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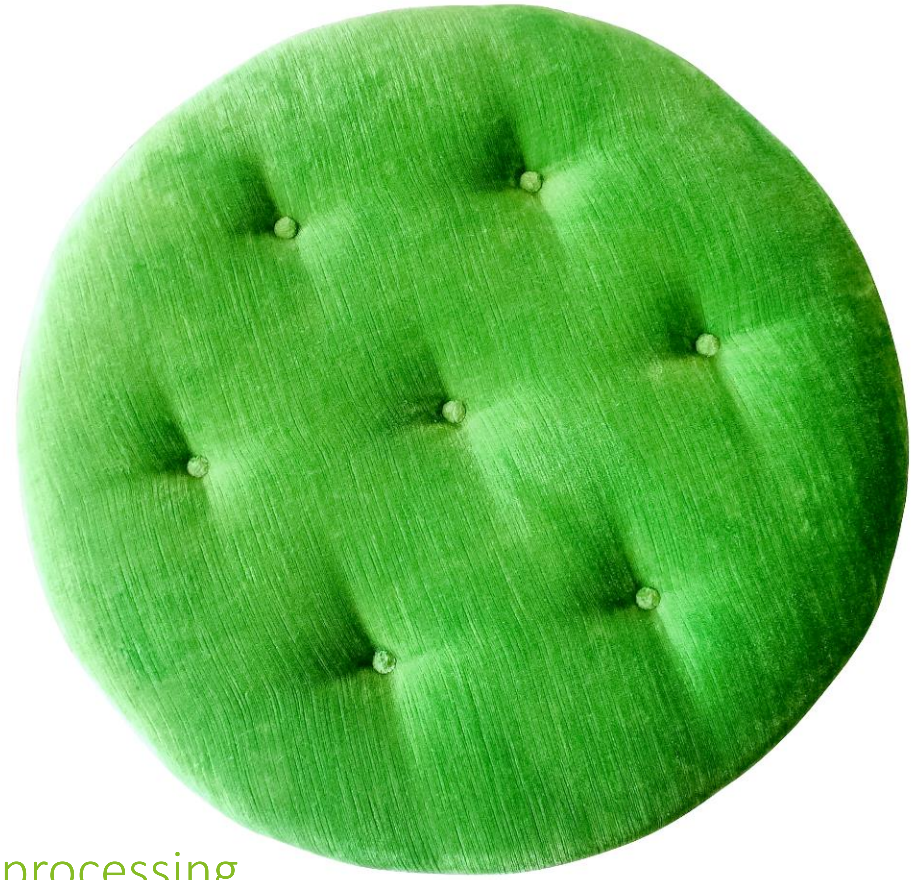


# Furniture production and wood processing in Kazakhstan

## Sector teaser

November 2020

**Important notice:**

Our work is not an audit and was not performed in accordance with audit or accounting standards and practices adopted in Kazakhstan or other jurisdictions, and therefore, it cannot be relied upon as if it had been performed in accordance with these standards and practices. We have made every effort to perform a detailed analysis of all information freely available.

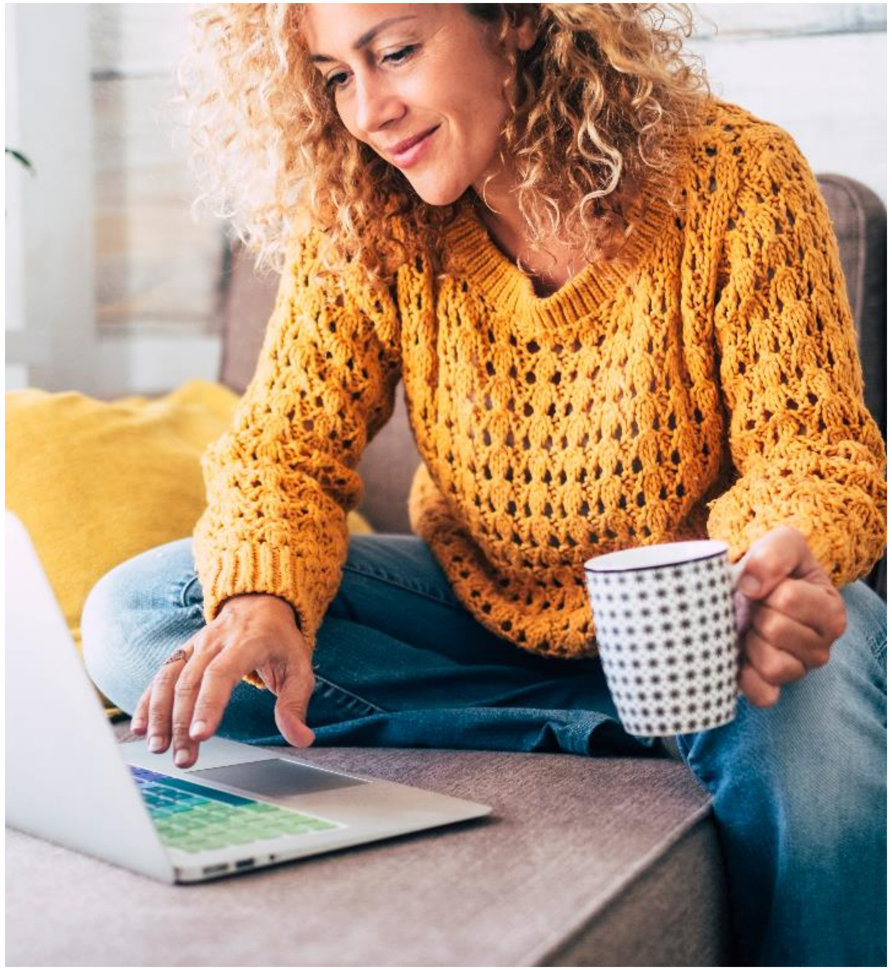
This report is not an evaluation in accordance with local or international standards. Any value analysis presented in this report are provided solely for information purposes.

The information in this report may contain forecast statements. By their nature, forecast statements involve risks and uncertainties as they relate to events and depend on circumstances that may or may not occur in the future.

This document does not consider the probable impact of COVID-19 on sales, production, the supply chain or any other business aspect that may have a negative impact on the Company's performance. The recipient should take into consideration the most extensive impact of COVID-19 on the Company's financial position due to its negative impact on the Republic of Kazakhstan and the global economy and major financial markets.

# Furniture production sector teaser





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# Furniture production sector teaser
## Sector summary

- According to the Kazakhstan general classifier of economic activities ("GCEA RK 03-2019"), furniture production corresponds to code 310 and is divided into 5 main groups: chairs and other seat-style furniture, office furniture, kitchen furniture, mattresses and other furniture.
- According to Allied Market Research, the nominal total output of the furniture industry was US$ 515.71 billion in 2019. The leading furniture manufacturers and consumers are China and the USA.
- In the last five years, furniture production in Kazakhstan has grown by 24%. Average annual sector growth was 9.7%.
- The Kazakhstan furniture industry is highly segmented and competitive. As at 1 July 2020. there were 1 417 furniture production businesses registered, of which only 978 are operating small and medium-sized companies.
- Kazakhstan furniture companies cover 25-30% of domestic demand. Given the growing consumer demand and state support, the sector has huge potential for further development, reducing import dependence and growing exports to neighbouring countries.

### *Insufficient raw materials base*

The furniture and accessories market is part of the Kazakhstan wood processing sector. Kazakhstan is import-dependent and in the top 10 importers for the majority of wood processing items, a large part of which come from Russia. However, the last five years have seen 50% growth on average in the production of chipboard, fibreboard, veneer and plywood, which are used in furniture production.

### *Sector competition and export development*

Kazakhstan has no major furniture production businesses in operation. To sell product, local producers require:

1) goal-directed efforts to expand product sale channels;
2) direct targeted sales;
3) a larger product range that considers consumer preferences;
4) effective brand management.

Given the country's proximity to major sales markets such as Eastern Europe, Central Asia and Mongolia, domestic furniture manufacturers need to develop exports to help them gain market share for their products.

### *Support of local manufacturers*

The rules for businesses to participate in state procurements changed on 1 July 2019 with the introduction of industrial certification, which confirms manufacturer production capabilities and obliges businesses to implement industrial class equipment (not leased), employ qualified staff and a technical and technological control system. This decision was taken to ensure participation in state procurements for local manufacturers and exclude fictitious businesses, middlemen and unscrupulous manufacturers.

### *State support*

The government is taking systematic measures to develop and support the processing industry, such as the "2025 Business Road Map", "SIIDP 2020-2025" and "Saving Simple Things," which help reduce the financial and tax burden on local manufacturers, increasing their competitiveness.

# Furniture production classification
## Diversity in furniture production according to the GCEA RK 03-2019 system

! According to the GCEA RK 03-2019 system the furniture industry includes 5 main segments

### Chairs and other seat-style furniture

Segment includes chairs for:

- offices;
- kitchen;
- workshops;
- hotels;
- restaurants;
- public areas;
- auditoriums (theatres and cinemas);
- laboratory benches and other seats;
- transportation seats.

### Office furniture (except for seat-style furniture)

Segment includes:

- special furniture for shops;
- office furniture;
- laboratory furniture;
- furniture for institutions (schools, restaurants, churches and others).

### Kitchen furniture (except for seat-style furniture)

Segment includes:

- kitchen furniture;
- tables;
- cupboards;
- drawers;
- other kitchen furniture.

### Matrasses

Segment (not including inflatable matrasses and water beds):

- spring or stuffed matrasses;
- auxiliary material base matrasses;
- cellular rubber matrasses;
- plastic matrasses;
- matrass frames.

### Other furniture

Segment includes:

- couches;
- sofa beds;
- upholstered furniture;
- puffs;
- ceramic;
- concrete and stone furniture;
- bedroom, guest room and garden furniture;
- cabinets, stands;
- other furniture.

# Overview of the global raw materials market

# Overview of the global raw materials market
## Wood processing industry

- Demand for timber is closely linked to business activity in the construction industry. Demand for real estate is expected to grow in developing countries, which will have a positive impact on timber demand and production.
- In 2018. the price for untreated timber grew by 3.3%. World Bank economists predict that between 2020 and 2030. timber prices will grow on average by 2.5% per year.
- Legislative changes have had a favourable sector impact in Europe and North America, with the authorities stimulating timber use growth in the construction and power industries.
- Timber is also used in furniture production. Demand for compressed wood, MDF, chipboard, fibreboard and other furniture production materials is expected to grow gradually.

### Leading timber producers in 2018*

| | USA | India | China |
|---|---|---|---|
| Fuel wood, million $m^3$ | | 303.3 | |
| Round timber, million $m^3$ | 368.2 | | |
| Sawn timber, million $m^3$ | | | 90.3 |
| Sheet timber materials, million $m^3$ | | | 203.4 |
| Wood pellets, thousand tonnes | 7.5 | | |
| Wood pulp, thousand tonnes | 48.9 | | |

Source: FAO Statistics

### Global balance of timber treatment industry resources, 2018*

| Index | Unit of measurement | Production | Imports | Exports | Consumption |
|---|---|---|---|---|---|
| Fuel wood | thousand $m^3$ | 1,943,364 | 5,219 | 7,595 | 1,940,989 |
| Round timber | thousand $m^3$ | 2,027,507 | 160,674 | 135,463 | 2,032,718 |
| Sawn timber | thousand $m^3$ | 492,543 | 151,498 | 157,787 | 486,214 |
| Sheet timber materials | thousand $m^3$ | 407,950 | 89,801 | 92,024 | 405,726 |
| Wood pellets | tonnes | 37,313 | 22,153 | 23,669 | 35,797 |
| Wood pulp | tonnes | 187,759 | 66,294 | 65,576 | 188,475 |
| Recovered paper | tonnes | 229,461 | 55,784 | 56,646 | 228,599 |
| Paper and cardboard | tonnes | 408,843 | 116,235 | 116,888 | 408,190 |

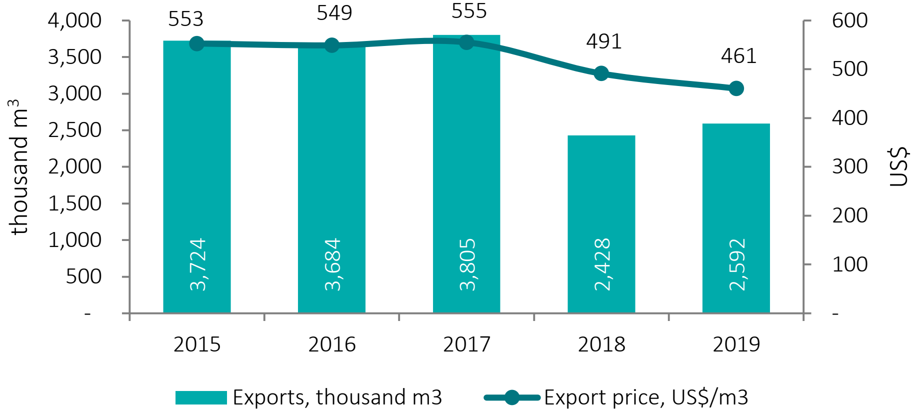
*data published once every two years

# Overview of the global raw materials market

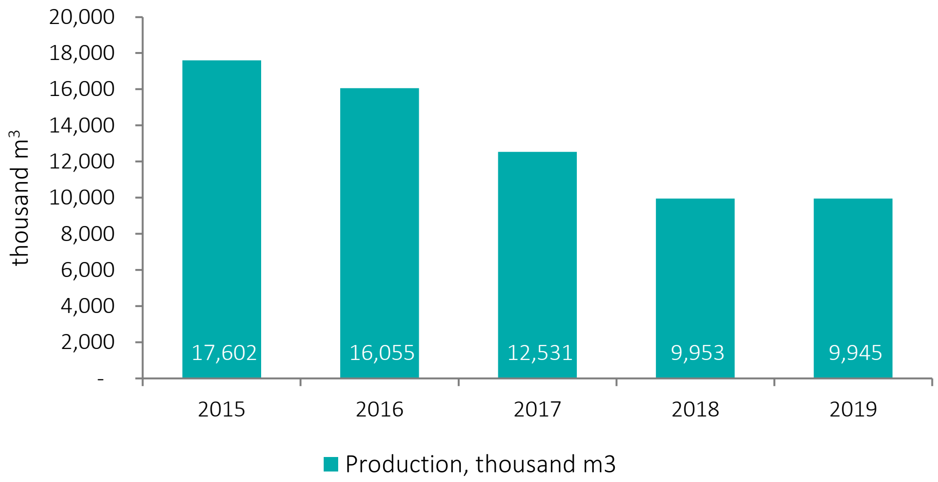
## Compressed wood

- In 2019, 53% (or 6 879 thousand m³) of all compressed wood in the world was produced in China. The second and third largest compressed wood producers are Russia (6%) and Ukraine (6%).
- In 2019. the USA, France and China were the leading compressed wood exporters (19%, 9% and 8%, respectively), accounting for 871.5 thousand m³. However, the leading exporters in monetary terms are France (14%), China (11%) and Belarus (8%); the USA is the 7th largest (6%). The cost of compressed wood in the USA (US$ 292 per m³) is slightly lower than the global average export price (US$ 461 per m³).
- The top 3 compressed wood importers are Belgium, France and Germany accounting for a total of 956 thousand m³ (28%) in2019.

