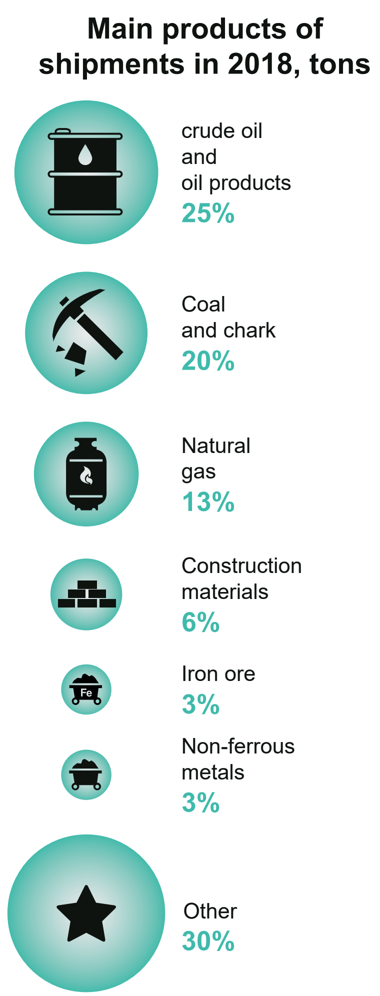
3PL-THE DRIVER OF RETAIL DEVEPOMENT

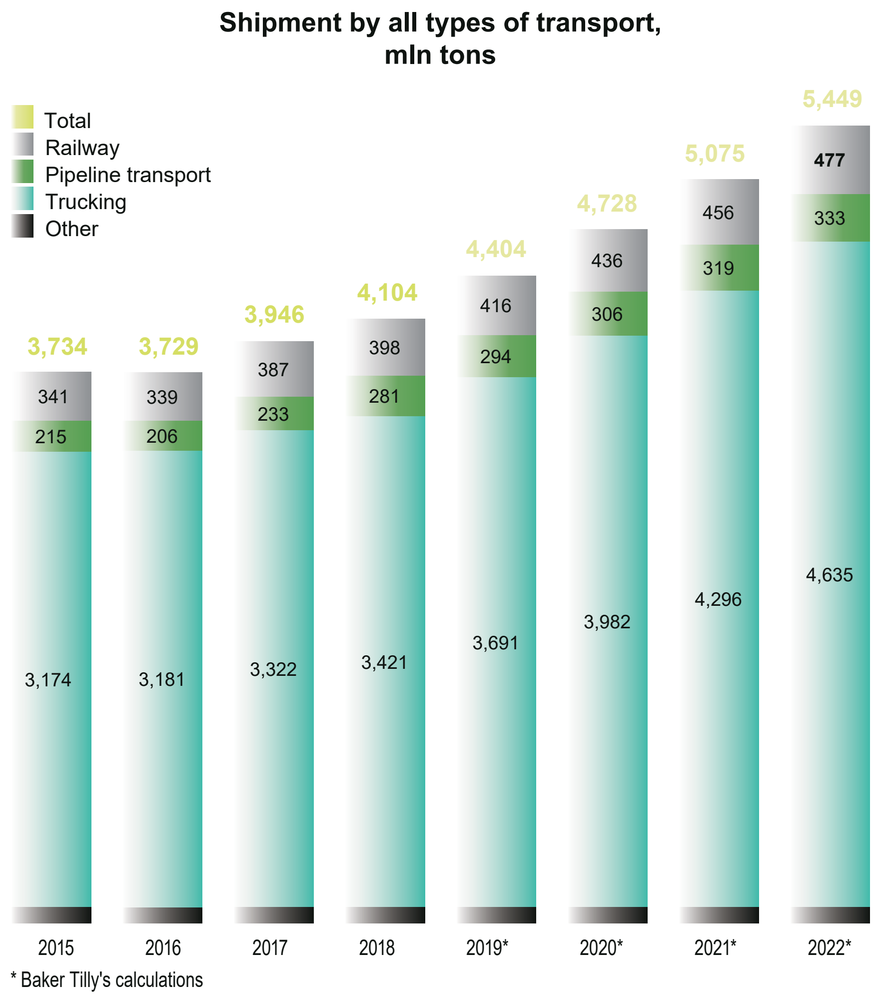
During the recent years Kazakhstan has actively expanded its potential as the transit passage connecting Europe and Asia with noticeable development in automobile and air transportation. This mainly happened due to the limited capacity of railway transportation in Kazakhstan.

