORMANCE IMPROVEMENT

Design and install performance measurement systems; improve planning, budgeting and forecasting systems; streamline and improve finance and marketing function; improve sales force organization, compensation schemes, customer service standards; operational dashboards

ORGANIZATION DESIGN

Designing corporate centers or holding structures for diversified businesses; modeling effective organization structures best suited to company strategies; developing organization culture and motivation metrics; staffing and competence needs assessments



Industry expertise

- ✓ *Information Technologies*
- ✓ *Mobile telecommunications*
- ✓ *Internet services*
- ✓ *Science and R&D*
- ✓ *Education*
- ✓ *Engineering services*
- ✓ *Tourism & Travel*
- ✓ *Construction materials*
- ✓ *Real estate and construction*
- ✓ *Alcoholic and non-alcoholic beverages*
- ✓ *Confectionary and chocolate*
- ✓ *Agriculture, in particular pig farming, poultry, feed production*
- ✓ *Dairy and ice cream*
- ✓ *Health care and pharmaceuticals*
- ✓ *Logistics*
- ✓ *Retail*
- ✓ *Mining*

Key highlights

EV Consulting has accomplished over 170 consulting and research projects in a broad range of sectors.

- Development of corporate and business level strategies, introduction Balanced Scorecards, performance management systems, performance improvement programs .
- Development of over 80 investment plans and memorandums, as a result of which more than 60 mln USD were attracted in a form of equity or debt financing.
- EV Consulting has worked with major international financial institutions such as EBRD, World Bank, IFC, Black Sea Trade and Development Bank, etc.
- EV has been at the forefront of introducing modern management tools in Armenia. Thus, it has introduced the Balanced Scorecards (BS) to develop long-term strategies and execution mechanisms in several companies.
- With close to 100% return rate of its customers EV has become a long-term consulting partner of many local and international companies.
- Together with its research branch EV Consulting publishes Armenian Competitiveness Report (ACR) annually. The report became a key analytical platform for public dialogue on key strategic issues in Armenia. Many of the ideas have been included in the government agenda.
- EV Consulting's research arm - EV Research Center partners with World Economic Forum and Harvard Institute for Strategy and Competitiveness.

MANUK HERGNYAN

Managing Partner

Mr. Manuk Hergnyan is the founding managing partner of EV Consulting and the founding chairman of EV Research Center. Manuk has had consulting experience with the US-based Setrakian Financial Group (head of Yerevan office), Arlex International and KPMG Consulting-Barents Group in Armenia and with Global Investment Union in Russia. He teaches Strategic Management and the Harvard Business School course on Microeconomics of Competitiveness developed by Michael Porter. Manuk holds a Ph.D. from Moscow State University. He has been trained at Cambridge (UK), Harvard (USA) and Central European Universities (Hungary), and is currently pursuing modular EMBA course at Oxford Said Business School (UK). Manuk is certified by the Palladium Group (founded by Drs. Norton and Kaplan) in Balanced Scorecard execution. Manuk is a member of the Board of Directors (BOD) of the leading dairy in Armenia and EBRD nominated BOD member at Liqvor Pharmaceuticals. He directly leads EV's strategy advisory practice.

SEVAK HOVHANNISYAN

Partner; Head of Research and Market Advisory

Mr. Sevak Hovhannisyanyan is leading research and market advisory practice at EV Consulting and is founding board member of EV Research Center. At EV he has managed numerous research and economic development assignments for public sector institutions and companies. Mr. Hovhannisyanyan's professional career started in 1997, at the Investments Department of the Ministry of Trade and Industry of Armenia, where he was promoted to lead the development and implementation of foreign investment policies. In 2000 Mr. Hovhannisyanyan joined the ProSME project, getting directly involved in the development of SME related legislation and policies. Sevak played key role in developing pharmaceutical cluster policies and support organizations through USAID CAPS project. Sevak holds a PhD in International Economics from the Yerevan State University (Armenia), and has been trained in management at the Cambridge University (UK), Aachen University of Technology (Germany) and Mercy Corps (Cambridge, US).

SONA GRIGORYAN

Manager

Ms. Sona Grigoryan holds the position of manager with EV Consulting, focusing in the practice areas of strategy, performance management and investment advisory. She has managed complex projects in corporate finance and investment advisory fields. Sona has had a hands on experience on balanced scorecard projects for several years. She has been trained with the practical knowledge in the field by London headquartered 2GC Consultancy.

Sona is currently in the process of becoming a certified member of ACCA (Association of Chartered and Certified Accountants). Her educational background is in economics, with major in marketing in Yerevan State Institute of Economics (Armenia).