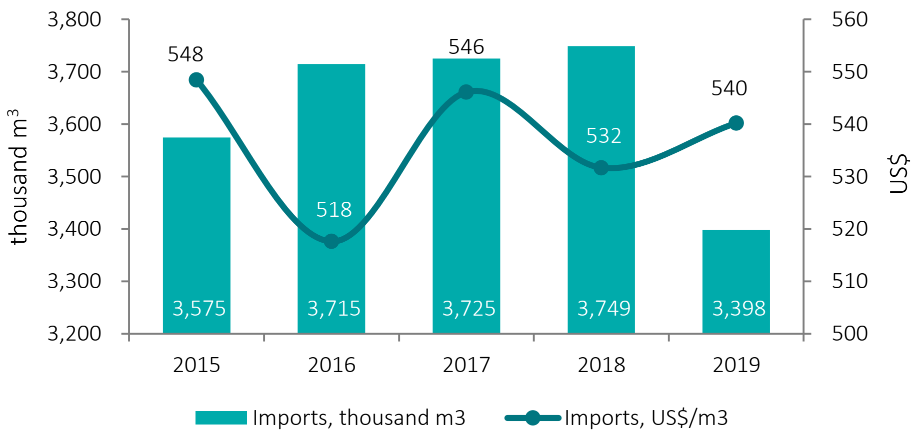
Global exports and export prices for compressed wood, 2015-2019




Global compressed wood production, 2015-2019




Global imports and import prices for compressed wood, 2015-2019

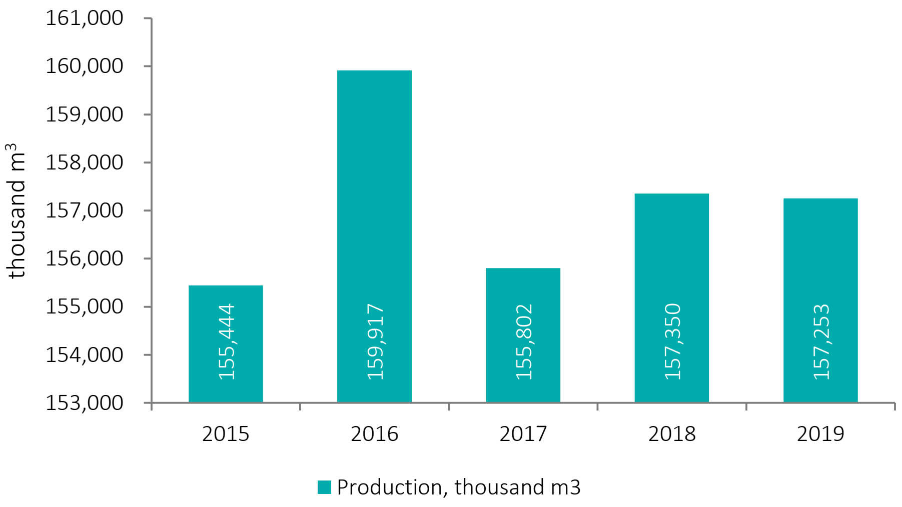



Source: FAO Statistics

# Overview of the global raw materials market
## Medium density fibreboard (MDF)

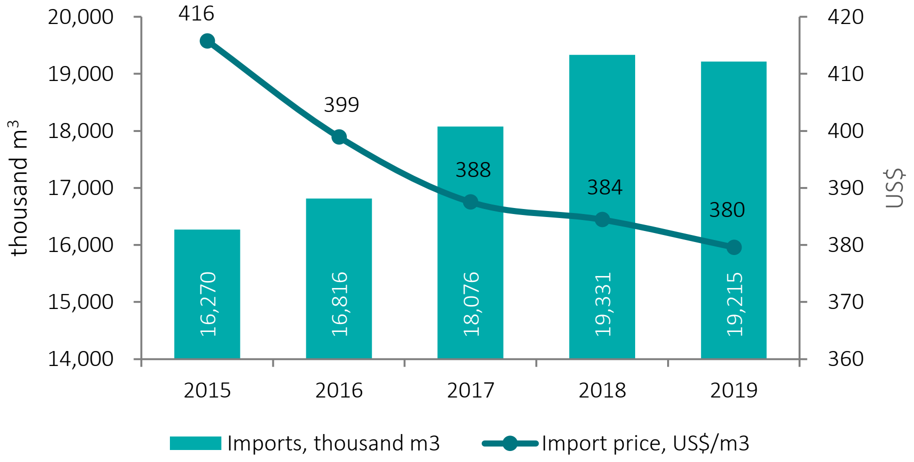
- China is the leading MDF producer, producing 55 million m$^3$ or 54% of all MDF in 2019. Turkey (5%) and Brazil are the second and third largest producers.
- Germany, Thailand and China account for 36% of total MDF exports (7 213 thousand m$^3$). Thailand MDF exports are cheaper than other countries (US$ 230 per m$^3$), while Belgium, which is the 8th largest exporter of MDF in physical terms, sells MDF for US$ 730 per m$^3$. placing 3rd in terms of the monetary value of MDF exports.
- In volume terms, the greatest importers are the USA (13%), Iran (5%) and Italy (5%). In monetary terms, the largest importers are the USA (13%), UK (5%) and France (4%). This is due to the cost of imports: Iran imports MDF for US$ 254 per m$^3$. while the cost in the UK is US$ 463 per m$^3$.

### Global MDF production, 2015-2019




### Global MDF exports and export prices, 2015-2019


### Global MDF imports and import prices, 2015-2019

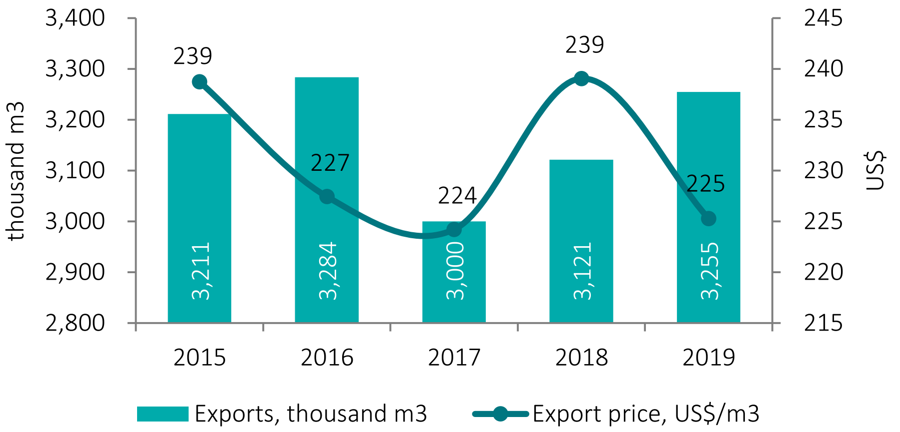



Source: FAO Statistics

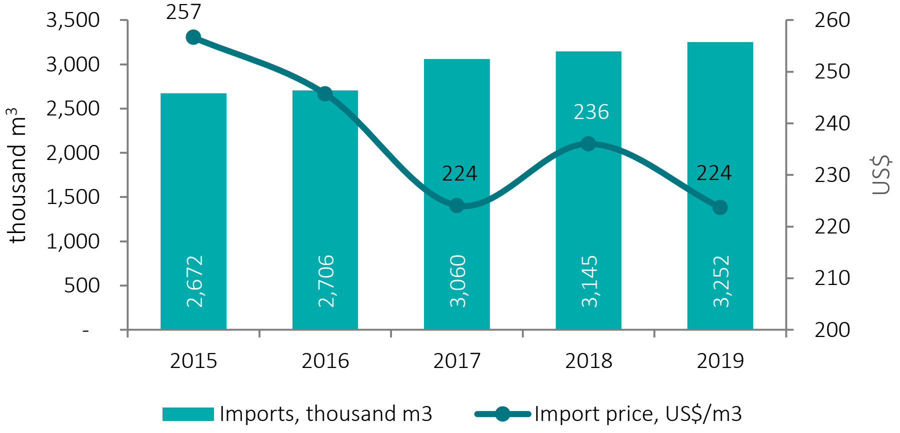
# Overview of the global raw materials market
## Fibreboard

- The leading fibreboard importers are Germany (14%), the USA (7%) and France (6%), accounting for 1.2 million m$^3$ of fibreboard or US$ 189 billion in 2019.
- In 2019. Poland, Malaysia and Thailand exported 50% of all fibreboard worldwide (1.7 million m$^3$) for a total of US$ 362 billion.
- The main fibreboard producers in 2019 are the USA (38%), Germany (21%) and Poland (15%), producing 6.2 million m$^3$ of fibreboard in 2019. Total production amounted to 8.4 million m$^3$.

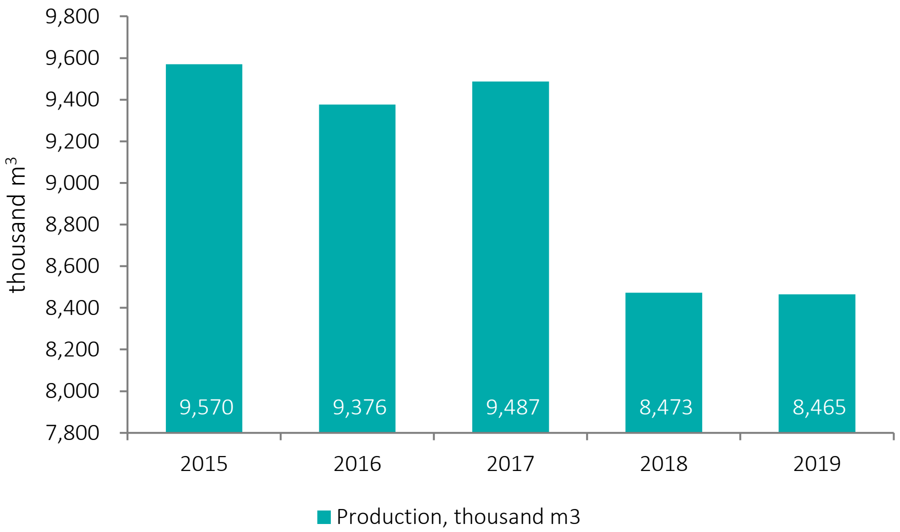
Global fibreboard exports and export prices, 2015-2019




Global fibreboard imports and import prices, 2015-2019




Global fibreboard production, 2015-2019

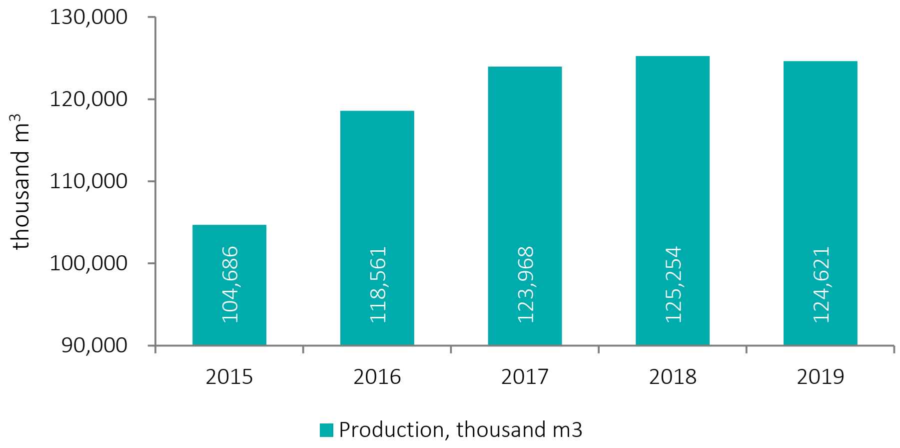



Source: FAO Statistics

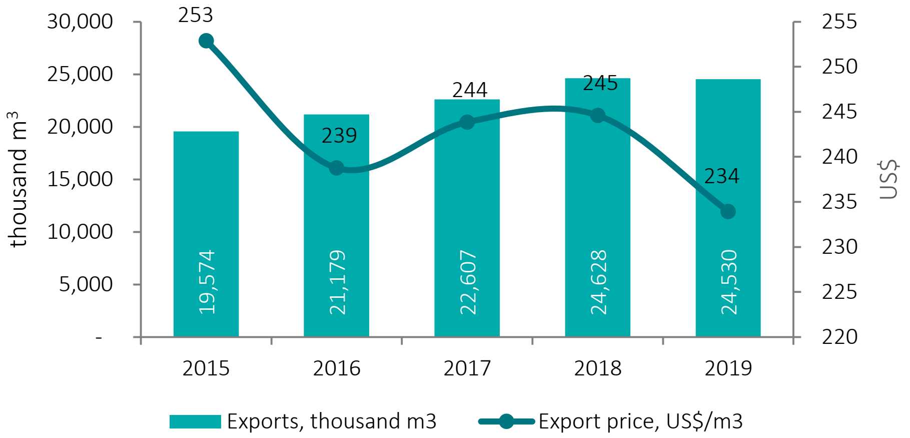
# Overview of the global raw materials market
## Chipboard

- The global leaders in chipboard production in 2019 were China (28%), Russia (9%) and Germany (6%), accounting for 41 million $m^3$ in 2019.
- The top 3 chipboard exporters are Thailand, Russia and Austria, accounting for 2.5. 1.9 and 1.9 million $m^3$ in 2019, respectively. In monetary terms, the leading exporters are Austria, Germany and France, accounting for US$ 1.6 billion in 2019. The difference in the export price to Germany and Thailand is US$ 135 per $m^3$ (US$ 119 per $m^3$ for Thailand and US$ 254 per $m^3$ for Germany).
- Germany is also the leading chipboard importer (1.9 million $m^3$ in 2019) followed by Poland and the USA (1.9 and 1.5 million $m^3$ of chipboard respectively for a total of US$ 1.2 billion).

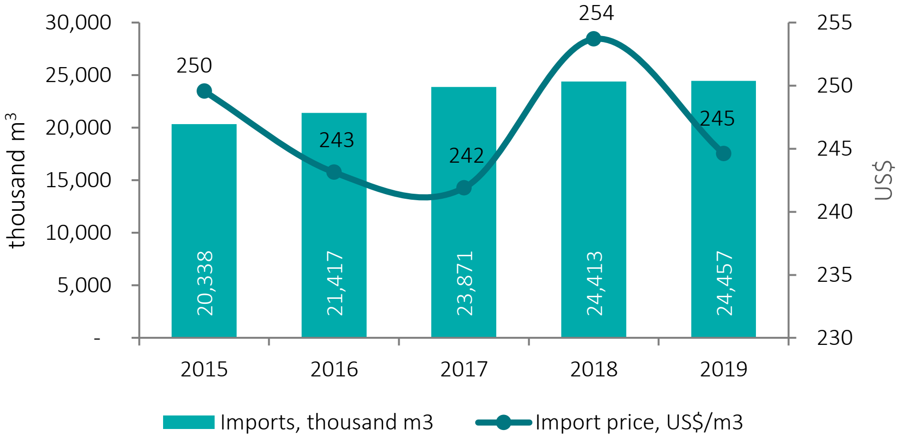
### Global chipboard production, 2015-2019




### Global chipboard exports and export prices, 2015-2019




### Global chipboard imports and import prices, 2015-2019



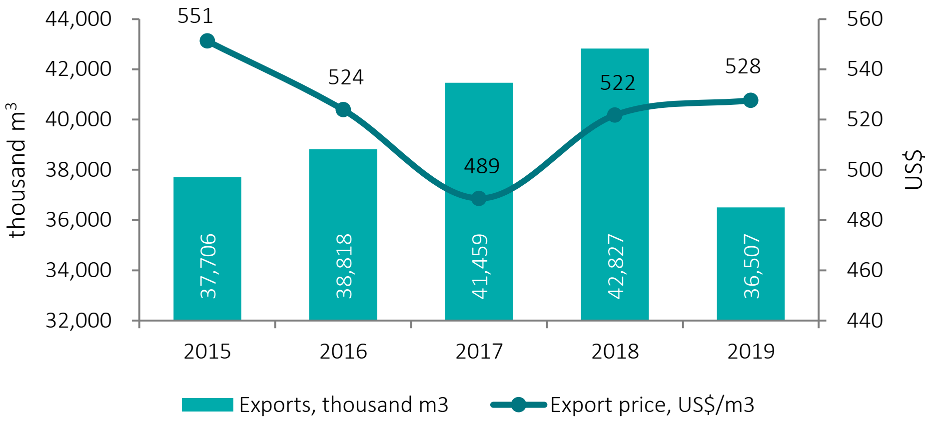

Source: FAO Statistics

# Overview of the global raw materials market

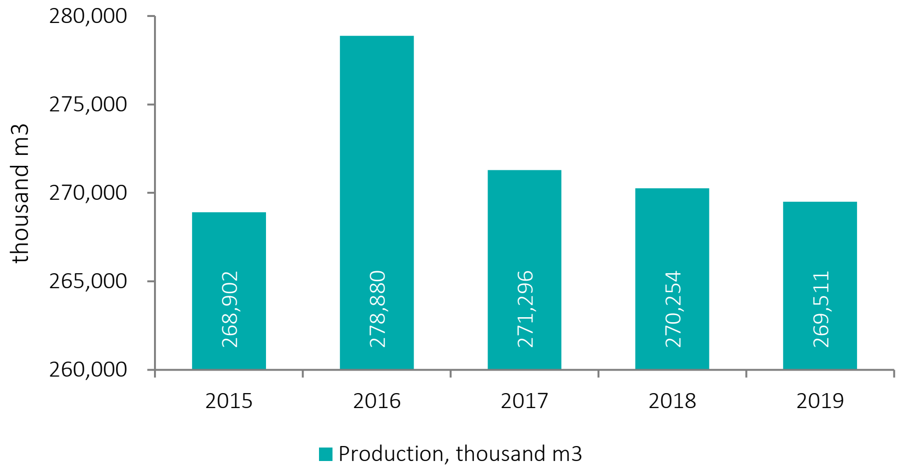
## Plywood

- The leading plywood importers in monetary terms are the USA (17%), Germany (10%) and Japan (6%), which are together responsible for the import of 8.3 million m³ of plywood for a total of US$ 4.8 billion in 2019.
- The leading plywood exporters are China (8.6 million m³), Russia (2.9 million m³) and Indonesia (2.7 million m³), which are responsible for roughly 50% of total plywood exports both in monetary and physical terms.
- The main plywood producers are China (113 million m³), the USA (9.2 million m³) and Russia (4 million m³), responsible for 81% of all plywood worldwide in 2019.