The results of 2018 indicate the overall transportation volumes via all channels of 4,104 mln tons, 82% of that volume is related to automobile transportation, railway comprises 9.7% and pipeline transport – 6.9%.

Average annual increase in shipment volumes during the last four years comprised 3%, with forecasted growth of 7% in 2022.

Shipment by all types of transport, mln tons

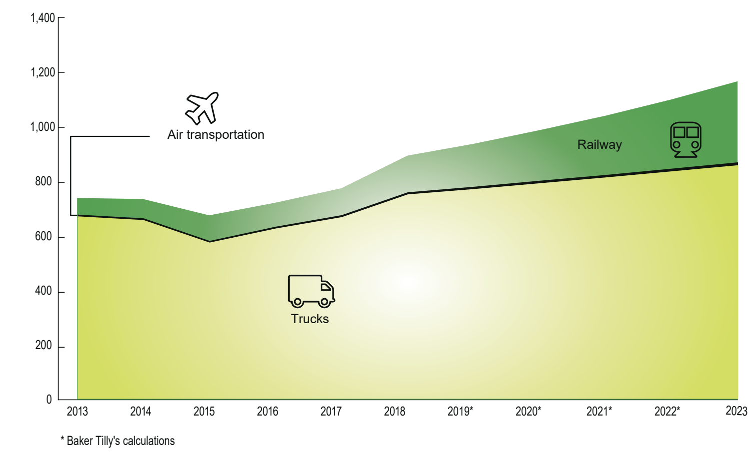




Source: Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan

Gross income from railway, auto and air shipment amounted to KZT 938 bln in 2018, including 772 bln generated by railway , 149 bln by auto and 7 bln by air. Despite highest income brought by railway, we still observe larger growth in automobile shipment: 33% growth in 2018 compared with 12% increase in railway shipment. In addition, air transportation is expected to have dynamic average annual growth with 16% projected growth during the 5 years span vs. 8% in auto shipment.

Income from shipment by channels, KZT bln

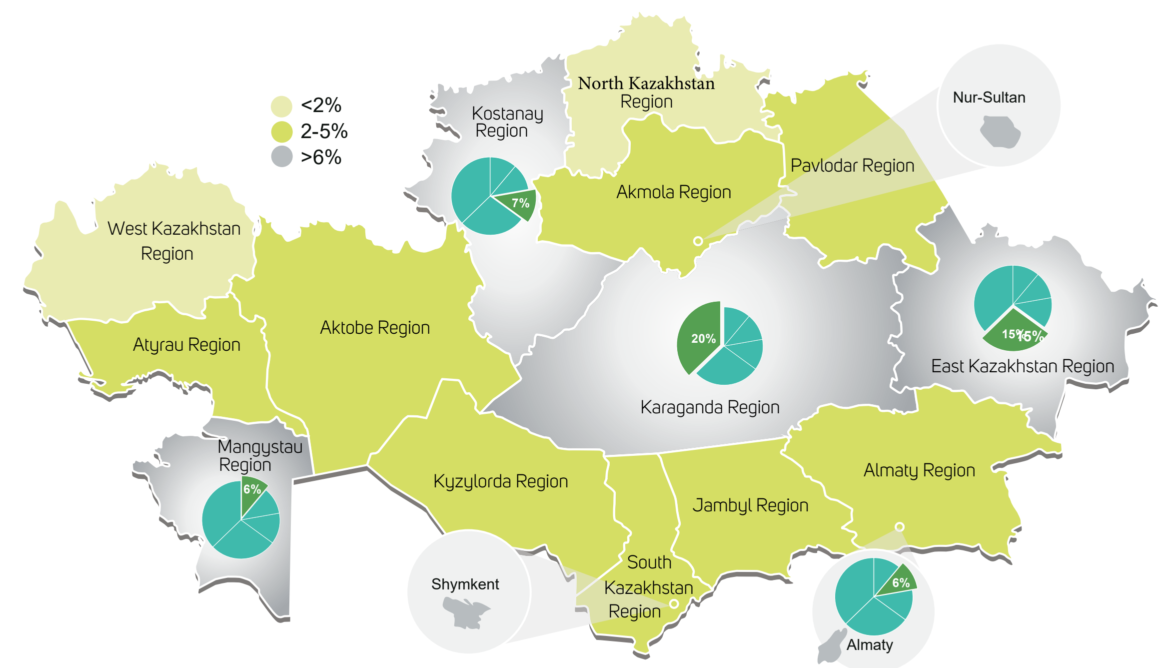


Source: Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan

Analysis of shipment in terms of volume (4,104 mln tons) by region in 2018 shows larger share of transportation in Karagandy region (20%) and East-Kazakhstan region (15%). This is is attributable to mining industry in these regions, which also demonstrates low level of own national production. In addition to that, only 3 regions conduct air transportation, with Nur-Sultan being the leader (88% from total volume), followed by Almaty and West-Kazakhstan region with 9% and 3%, respectively.