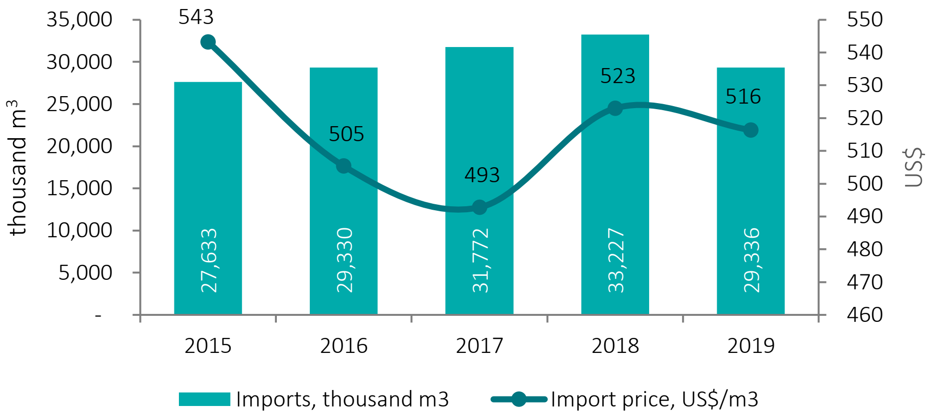
### Global plywood exports and export prices, 2015-2019




### Global plywood production, 2015-2019




### Global plywood imports and import prices, 2015-2019

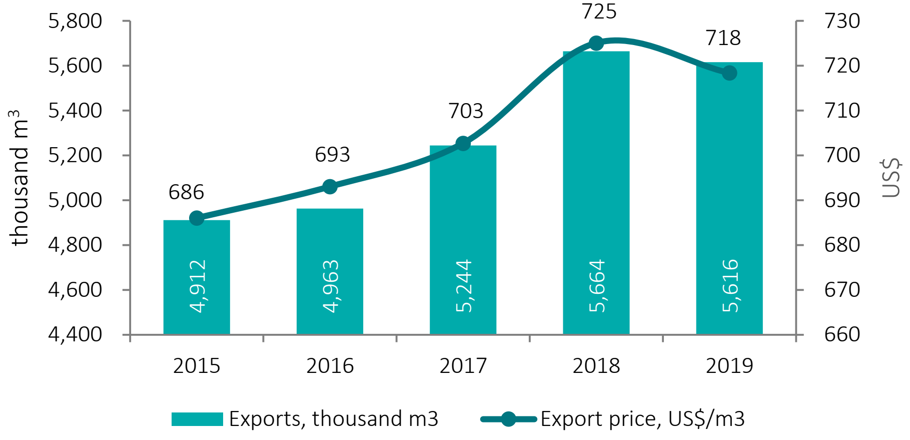



Source: FAO Statistics

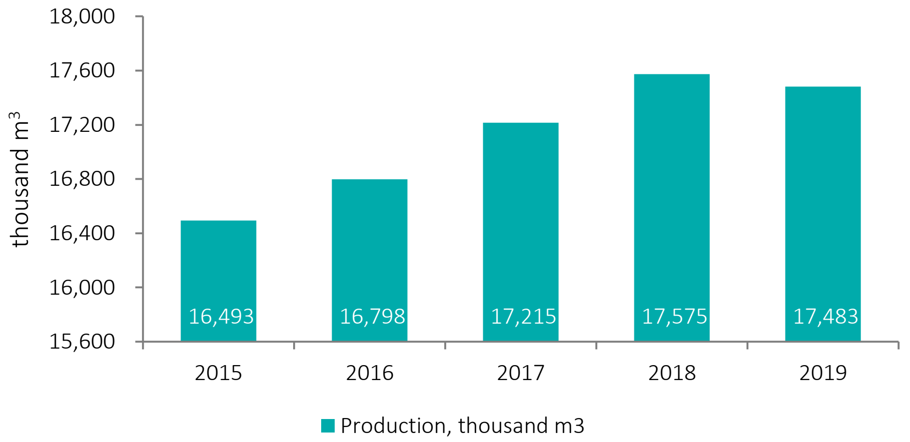
# Overview of the global raw materials market
## Veneer

- The leading global veneer producers in 2019 were China (19%), Russia (11%) and Vietnam (7%), which were responsible for 5.7 million m$^3$ in 2019.
- The leading veneer exporters are Vietnam, Russia and Canada, which in 2019 were responsible for 38% of total veneer exports.
- China (25%), India (11%) and Malaysia (11%) were the largest veneer importers, accounting for a total of 2.4 million m$^3$. In this respect, the leading veneer importers in physical terms are the USA, accounting for US$ 348 million in 2019. The average cost of veneer in the USA is US$ 551 per m$^3$. for Malaysia this figure was US$ 331 per m$^3$.

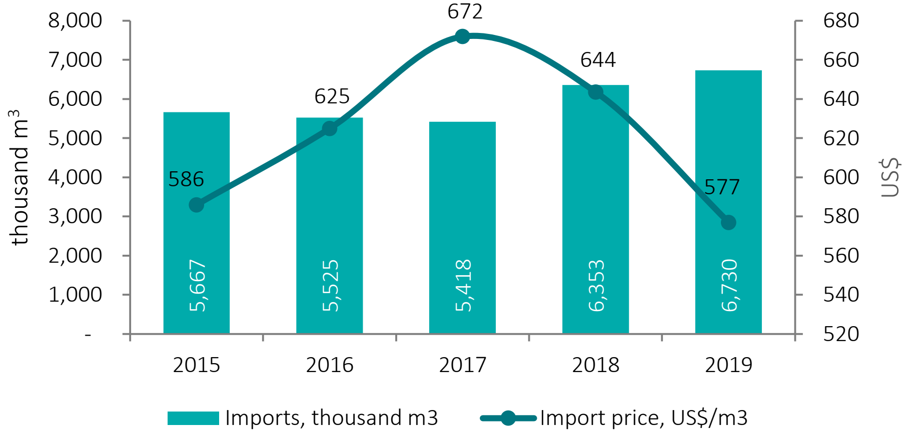
Global veneer exports and export prices, 2015-2019




Global veneer production, 2015-2019




Global veneer imports and import prices, 2015-2019



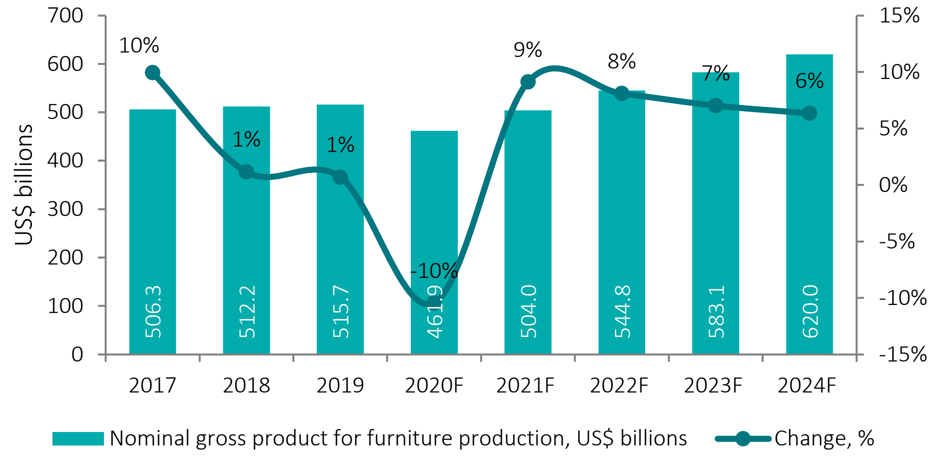

Source: FAO Statistics

# Overview of the global furniture industry

# Overview of the global furniture industry

## Gross furniture production industry output

### Gross furniture production industry output, 2017-2024




- Gross furniture production industry output was US$ 515.71 billion in 2019. Roughly 37% of all global furniture industry income is generated in North America (US$ 192 billion), while Europe and Asia Pacific account for 10% less (US$ 148 and 146 billion, respectively).
- 2020 should see a decline in gross furniture production industry output due to COVID-19. However, according to Oxford Economics, the decline will be short lived, with a return to former levels in 2021-2022, reaching US$ 620.02 billion in 2024.

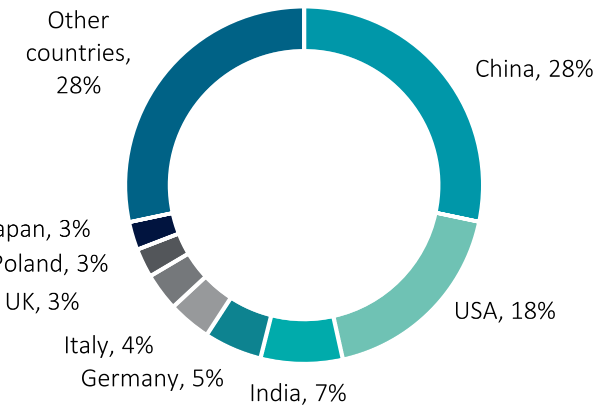
### Global furniture market income by region, US$ billions, 2017-2024

| Index | 2017 | 2018 | 2019 | 2020F | 2021F | 2022F | 2023F | 2024F |
|---|---|---|---|---|---|---|---|---|
| North America | 190.86 | 192.09 | 192.42 | 171.44 | 186.08 | 200.10 | 213.04 | 225.34 |
| Europe | 149.35 | 149.36 | 148.65 | 131.57 | 141.86 | 151.51 | 160.20 | 168.26 |
| Asia Pacific | 139.22 | 143.27 | 146.72 | 133.59 | 148.16 | 162.75 | 176.96 | 191.12 |
| Latin America, Middle East and Africa | 26.83 | 27.43 | 27.91 | 25.26 | 27.84 | 30.40 | 32.87 | 35.30 |
| **Total** | **506.26** | **512.15** | **515.71** | **461.86** | **503.95** | **544.77** | **583.06** | **620.02** |

Source: Oxford Economics, EMIS, Allied Market Research

# Overview of the global furniture industry
## Total output and furniture production industry prices

### Ratio of added furniture production value to global furniture production, 2019




### Price index for manufactured furniture, by country*

| Index | 2017 | 2018 | 2019 | 2020F | 2021F |
|---|---|---|---|---|---|
| Kazakhstan | 103.91 | 102.82 | 98.50 | 101.42 | 103.54 |
| China | 102.75 | 104.01 | 105.32 | 105.47 | 107.76 |
| France | 101.35 | 101.98 | 102.96 | 102.95 | 103.66 |
| Germany | 102.13 | 104.42 | 105.98 | 106.22 | 106.25 |
| Italy | 101.50 | 102.39 | 103.65 | 104.29 | 105.02 |
| Japan | 100.15 | 100.52 | 101.87 | 103.52 | 104.75 |
| UK | 91.96 | 93.03 | 94.07 | 91.71 | 90.85 |
| USA | 102.20 | 105.14 | 108.38 | 108.50 | 109.89 |

*base year - 2015

### Share in furniture market added value in real GDP, 2017-2021. %

| Index | 2017 | 2018 | 2019 | 2020F | 2021F |
|---|---|---|---|---|---|
| Lithuania | 1.36% | 1.40% | 1.22% | 1.19% | 1.19% |
| Poland | 1.02% | 1.02% | 1.02% | 0.97% | 0.99% |
| Estonia | 0.69% | 0.66% | 0.64% | 0.63% | 0.62% |
| Slovakia | 0.46% | 0.59% | 0.59% | 0.55% | 0.53% |
| China | 0.39% | 0.39% | 0.37% | 0.34% | 0.34% |
| Russia | 0.16% | 0.18% | 0.17% | 0.19% | 0.18% |
| Kazakhstan | 0.01% | 0.01% | 0.01% | 0.01% | 0.01% |
| ... | ... | ... | ... | ... | ... |
| **Arithmetic mean for all countries** | **0.23%** | **0.22%** | **0.22%** | **0.21%** | **0.21%** |

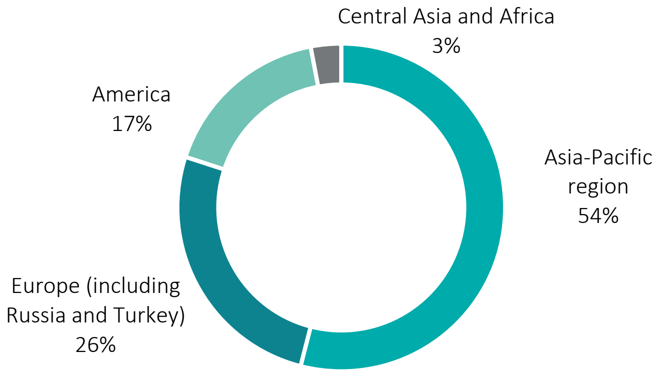
- According to Oxford Economics, between 2019 and 2021, China's share of added value in global furniture production will increase by 1% to 29.15%, while the USA share will drop by 0.7% to 17.53%. The share of the remaining countries will not change significantly, fluctuating 0.5%.
- The share of the furniture industry in global real GDP (ratio of salaries and profit from sales to GDP) is forecast at 0.21% in 2021.
- The added value share of the furniture market in Lithuanian real GDP was 1.22%, which is nearly 6 times higher than the average global value in 2019, while for Kazakhstan the figure is around 0.01%.

Source: Oxford Economics, EMIS, Allied Market Research

# Overview of the global furniture industry

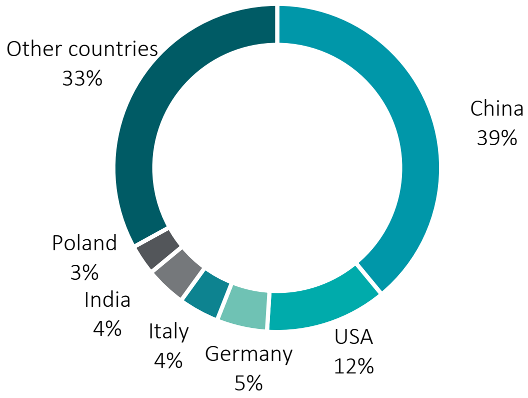
## Global furniture production

### Allocation of global furniture production in physical terms by region, as a percentage, 2019




In the last decade, between 2009 and 2019, Asia Pacific region production almost doubled, while Europe's share fell from 42% to 26%. The changes in other regions were relatively insignificant. Over half of furniture globally is produced in the Asia Pacific region. North America accounts for 15% and South America only 2%.

### Allocation of global furniture production in physical terms by country, as a percentage, 2019

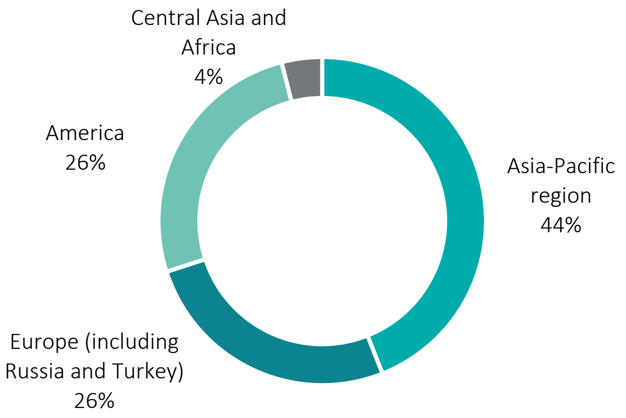



In 2019, China was the leading furniture manufacturer (39%). In 2009, its share of furniture production was 20%, at the same level as the USA, the former leading producer. China was able to achieve its significant share in global production thanks to sector investment (approximately US$ 35 billion). It is expected that China's share in furniture production will grow by 1.9% by 2021.

Source: Centre for Industrial Studies (CSIL)

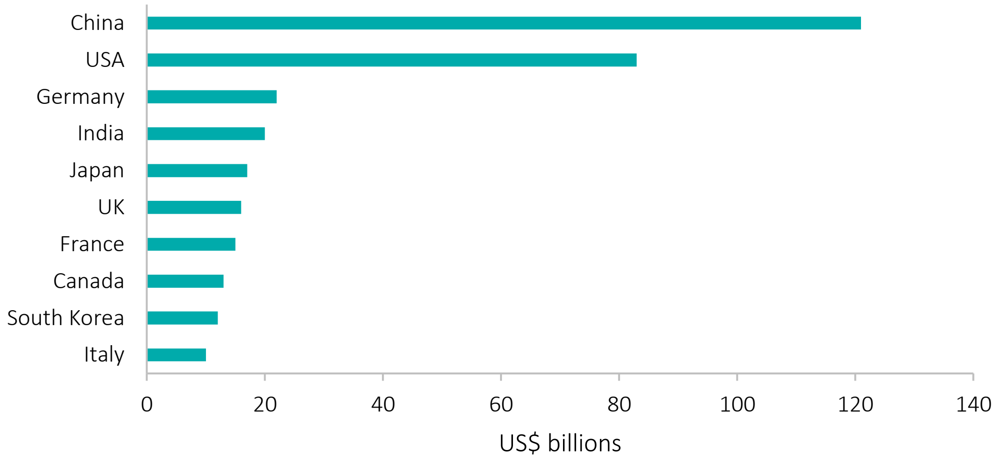
# Overview of the global furniture industry
## Global furniture consumption

### Allocation of global furniture consumption in physical terms, by region, as a percentage, 2019




Consumption in the Asia Pacific region increased from 26% in 2009 to 44% in 2019, while Europe's share fell from 42% to 26%. Changes in other regions were relatively insignificant. North American's share is 23% and that of South America - 3%.

### Top 10 furniture consumers, US$ billions, 2019

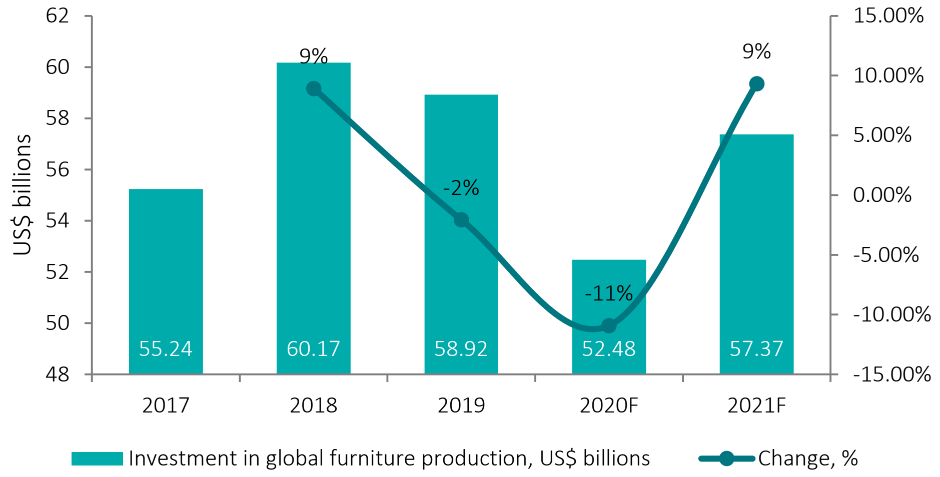



The top 10 furniture consumer countries account for nearly 80% of global consumption. China is the leader, accounting for 30% of total consumption. China's consumption has grown 7% since 2017, while India recorded the greatest consumption growth of 20% for the same period. South Korea has demonstrated significant growth in the last three years, with a 13% increase in furniture consumption.

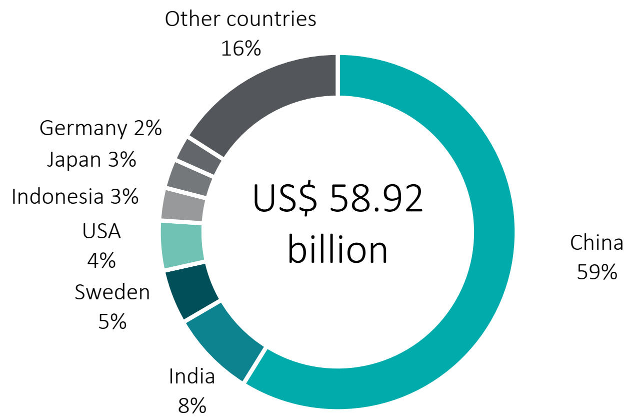
Source: Centre for Industrial Studies (CSIL)

# Overview of the global furniture industry
## Investment in the furniture production industry

Investment in the global furniture production industry in 2017-2021, US$ billions




Investment in the furniture production industry in 2019, by country




Investment in furniture production development fell by 2% in 2019 to US$ 59 billion. Investment should decline in 2020 due to the COVID-related slowdown in the global economy. However, 9% growth and a recovery to former investment levels in the furniture sector have been forecast for 2021.

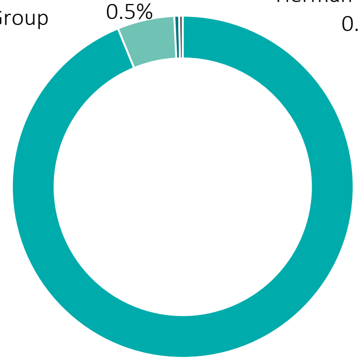
59% of all investment in the global furniture production industry was made in China (US$ 34.68 billion). The next largest recipient in terms of furniture industry investment is India with US$ 4.56 billion,

Source: Oxford Economics, EMIS, Allied Market Research

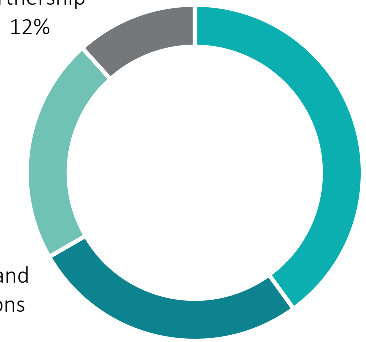
# Overview of the global furniture industry

## Segmentation of the global furniture production industry, by manufacturer

### Global furniture production industry, by company, 2019




### Strategies used by furniture production companies to maintain and increase market share




Source: Mordor Intelligence

- The vast number of regional and international companies creates intense competition in the global furniture industry. In addition, customers tend to consider a number of factors when buying furniture, such as quality, price, functionality, size, design, marketing activities and others.
- Despite the intense competition and strict buyer requirements, there are a number of dominant market players such as Inter IKEA Group, Herman Miller, Steelcase, HNI Corporation, Williams-Sonoma Inc. and Okamura Corporation.
- To maintain and increase their market share, 22% of companies try to increase production capacity and sales channels by focusing social network marketing and using Internet platforms to generate client feedback. Furthermore, 40% of companies invest in R&D to develop new products that meet consumer interests. For example, a Herman Mille subsidiary, Geiger released the Axon brand to produce a modern technology chair, incorporating a charger, windows and other accessories used in conference halls. In addition, major players work with local manufacturers to acquire a dominant position on local markets (26% of all furniture manufacturing companies).

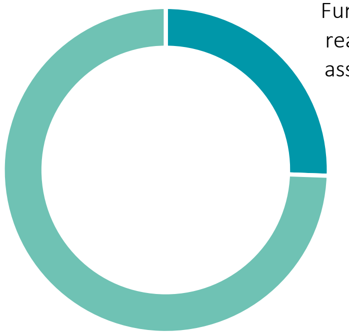
# Overview of the global furniture industry

## Segmentation of the global furniture industry by furniture use

### Global furniture industry segmentation by furniture use, 2017-2024

| Index | 2017 | 2018 | 2019 | 2020F | 2021F | 2022F | 2023F | 2024F | CAGR for 2020-2024, % |
|---|---|---|---|---|---|---|---|---|---|
| Furniture ready for assembly, US$ billions | 128.91 | 130.68 | 131.86 | 118.34 | 129.38 | 140.15 | 150.31 | 160.16 | 4.24% |
| Furniture ready for use, US$ billions | 377.35 | 381.47 | 383.85 | 343.52 | 374.57 | 404.62 | 432.75 | 459.86 | 3.95% |
| Household furniture, US$ billions | 230.99 | 232.60 | 233.13 | 207.81 | 225.69 | 242.82 | 258.66 | 273.75 | 3.54% |
| Commercial furniture, US$ billions | 146.36 | 148.87 | 150.72 | 135.71 | 148.88 | 161.80 | 174.09 | 186.11 | 4.59% |
| Total, US$ billions | 506.26 | 512.15 | 515.71 | 461.86 | 503.95 | 544.77 | 583.06 | 620.02 | 2.90% |

### Segmentation of the global furniture industry, by furniture assembly, in 2019




### Segmentation of the global furniture industry, by furniture use, in 2019


Furniture is categorised either according to use or readiness for use. The first category has subcategories of commercial and household furniture. In terms of readiness for use, furniture can be divided into furniture ready for use and furniture requiring assembly and delivered in dismantled form. Furniture ready for assembly can be assembled individually, based on customer request.

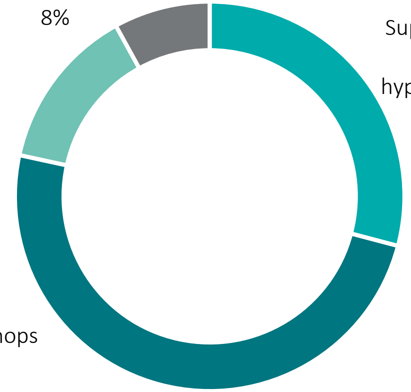
The majority of furniture manufactured is for residential premises (61% in 2019) and delivered to customers ready for use (74% in 2019).

The expectation in 2020-2024 is that the largest increase in furniture output will be in the commercial sector – 4.59%, while growth will be lowest in the residential sector – 3.54%.

Source: Allied Market Research, Oxford Economics, EMIS, Deloitte analysis

# Overview of the global furniture industry
## Segmentation of the global furniture industry by sales channel

### Segmentation of the global furniture industry by sales channel, 2019




- Supermarkets follow a strategy of paired sales, whereby items complementing each other are sold close to each other. Supermarkets are able to sell furniture cheaply thanks to logistical optimisation. The specialised shop segment develops thanks to increases in the demand for furniture due to the residential and commercial construction boom.
- The current trend is for increases in sales thanks to the Internet which offers competitive prices, 24/7 access, a wide range of brands and detailed descriptions, customer feedback on a specific product and product individualisation. The predicted average annual growth in Internet sales in 2021-2024 is 8.4%.
- In 2019, 49% of global furniture sales occur in specialised furniture shops. The growth rate in furniture sold through specialised shops is 7% (2021-2024). Approximately 30% of all furniture was sold through supermarkets and hypermarkets (US$ 151.64 billion in 2019). The prediction for average annual growth in furniture sold through supermarkets and hypermarkets will be 8.3% in 2021-2024, making the sector worth US$ 187.57 billion in 2024.

### Segmentation of the global furniture industry by sales channel in 2017-2024, US$ billions

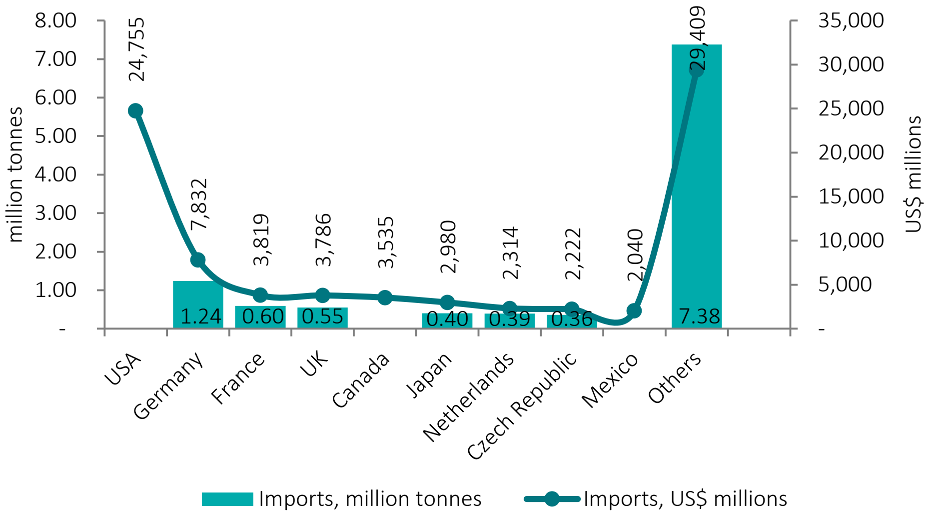
| Index | 2017 | 2018 | 2019 | 2020F | 2021F | 2022F | 2023F | 2024F |
|---|---|---|---|---|---|---|---|---|
| Supermarkets and hypermarkets | 147.20 | 149.75 | 151.64 | 136.58 | 149.87 | 162.93 | 175.38 | 187.57 |
| Specialised shops | 249.76 | 251.29 | 251.64 | 224.11 | 243.15 | 261.35 | 278.11 | 294.02 |
| Internet sales | 68.99 | 70.61 | 71.94 | 65.17 | 71.93 | 78.64 | 85.12 | 91.54 |
| Others | 40.31 | 40.49 | 40.49 | 36.00 | 39.00 | 41.84 | 44.45 | 46.90 |
| **Total** | **506.26** | **512.15** | **515.71** | **461.86** | **503.95** | **544.77** | **583.06** | **620.02** |

Source: Oxford Economics, EMIS, Allied Market Research

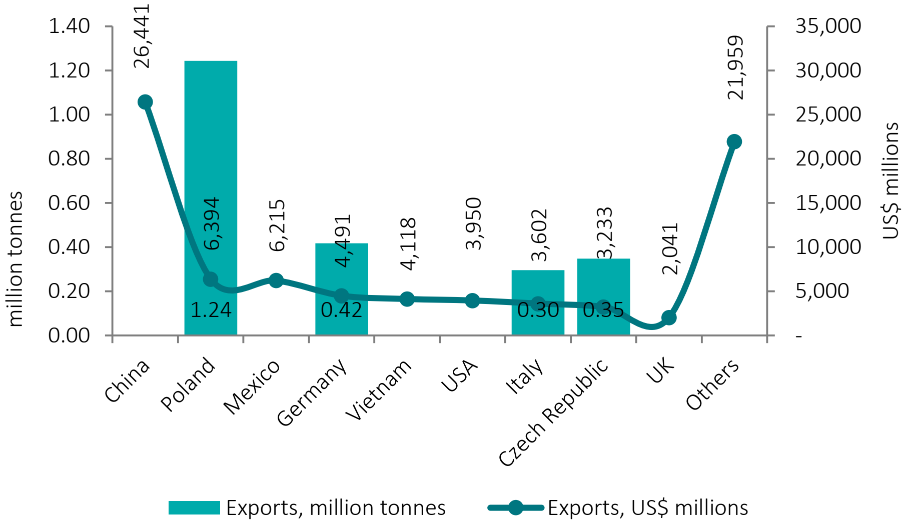
# Overview of the global furniture production industry

## Global seat-style furniture exports and imports (except for medical, veterinary and barber's chairs)

Global imports of seat-style furniture (except for medical, veterinary and barber's chairs) in 2019*




Global exports of seat-style furniture (except for medical, veterinary and barber's chairs) in 2019*




The largest importers of seat-style furniture (except for medical, veterinary and barber's chairs) in 2019 in physical terms were the USA (30%), Germany (9%), France and the UK (5% each), accounting for US$ 40.1 billion or approximately 50% of total global imports in 2019.

The average cost of 1 tonne of imported seat-style furniture (except for medical, veterinary and barber's chairs) was US$ 6 539 per tonne in 2019. This figure is highest in Japan (US$ 7 462 per tonne), while the price in the Netherlands was US$ 5 912 per tonne, which is the lowest among the 10 leading importing countries.

In 2019, the largest seat-style furniture exporters (except for medical, veterinary and barber's chairs) were China (32%), Poland (8%), Mexico (8%) and Germany (5%).

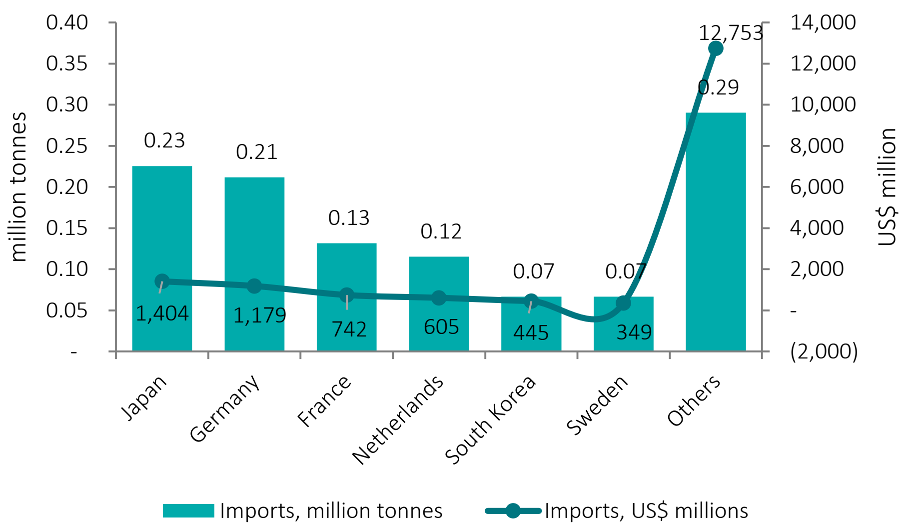
The cost of seat-style furniture (except for medical, veterinary and barber's chairs) exported from Poland was US$ 5 141 per tonne in 2019. The same figure for Germany and Italy was US$ 10 764 and US$ 12 193 per tonne, respectively.