Kazakhstan has a strategically beneficial location which leads to high transit potential. Warehouse logistics is another important factor

TOP-5 Shipment volumes by regions in physical terms



Source: Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan attributing to transit passage development. It is crucial to have an adequate supply of 3PL operators which will provide a wide range of services in line with international standards.

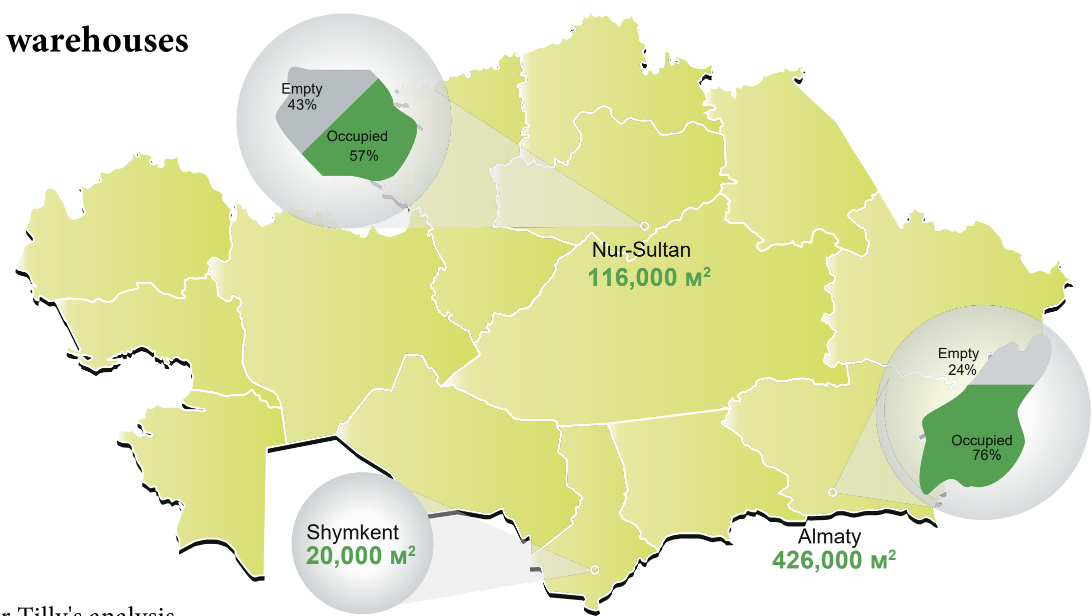
Warehouse logistics

Warehouse construction relates to 65th step of "Nation plan – 100 steps" – "Integration of Kazakhstan international transport & communication streams". According to Baker Tilly analysis, the overall area of storage facilities comprises 4.17 mln sq.meters. The coefficient of population provision with storage facilities is 227 sq.meters per 1,000 people, which is much lower of Europe's coefficient of 420 sq.m. There is an apparent shortage of 3PL operators which could provide the full spectrum of logistic services in Kazakhstan, especially in northern regions of the country. The highest demand is for "A" class storages. During the last year, the overall volume of A class warehouses comprised 562 thousand sq.m., with 426 thousand sq.m. located in Almaty city. The other 20.6% and 3.6% are located in Nur-Sultan and Shymkent cities, respectively.

Potential market for warehouses is 7.73 mln.sq.m. Therefore, we observe a deficit of high-quality warehouses in Kazakhstan. Large storage complexes provide their services only for domestic market and do not engage in transit stream servicing as there is no such need. Transit streams' servicing is limited to container processing at cross-border terminals and shipment. A-class warehouses are expected to gradually implement 4PL services and B-class warehouses – 3PL services in the nearest future. Logistics sector is somewhat an indicator of country's economic development. Warehouse capacity indicates the level of trade as import and export are strongly connected to it. Despite approximately equal rent rates, an average occupancy of A class warehouses in Almaty during 2015-2019 comprised 76%, while those located in Nur-Sultan showed only 57%. Rent rates varied from KZT 1,442 per palett spot in Almaty to 1,433 in Nur-Sultan.