*Only data in tonnes is provided due to the different units of measurement

Source: ITC

# Overview of the global furniture production industry
## Global matrass exports and imports

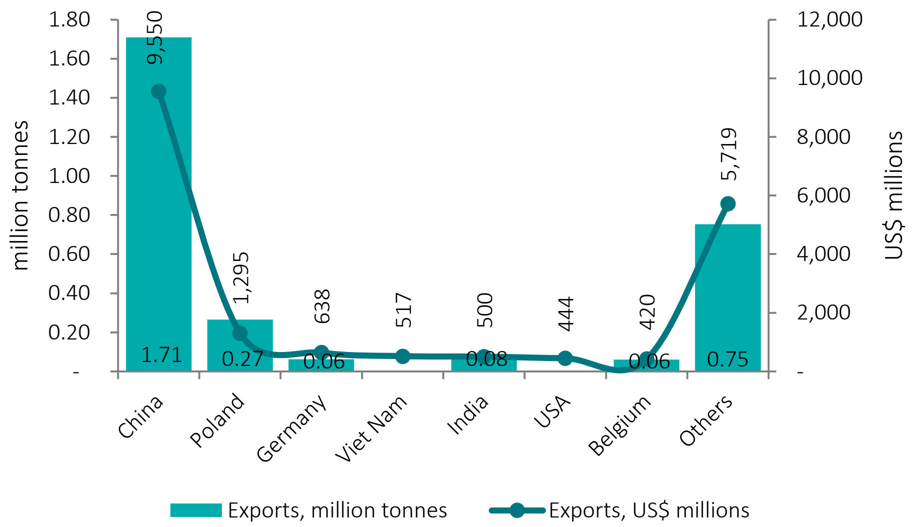
### Global matrass imports in 2019*




The largest matrass importers in physical terms are Japan (20%), Germany (19%), France (12%) and the Netherlands (10%), accounting for nearly 61% of total imports.

The cost of imported furniture in the above countries varied between US$ 5 238 and US$ 6 673 per tonne.

### Global matrass exports in 2019*




The largest matrass exporters in 2019 were China (58%), Poland (9%) and Germany (2%).

Matrass exports are most expensive in Germany where the average cost per tonne was US$ 10 thousand. In China, the same figure in 2019 was US$ 5.6 thousand per tonne and in Poland – US$ 4.8 thousand per tonne. The average global export price per tonne of matrasses was US$ 7.5 thousand in 2019.

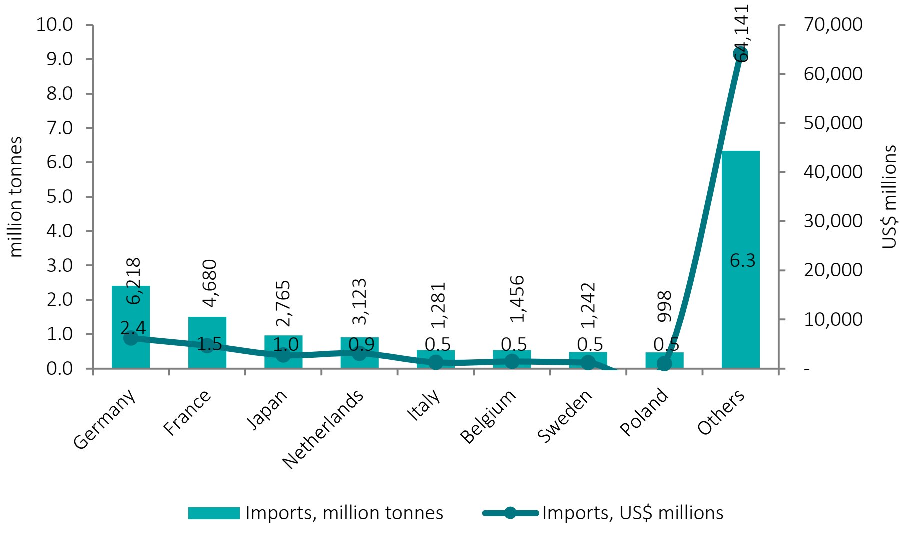
Source: ITC

*Only data in tonnes is provided due to the different units of measurement

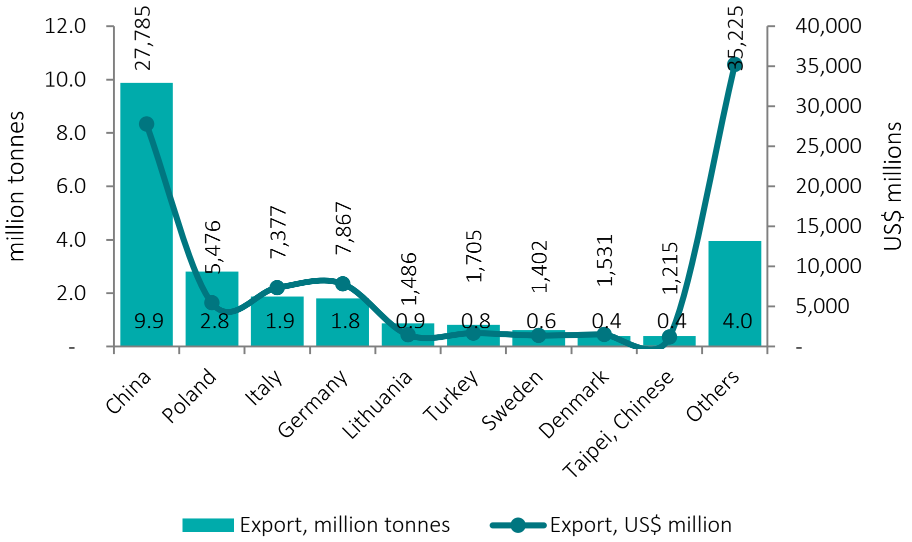
# Overview of the global furniture production industry

## Global exports and imports of other furniture (kitchen, bedroom and office furniture)

### Global imports of other furniture in 2019




### Global exports of other furniture in 2019




The largest importers of other furniture in physical terms are Germany (7%), France (5%) and Japan (3%), which account for nearly 90% of total global imports. The shares of all other countries are insignificant. The cost of imported furniture in these countries varies between US$ 2 097 and 3 434 per tonne.

At the end of 2019, the largest exporters of other furniture were Thailand (50.5%), China (20.82%), Poland (5.94%), Italy (3.96%) and Germany (3.82%). On the whole, global exports of other furniture are allocated equally among exporting countries, except for Thailand and China.

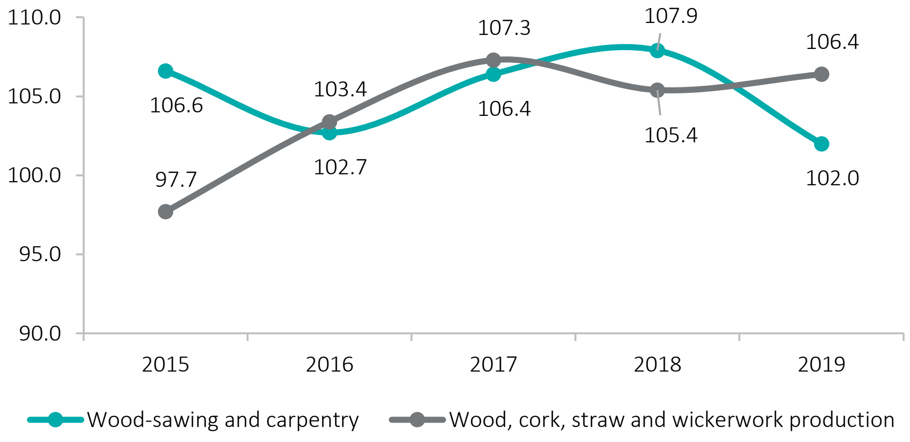
Source: ITC

# Overview of the Kazakhstan raw materials market

# Overview of the Kazakhstan raw materials market
## Kazakhstan timber processing industry

- Furniture production is a part of the timber processing industry. Total timber production fell in 2019 by 1.6% to 1 240.2 thousand $m^3$.
- Kazakhstan is import dependent and one of the top 10 importing countries for the majority of timber industry items. Sawn timber and round timber are predominantly imported from Russia. Advanced processed materials, such as slabs are imported to the majority of European countries. One of the main factors behind the large share of timber imports is the significant costs incurred for reforestation work. According to the Forestry Code, anyone using timber is obliged to reforest double the area felled. In Russia, the reforestation area is the area felled.
- The timber producer price index grew 2% in 2019 compared to the previous year, while the price index for timber grew by 6.4%. Prices for advanced processed products have also grown.

### Changes in the timber processing industry price index, % against the previous year




### Kazakhstan timber processing industry resources, 2019

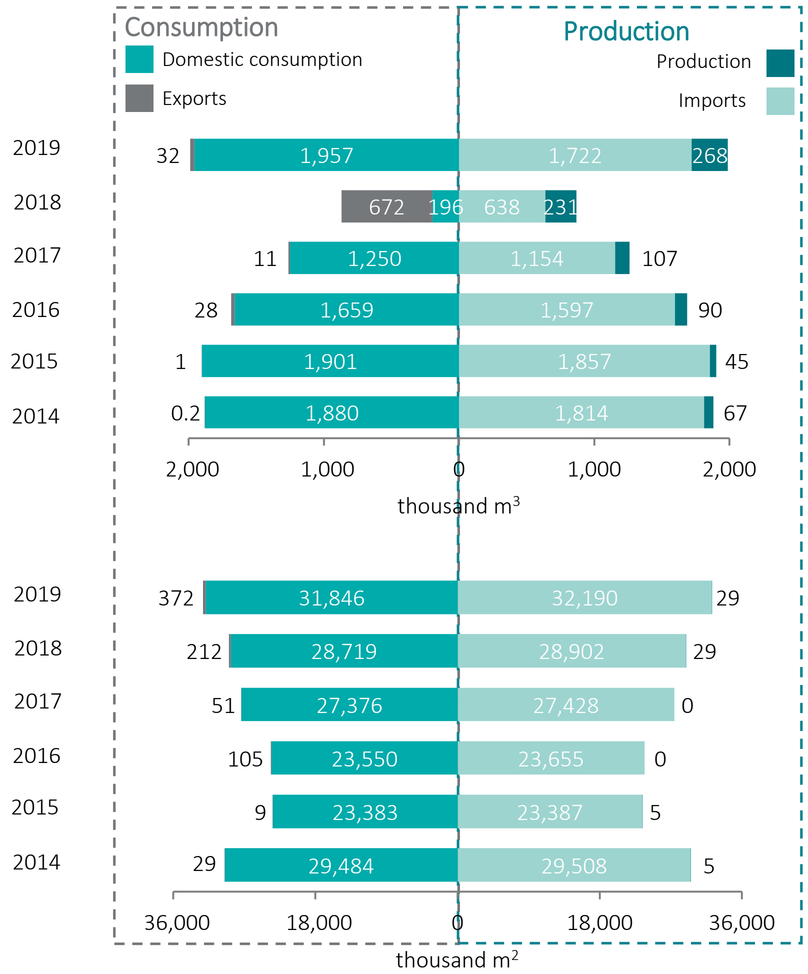
| Index | Unit of measurement | Production | Imports | Exports |
|---|---|---|---|---|
| Cardboard | tonnes | 0 | 59,521 | 96 |
| Deciduous and non-tropical round timber | thousand $m^3$ | 0 | 15 | 4 |
| Timber cut or split lengthways, sawn into 6 mm thick sections | thousand $m^3$ | 1,240 | 794 | 0 |
| Industrial timber | thousand $m^3$ | 120 | 313 | 211 |
| Charcoal | tonnes | 872 | 8,153 | 0 |
| Wood pellets | tonnes | 0 | 840 | 12 |

Source: FAO Statistics, Kazakhstan Statistics Committee

# Overview of the Kazakhstan raw materials market

## Balance of the production and consumption of chipboard and fibreboard

### Resources and use




Source: Kazakhstan Statistics Committee, ITC

### Chipboard

| | |
|---|---|
| *Deficit Surplus* | Large deficit |
| *Deficit level* | 86% |
| *Sufficiency* | Import dependent |
| *Import share* | 88% |

### Fibreboard

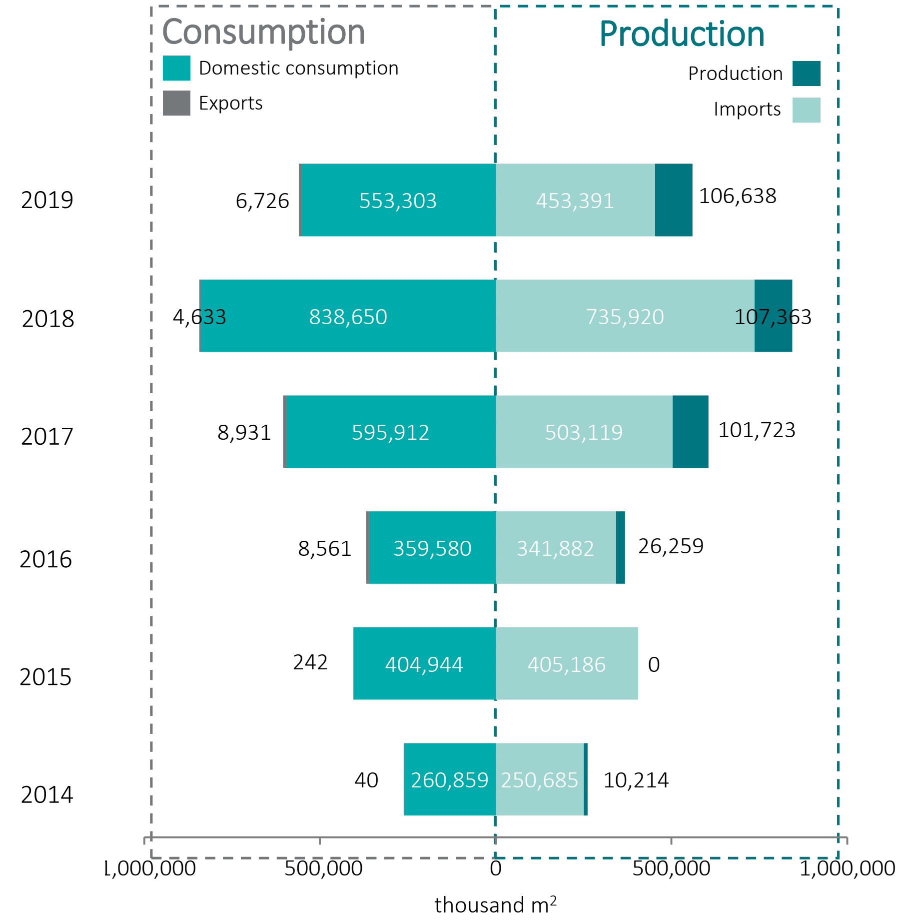
| | |
|---|---|
| *Deficit Surplus* | Large deficit |
| *Deficit level* | 100% |
| *Sufficiency* | Import dependent |
| *Import share* | 100% |

- Chipboard production in the last five years has grown, with CAGR at 62%. However, 2019 production accounted for only 14% of consumption in the country. The largest chipboard producer is Chipboard Centre LLP.
- Chipboard imports declined in 2015-2018 (CAGR - 30%), but in 2019, imports tripled from 638 thousand m$^3$. In 2019, 94% of total chipboard imports were brought in from Russia for a total of US$ 99 million, and 5% imported from Belarus and approximately 1% from China.
- Chipboard exports fell 30 times from 672 thousand m$^3$ in 2018 to 32 thousand m$^3$ in 2019. In 2019, Uzbekistan accounted for 48% of total chipboard exports, Tajikistan - 27% and Kyrgyzstan - 19%. All remaining countries accounted for 6%.
- Fibreboard production in 2019 amounted to 28.8 thousand m$^3$, while fibreboard consumption in Kazakhstan amounted to 31 846 thousand m$^3$. Nearly 100% of all fibreboard consumption in Kazakhstan is covered by imports. In the last five years, fibreboard imports have increased, with the fibreboard CAGR for the last five years at 8%.
- In 2019, 78% of fibreboard imports into Kazakhstan came from Russia, with total imports amounting to US$ 67 million. The next largest fibreboard importers are Belarus (7%) and Poland (4%).
- A large part of fibreboard exports from Kazakhstan are to Uzbekistan (36%) and Kyrgyzstan (36%). In 2019, exports to these countries combined amounted to US$ 1.4 million.

# Overview of the Kazakhstan raw materials market

## Balance of the production and consumption of veneer, plywood, laminated and compressed timber

### Resources and use




Source: Kazakhstan Statistics Committee

### Key variables

| | | | |
|---|---|---|---|
| *Deficit Surplus* | Large deficit | *Sufficiency* | Import dependent |
| *Deficit level** | 81% | *Import share*** | 82% |

**(Production-consumption)/consumption*

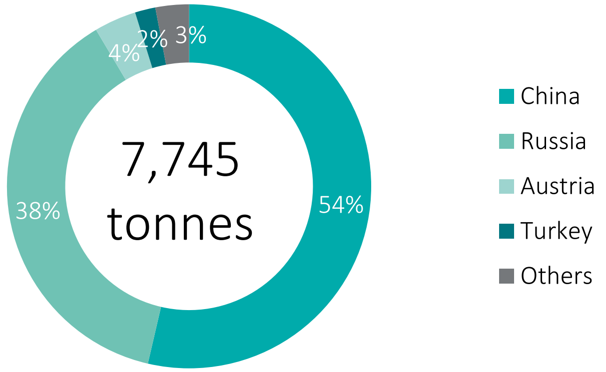
***Imports/consumption*

- In 2019, veneer and plywood production declined by 0.07% to 106.6 million m$^2$, which covered 18% of national consumption. The greatest production growth was observed in 2017 (287%), which is partially due to the upgrade of the Semipalatinsk Timber Processing plant to increase production, and the launch of a new plywood production line.
- In 2019, a large part of veneer and plywood was produced in Almaty for a total of KZT 59.9 million (56%). The next largest producer is East-Kazakhstan Oblast producing KZT 22 million (21%) and Shymkent – KZT 15 million (14%).
- In 2019, Kazakhstan imported veneer of US$ 820 thousand, of which 34% was produced in Italy, 23% in Russia and 20% in Turkey. The destination for veneer exports, which amounted to 2 tonnes in 2019, was Kyrgyzstan.
- Nominal plywood imports in 2019 amounted to US$ 27 thousand. 81% of imports were from Russia, 8% - from Belarus and 6% - from China. Plywood exports in 2019 amounted to US$ 585 thousand. The largest plywood exporters came from Uzbekistan (41%), Iran (22%) and Kyrgyzstan (13%).

# Overview of the Kazakhstan raw materials market
## Structure of furniture accessory imports and exports

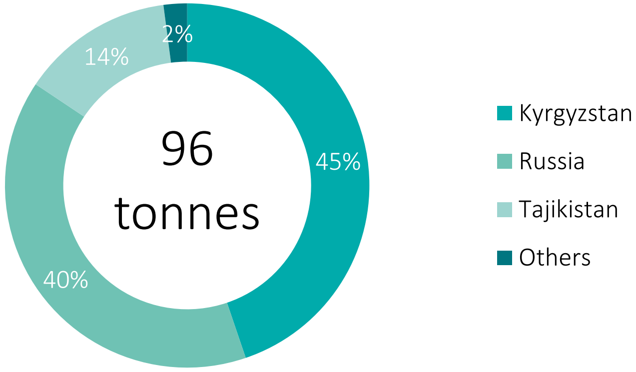
- Kazakhstan currently does not produce furniture accessories. Demand is covered by imports.
- In 2019, total furniture accessory imports amounted to 7 745 tonnes, which is 13.8% higher in physical terms than in 2018 (6 897 tonnes). In 2019, furniture accessories were mainly imported from China (4 154 tonnes), Russia (2 930 tonnes), Austria (290 tonnes) and Turkey (141 tonnes).
- Furniture accessory exports from Kazakhstan are actually the re-export of imports. In 2019, furniture accessory exports amounted to 96 tonnes, with the destination mainly being Kyrgyzstan (43 tonnes), Russia (38 tonnes) and Tajikistan (13 tonnes).

### Structure of furniture accessory imports, 2019




### Changes in furniture accessory exports and imports, 2015-2019


### Structure of furniture accessory exports, 2019




Source: ITC, Deloitte analysis

# Overview of the Kazakhstan furniture industry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# Human capital

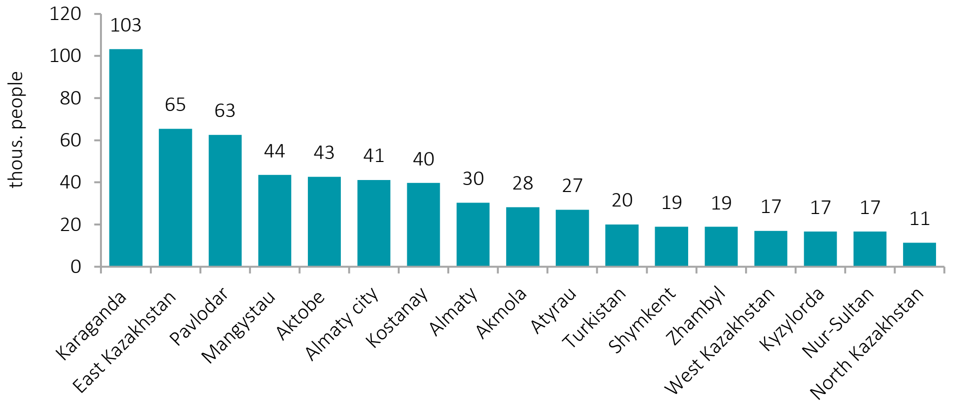
## Labor force in the Republic of Kazakhstan

9.2 million people In 2019

9.7 million people in 2024

The labor force of the Republic of Kazakhstan at the age of 15 + is 9.2 million people (47% of the total). According to EIU forecasts, this figure will reach 9.7 million people by 2024.

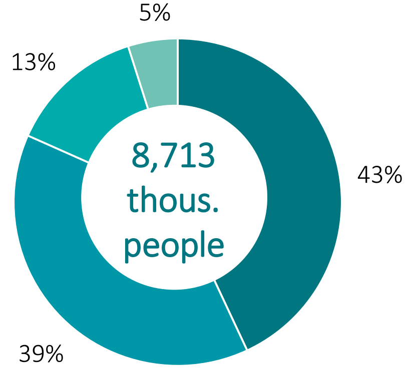
## The actual number of industrial workers in the context of the III quarter, 2020




The largest share of industrial workers is recorded in the industrial regions of the country, namely: Karaganda Oblast – 17%, East Kazakhstan Oblast – 11% and Pavlodar Oblast – 10% of the total number of industrial workers.

Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, EIU

## Distribution of the employed population by level of education as of the III quarter, 2020




## The employed population by professions as of the III quarter, 2020

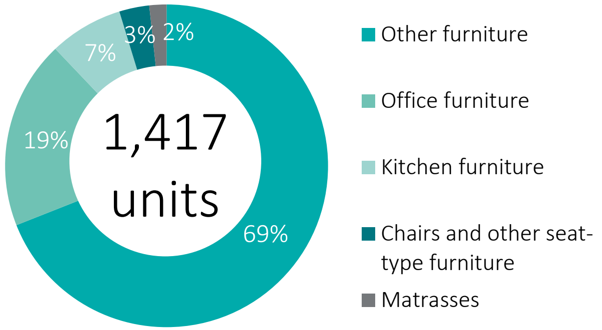
| Name | Number, people | Share,% |
|---|---|---|
| Professionals | 2,015,122 | 23% |
| Unskilled workers | 1,518,492 | 17% |
| Service and sales workers | 1,168,139 | 13% |
| Production equipment operators, assemblers and drivers | 894,105 | 10% |
| Workers in industry, construction, transport and other related occupations | 793,253 | 9% |
| Technicians and other auxiliary professional personnel | 692,450 | 8% |
| Leaders and civil servants | 580,040 | 7% |
| Farmers and workers in agriculture, forestry, fish farming and fishing | 484,855 | 6% |
| Administration employees | 470,544 | 5% |
| Workers not included in other groups | 96,145 | 1% |
| Total | 8,713,145 | 100% |

# Overview of the Kazakhstan furniture industry

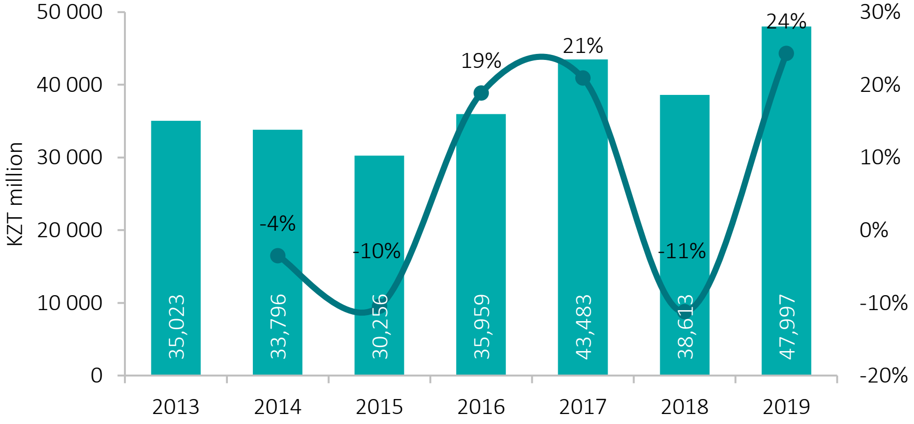
## Overview of furniture production

- Furniture production in 2019 amounted to KZT 48 billion, which is 24% higher than in the previous year. Average annual sector growth in the last five years is 9.7%.
- Almaty and Almaty Oblast generated KZT 22.7 billion of production, which is the highest for the country. Pavlodar Oblast generated KZT 3.4 billion, Karaganda – KZT 3.2 billion and Akmola – KZT 3.2 billion.
- As at 1 July 2020, Kazakhstan had 1 417 registered furniture enterprises, of which 9 were medium-sized and 1 408 were small. 978 of these companies are active, with 969 of those small and 9 – medium-sized (from 5.7 thousand to 99.2 thousand employed in the industry). According to the Kazakhstan Association of Furniture and Timber Processing, approximately 30% of operational enterprises are being closed due to a decline in sales and the increasing cost of foreign currency.

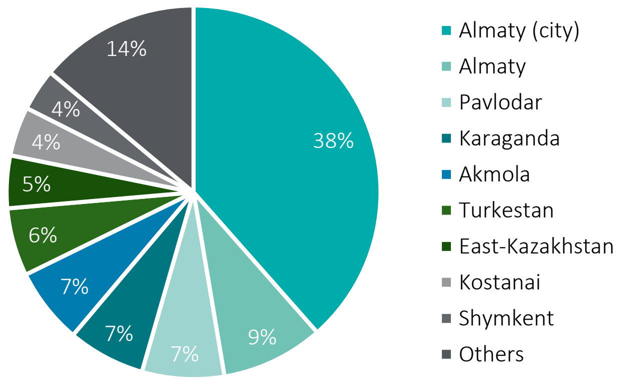
### Number of registered furniture production businesses in Kazakhstan, by product as at 1 July 2020




### Changes in furniture production in Kazakhstan, 2013-2019




### Furniture production by oblast, 2019

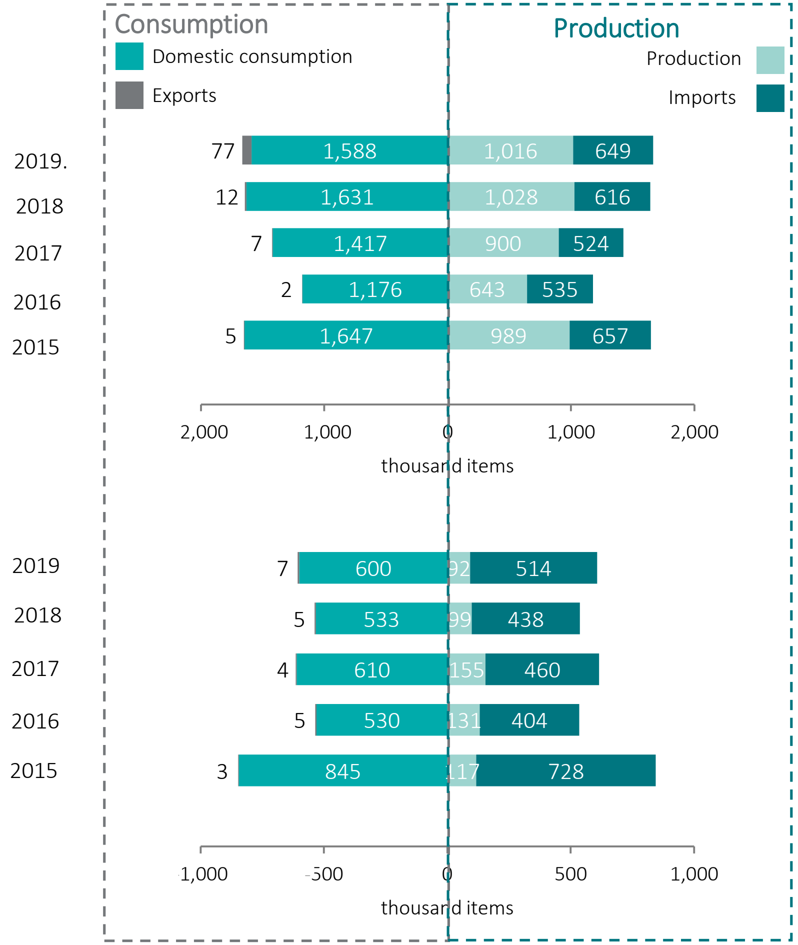



Source: Kazakhstan Statistics Committee, KAZDATA

# Overview of the Kazakhstan furniture industry

## Chairs and other seat-style furniture

### Resources and use




### Metal frame seat-style furniture

- *Deficit Surplus*: Moderate deficit
- *Deficit level*: 36%
- *Sufficiency*: Import dependent / exports possible
- *Import share*: 41%

### Wood frame seat-style furniture

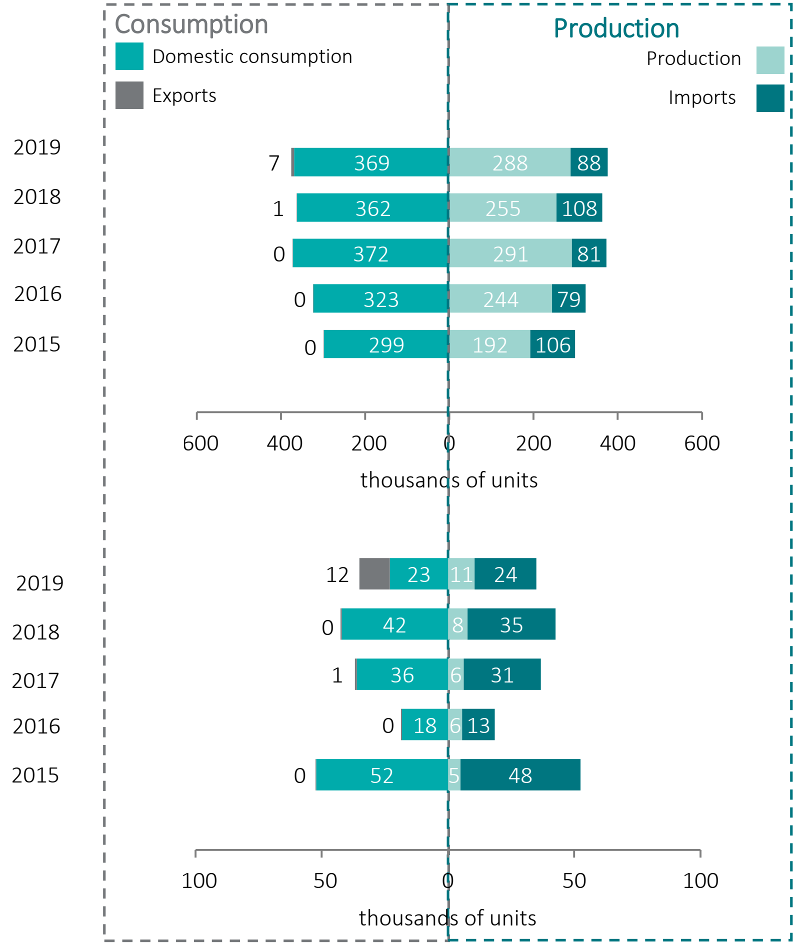
- *Deficit Surplus*: Large deficit
- *Deficit level*: 85%
- *Sufficiency*: Import dependent
- *Import share*: 86%

- In 2019, metal frame chair production had increased by 2% from the 2015 level to 1 016 thousand items. Significant declines of 35% in production were seen in 2016.
- Imports in 2019 amounted to 649 thousand items. Imports mainly came from Russia (36%), China (19%), Belarus (9%) and Turkey (8%), with the share of all other countries insignificant. On the whole, metal frame seat-style furniture production has export potential.
- Metal frame seat-style furniture was mainly exported to Russia (65%), Kyrgyzstan (21%), Tajikistan (8%) and Uzbekistan (6%) in 2019.
- Wooden frame seat-style furniture production in 2014-2019 in Kazakhstan fell from 117 thousand items to 92 thousand items (21%).
- Kazakhstan is import dependent with respect to wooden frame seat-style furniture. Current production capacity does not cover domestic demand. Russia and China accounted for 54% and 16% of imports in 2019. The share of Belarus was 4%. The shares of all other countries are insignificant.
- Wooden frame seat-style furniture exports in 2019 were made to Tajikistan (69%), Kyrgyzstan (23%) and Russia (4%), while the shares of other countries are insignificant.
- Kazakhstan has a total of 43 registered companies producing chairs and other seat-style furniture, 41 of which are small businesses and 2 are medium-sized.