Currently it is important to develop warehouse logistics in Kazakhstan in order to service production retail which will further contribute to growth of trade network in regions and decrease disorganized product trade. In 2018 around 50% of warehouses in Kazakhstan were occupied by products of distributor companies, while Russia has much lower ration of 35%. Therefore, exis- ing logistic operators mainly target distribu- tors and wholesalers, with turnover of 40-45 days. In more developed counties 3PL operators mainly focus on work with product retail and companies engaging in e–comcommerce. Currently, logistic e expenses in Kazakhstan are relatively high and significantly exceed those in developed countries. The share of logistic expenses may sometimes reach 25% of finished good's price, while average world indicator is at 11%. The main problem of A class warehouses is that the most of them provides a relatively limited range of services, which does not cover all 3PL.

"A" class warehouses

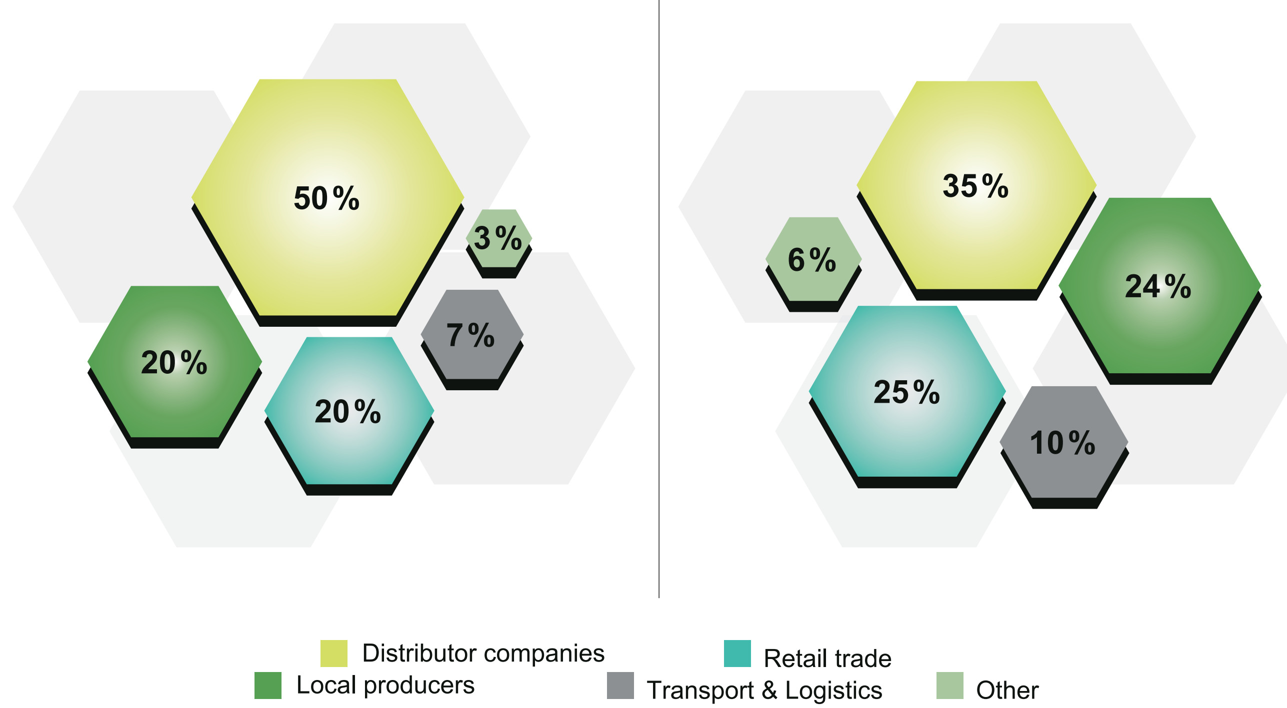


Source: Baker Tilly's analysis

This results in higher logistics expenses incurred by companies which in turn inflate prices on finished goods. Also, Kazakhstan experiences a shortage of high class warehouses almost in all regions of the country. Despite that, Kazakhstan still successfully follows its strategy "Kazakhstan-New Silk way". The successful project realization and strong potential for further industry development is supported by higher level of shipment during the latest years

This analysis was prepared by Baker Tilly Qazaqstan Advisory in the scope of project marketing development for one of largest participants in 3PL logistics.

Werehouse clients in Kazakhstan | **Warehouse clients in Russian Federation**



Source: Baker Tilly's analysis

office 201, Block 2B, BC "Nurly Tau", Al-Farabi Ave., Almaty, 050059, Kazakhstan
+7 (727) 355 47 57, marketing@bakertilly.kz, www.bakertilly.kz