Source: Kazakhstan Statistics Committee, ITC

# Overview of the Kazakhstan furniture industry
## Wooden office furniture

### Resources and use




Source: Kazakhstan Statistics Committee, ITC

### Wooden office furniture

| | |
|---|---|
| *Deficit Surplus* | Moderate deficit |
| *Deficit level* | 22% |
| *Sufficiency* | Import dependent / exports possible |
| *Import share* | 24% |

### Wooden furniture for institutions

| | |
|---|---|
| *Deficit Surplus* | Large deficit |
| *Deficit level* | 52% |
| *Sufficiency* | Import dependent |
| *Import share* | 100% |

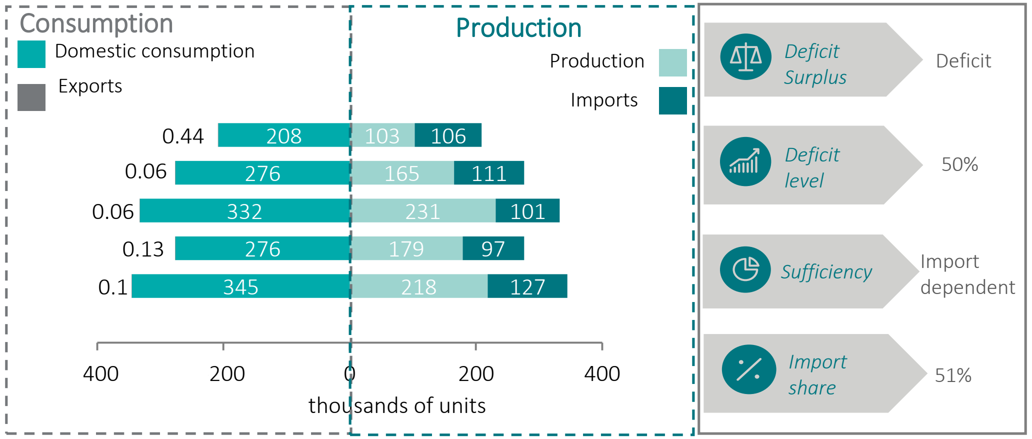
- Wooden office furniture production has increased in the last five years. Compared to 2015, production in 2019 grew by 50% to 288 thousand. The peak in production was in 2017 (291 thousand units). Domestic production covers approximately 76% of domestic consumption and imports – 24%. Wooden office furniture has export potential.
- Office furniture imports in 2019 amounted to 88 thousand units, which is a 23% decline compared to the previous period. The main exporters of wooden office furniture are Russia (55%), Turkey (10%), Italy (8%) and China (6%). The shares of all remaining countries are insignificant.
- In 2014-2019, wooden furniture production in Kazakhstan for institutions increased with CAGR of 8%.
- Kazakhstan depends on imports of wooden furniture for institutions. In 2014-2019, exports increased by over 45 times to 12 thousand items.
- Products are imported predominantly from Russia (52%), Turkey (12%), Lithuania (9.7%), China (9.5%) and Belarus (5.8%).
- Kazakhstan has a total of 268 registered businesses producing office furniture, of which 267 are recognised as small businesses and 1 – medium-sized.

# Overview of the Kazakhstan furniture industry

## Kitchen furniture

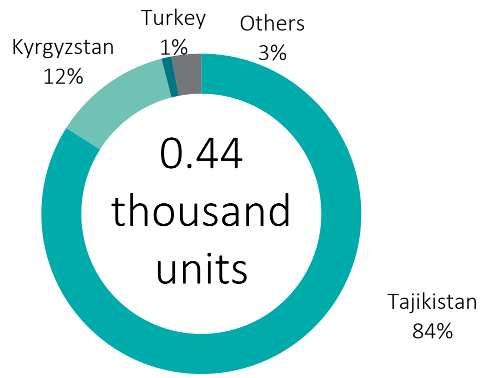
- In 2019, production fell by 24% compared to the previous year, and by 112% compared to 2015. By region, the major producers are concentrated in Almaty, which accounts for 38% (KZT 4 024 million) of total kitchen furniture production, Karaganda Oblast – 15% (KZT 1 588 million), Almaty Oblast – 9% (KZT 323 million) and Akmola Oblast – 9% (KZT 321 million). A total of KZT 10 589 million of kitchen furniture was produced in 2019.
- Half of domestic demand is covered by own production. Kazakhstan is import dependent for kitchen furniture. In 2019, the majority of imports come from Russia (95.4 thousand units), with the remainder allocated among Belarus (4.2 thousand units), China (2.1 thousand units) and Italy (1.1 thousand units). Insignificant exports are made to Tajikistan (0.34 thousand units) and Kyrgyzstan (0.05 thousand units).
- Kazakhstan has a total of 104 registered businesses producing kitchen furniture, 103 of which are small businesses and 1 – medium-sized.

### Resources and use

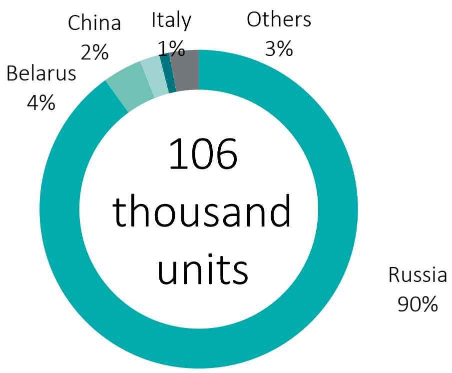



Source: Kazakhstan Statistics Committee, ITC

### Structure of kitchen furniture exports, 2019




### Structure of kitchen furniture imports, 2019

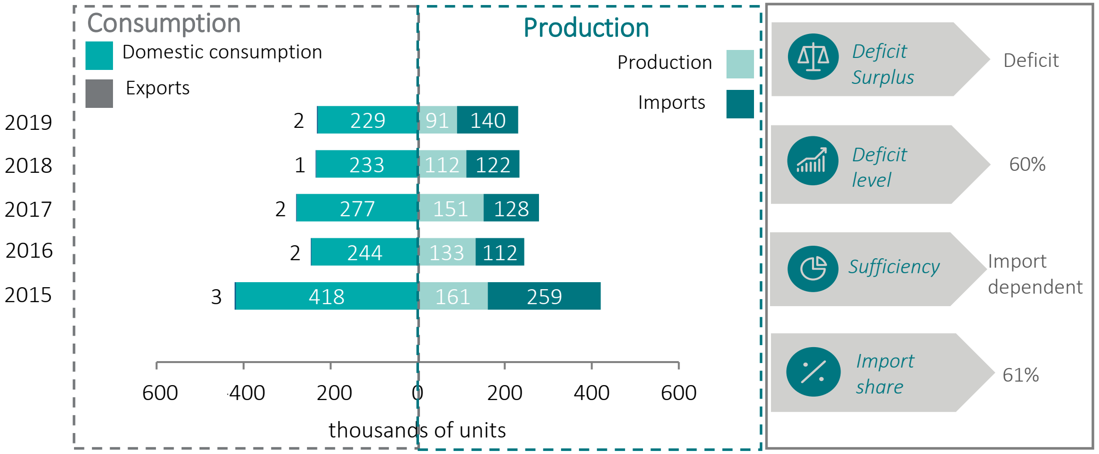


# Overview of the Kazakhstan furniture industry

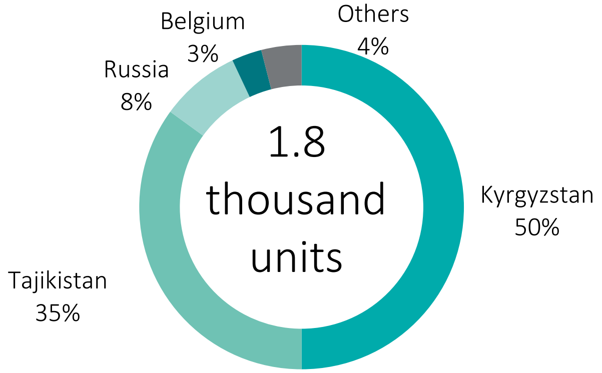
## Matrasses

- In 2019, matrass production fell by 19%. The major producers are focused in Almaty, which accounts for 35% (KZT 344 million) of total production, Almaty Oblast – 19% (KZT 187 million) and North-Kazakhstan Oblast – 18% (KZT 177 million). KZT 984 million of matrasses were produced in 2019.
- Only 40% of domestic demand is covered by local production, and as such Kazakhstan is import dependent with respect to matrasses. The majority of matrasses are purchased from Russia (84 thousand units), Belarus (9.8 thousand units) and Turkey (5.6 thousand units), which account for approximately 90%. In this respect, an insignificant amount is exported, predominantly to Kyrgyzstan (in 2019 – 849 items or 50% of total Kazakhstan exports).
- Kazakhstan has 24 registered businesses producing matrasses, 23 of which are recognised as small businesses, and 1 as medium-sized.

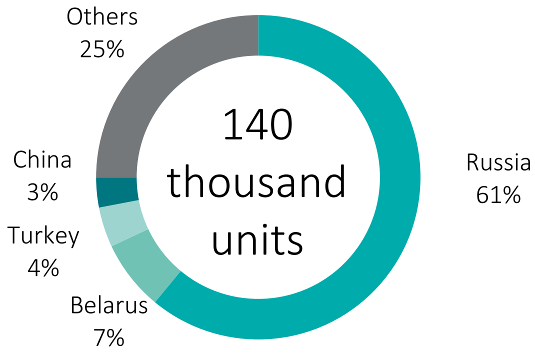
### Resources and use




### Matrass export structure, 2019




### Matrass import structure, 2019

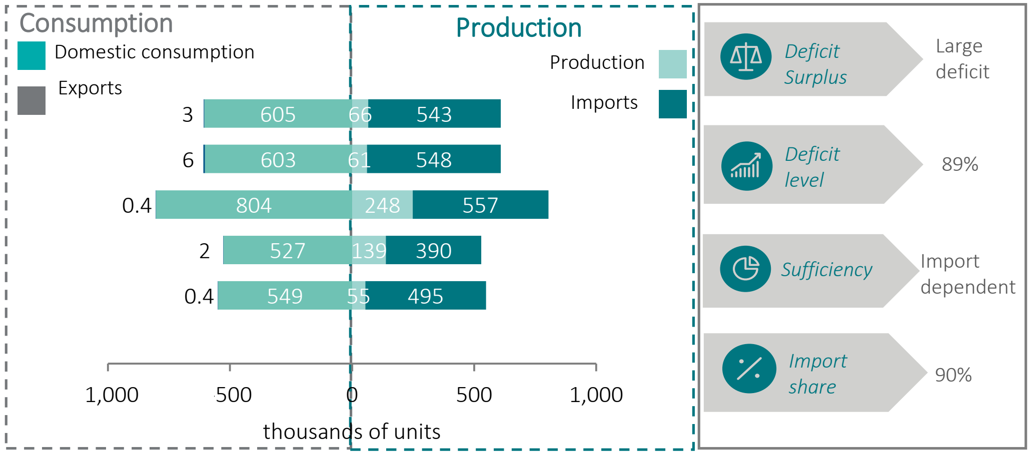



Source: Kazakhstan Statistics Committee, trademap.org

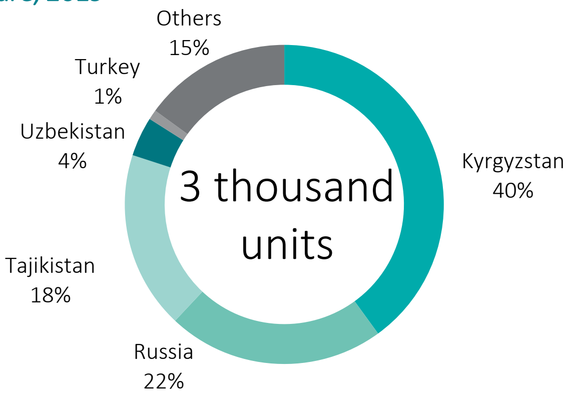
# Overview of the Kazakhstan furniture industry
## Other furniture, including wooden dining and sitting room furniture

- In 2019, other furniture production increased by 8.2% compared to the previous period. Production and consumption were highest in 2017, which is partially explained by mortgage lending growth (11.5%). By region, production is highest in Almaty, accounting for 46% of the total. The next highest production centre is Shymkent – 9%, Kostanai and Akmola Oblasts – with 8% of total production. The shares of other oblasts are insignificant.
- Kazakhstan has seen a large deficit in other furniture (for dining rooms, sitting rooms and bedrooms). Local production covers only 11% of demand. The majority of imports in 2019 originated from Russia (380 thousand units), Belarus (98 thousand units) and Turkey (16 thousand units).
- Exports in 2019 were insignificant and predominantly to Kyrgyzstan (1.2 thousand units), Russia (0.7 thousand units) and Tajikistan (0.5 thousand units).
- Kazakhstan has 978 registered businesses producing other furniture, 973 of which are recognised as small businesses, and 5 as medium-sized businesses.

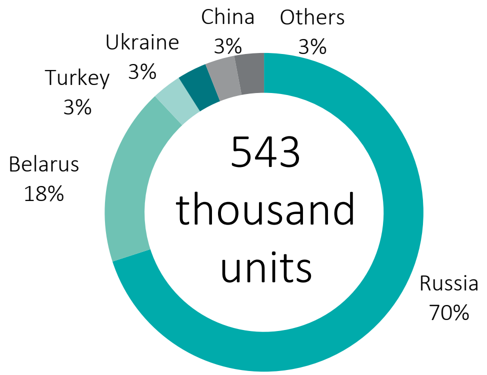
### Resources and use




### Structure of other furniture exports, including dining room and sitting room furniture, 2019




### Structure of other furniture imports, including dining room and sitting room furniture, 2019



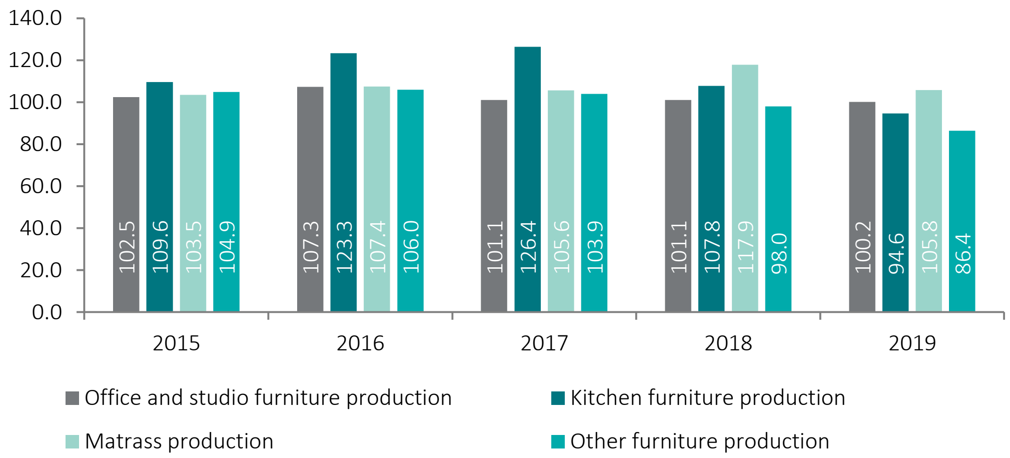

Source: Kazakhstan Statistics Committee, ITC

# Overview of the Kazakhstan furniture industry

## Furniture price indices and producer prices

- According to the Kazakhstan Statistics Committee, 2019 saw a 13.6% decline in producer prices in the other furniture sector and a 5.4% decline in kitchen furniture. Office and studio furniture prices increased by 2%, and matrass prices increased by 5.8%.
- An analysis of prices for specific furniture types has shown a stable increase in prices for office cupboards (prices doubled between January 2017 and January 2020), and wooden beds (32% between January 2017 and January 2020). However, due to the non-uniformity of goods (brand, design, construction complexity, materials and others) there is no pricing trend for other furniture types.
- According to Energyprom.kz, retail prices for household furniture in 2019 grew by 6.1%. The average monthly growth index in 2019 was 0.4%.

### Industrial product producer price index



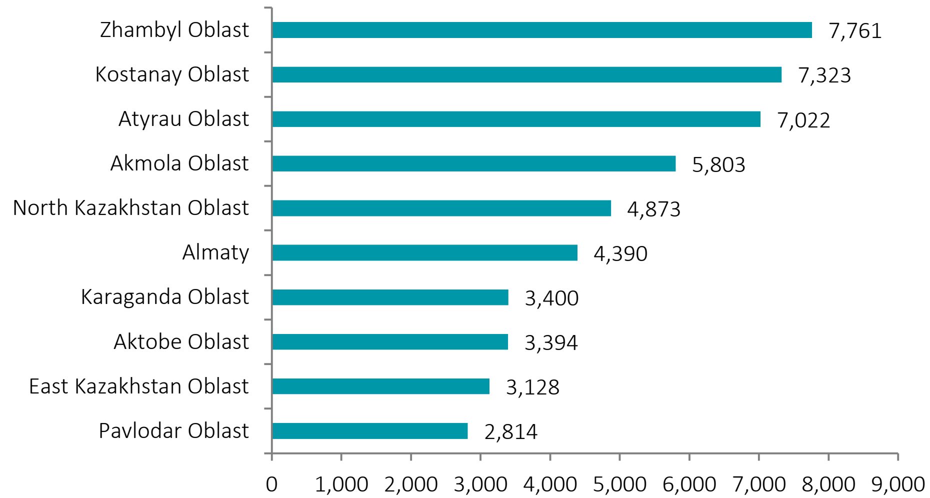

### Change in producer prices for specific furniture types, KZT per unit

| Index | January 2017 | June 2017 | December 2017 | January 2018 | June 2018 | December 2018 | January 2019 | June 2019 | December 2019 | January 2020 | June 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Wooden frame couches | 67,821 | 89,333 | 93,231 | 93,918 | 94,010 | 94,973 | 47,362 | 43,950 | 45,296 | 42,996 | 44,675 |
| Wooden frame armchairs | 72,181 | 34,595 | 45,472 | 45,701 | 45,709 | 46,640 | 18,643 | 22,711 | 23,886 | 28,672 | 28,770 |
| Office and writing tables, <80 cm in height | 16,387 | 16,473 | 13,505 | 13,632 | 13,879 | 13,898 | 12,610 | 12,654 | 12,670 | 15,291 | 15,270 |
| Office cupboards | 15,478 | 15,478 | 20,000 | 20,141 | 20,300 | 20,761 | 31,636 | 32,279 | 32,324 | 33,927 | 32,676 |
| Wooden beds | 21,306 | 21,306 | 23,260 | 23,885 | 23,885 | 23,925 | 22,236 | 22,294 | 22,369 | 28,218 | 28,218 |
| Bedroom cupboards | 137,375 | 118,743 | 196,413 | 185,550 | 131,700 | 74,914 | 67,288 | 67,587 | 67,738 | 71,592 | 71,592 |
| Dining room and sitting room furniture | 101,798 | 104,338 | 134,413 | 134,482 | 134,482 | 137,413 | 203,056 | 209,012 | 218,222 | 162,904 | 162,904 |

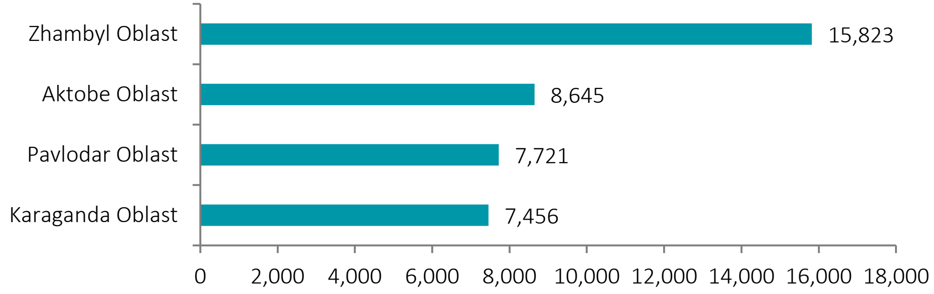
Source: Kazakhstan Statistics Committee, Energyprom.kz

# State regulation of tariffs

Price per Gcal of heat energy in the regions of Kazakhstan in November 2020, tenge

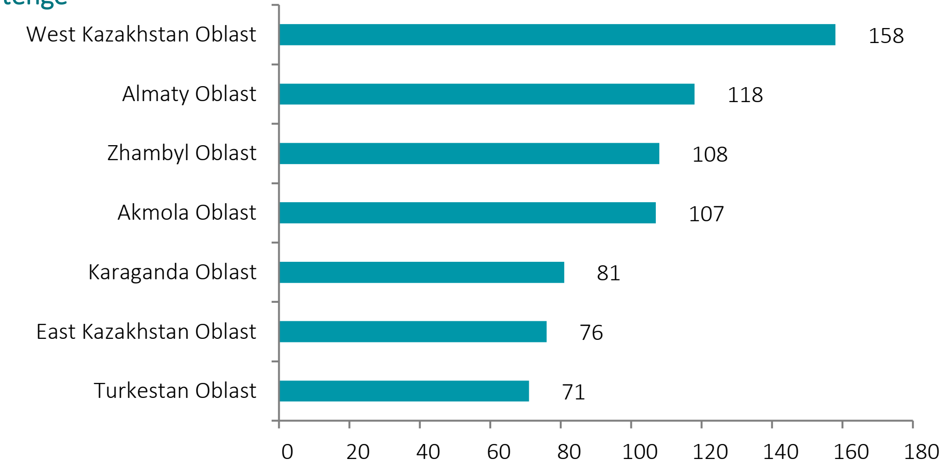



Price per thousand kWh of electricity in the regions of Kazakhstan in November 2020, tenge




*Source : Kazakhstan Statistics Committee*

Price per cubic meter of cold water in the regions of Kazakhstan in November 2020, tenge




- In Kazakhstan, there is a state policy of tariff setting in the spheres of natural monopolies, and the state regulation of prices and control over the observance of pricing procedures and obligations of the subjects of the socially significant market are implemented. Utilities belong to the sphere of tariff regulation.
- As of November 2020, the price for heat energy in Kazakhstan averaged 4,991 tenge per Gcal.
- In November 2020, the price for electricity in the country averaged 9,911 tenge per thousand kWh, and the price for cold water averaged 103 tenge per cubic meter.

# Overview of the Kazakhstan furniture industry
## Minimum furniture retail prices

### Minimum kitchen costs per metre, KZT

| Shop name | Cost per metre, KZT |
|---|---|
| Master Grad | 130,000 |
| Leroy Merlin | 103,000 |
| World Mebel | 92,800 |
| Bravo Mebel | 450,000 |
| EuroMebel | 143,200 |
| Mebels.kz | 92,800 |
| Intera | 115,000 |
| **Average price** | **160,971** |

### Minimum cost of single door cupboards, KZT

| Shop name | Price, KZT |
|---|---|
| Almaty furniture plant | 41,300 |
| Soyuz Aidar Torg | 51,600 |
| mebels.kz | 47,590 |
| EuroMebel | 30,900 |
| Tomas.kz | 96,300 |
| Almaty Furniture | 25,500 |
| Zeta | 14,140 |
| **Average price** | **43,904** |

### Minimum chair cost, KZT

| Shop name | Price, KZT |
|---|---|
| EuroMebel | 13,990 |
| Technograd | 8,450 |
| Zeta | 4,085 |
| Silainti LLP | 5,180 |
| Bestmebel.kz | 11,000 |
| kaspi.kz | 11,490 |
| thefurnish.kz | 15,169 |
| **Average price** | **9,909** |

### Minimum cost of 110*65~150*80 dinner tables, KZT

| Shop name | Price, KZT |
|---|---|
| Zeta | 18,170 |
| Euromebel | 57,900 |
| Mebel Asia | 8,500 |
| Thefurnish | 200,604 |
| Lifedeco | 85,990 |
| Tomas.kz | 41,232 |
| Mebels.kz | 19,890 |
| **Average price** | **61,755** |

Source: Deloitte analysis

# Overview of the Kazakhstan furniture industry
## Minimum retail furniture prices

### Minimum cost of 200*140 cm twin beds in Kazakhstan, KZT

| Shop name | Price, KZT |
|---|---|
| Mebels.kz | 34,990 |
| Almaty matrass plant | 80,800 |
| Euromebel | 104,200 |
| skladmebeli.kz | 48,000 |
| Aaskona | 123,000 |
| IKEA | 22,528 |
| Mebels.kz | 34,990 |
| **Average price** | **64,072** |

### Minimum cost of 80*200 or 80*190 cm matrasses in Kazakhstan, KZT

| Shop name | Price, KZT |
|---|---|
| Almaty matrass plant | 11,520 |
| Sova | 35,000 |
| Sonel | 19,200 |
| Askona | 26,900 |
| Softmatras | 31,700 |
| matrass.kz | 34,110 |
| vegas.kz | 40,200 |
| **Average price** | **28,376** |

### Minimum cost of 120*200 cm fold out couches Kazakhstan, KZT

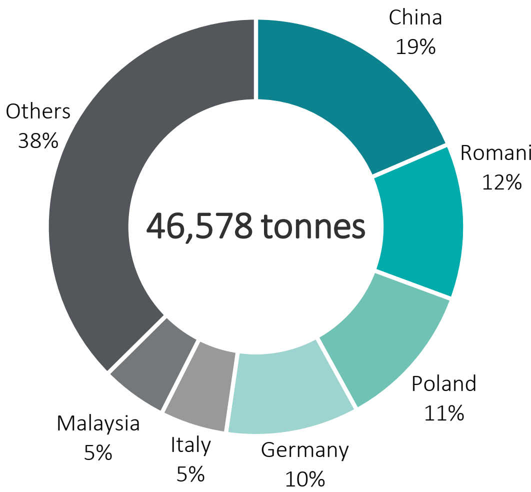
| Shop name | Price, KZT |
|---|---|
| Mebels.kz | 150,290 |
| Euromebel | 189,900 |
| IKEA | 42,362 |
| thefurmish | 501,000 |
| Askona | 407,000 |
| Divan24 | 170,000 |
| **Average price** | **243,425** |

Source: Deloitte analysis

# Overview of the Kazakhstan furniture industry
## Potential for seat-style furniture exports

### Turkey

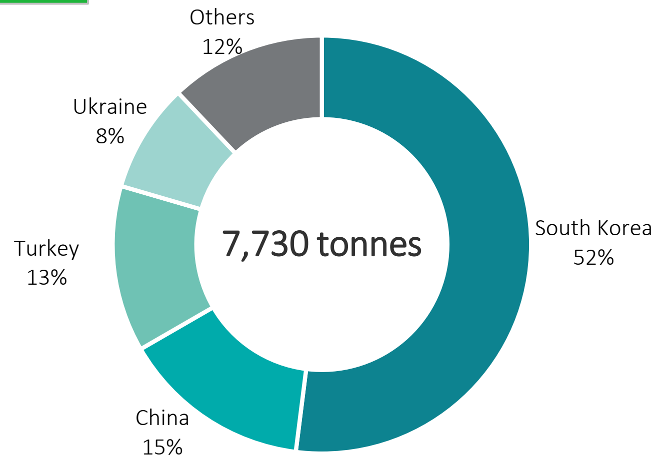
*seat-style furniture imports in 2019 were 46,578 tonnes*




Turkey is one of the top 30 seat-style furniture importers. In 2019, it imported 8,638 tonnes of seat-style furniture from China. EU countries account for a significant part of imports (38%). The Turkish furniture market is growing fast, but is not sufficiently developed to fully cover local demand. Product personalisation and a wide price range may ensure a Turkish market presence.

### Uzbekistan

*seat-style furniture imports in 2019 were 7,730 tonnes*




Seat-style furniture imports into Uzbekistan in 2019 amounted to 7,730 tonnes. Over a half (52%) of imports come from South Korea, while 29 tonnes (0.03%) were imported from Kazakhstan. The market potential for Uzbekistan (local production plus imports) is valued at US$ 190 million, which confirms market potential. Due to its advantageous geographical location and advanced logistics, Kazakhstan may find its niche in Uzbekistan, displacing South Korean producers.

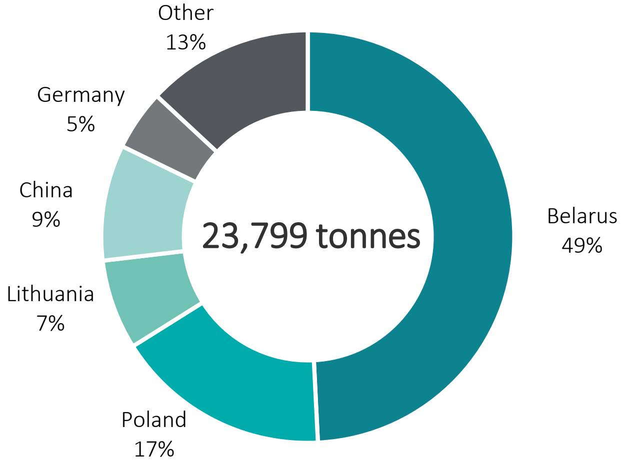
Source: ITC, Deloitte analysis

# Overview of the Kazakhstan furniture industry

## Potential exports of office furniture

### Russia

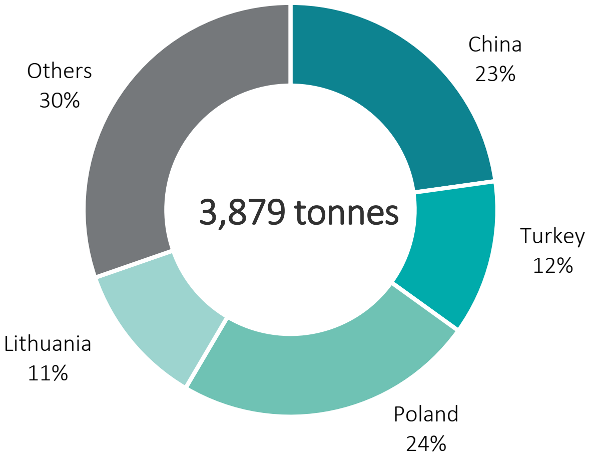
*Imports of office furniture in 2019 amounted to 23,799 tonnes*




Russia is one of the 20 leading importers of office furniture (both metal, wood and plastic). The majority of it is imported from Belarus (11,713 tonnes). Russia has over 220 major companies producing office furniture, but demand remains high. Kazakhstan products may find a market niche in the mid-price price bracket in Russia.

### Bulgaria

*Imports of office furniture in 2019 amounted to 3,879 tonnes*



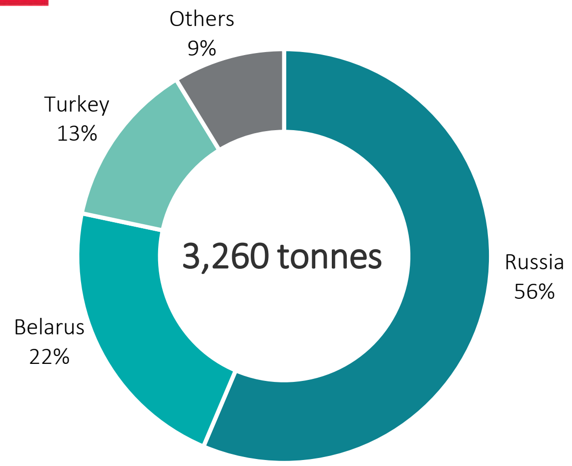

The furniture sector in Bulgaria accounts for roughly 1.6% of total GDP, with in excess of 2.6 thousand furniture manufacturers. Imports accounts for 43% of all furniture sales. This is due to growth in the construction industry. Own production capacity is relative large. Demand for office furniture remains high. Kazakhstan products may find a market niche in the lower to mid-priced range.

Source: ITC, Deloitte analysis

# Overview of the Kazakhstan furniture industry
## Export potential for household furniture (kitchen and other furniture)

### Kyrgyzstan

*Household furniture imports in 2019 amounted to 3,260 tonnes.*

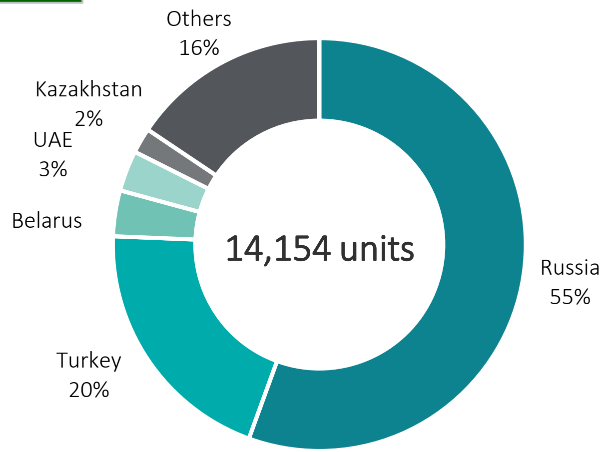



The majority of household furniture (kitchen furniture, bedroom furniture and others) imports into Kyrgyzstan comes from Russia (1,838 tonnes) and Belarus (715 tonnes).

Kazakhstan is already part of the import structure into Kyrgyzstan for household furniture. In 2019, total household furniture imports from Kazakhstan amounted to 41 tonnes (1%). Due to its advantageous geographical location, Kazakhstan may find a market niche in Kyrgyzstan.

### Tajikistan

*Household furniture imports in 2019 amounted to 14,154 units*




Details on furniture imports into Tajikistan are given in product units. 14 thousand household furniture (kitchen furniture, bedroom and other furniture) units were imported in 2019. Russia and Turkey were responsible for the greatest volume of imports.

Kazakhstan has imports household furniture into Tajikistan (1,165 units). Due to its advantageous geographical location and developed logistics networks, Kazakhstan products may replace UAE, Belarus and Turkish products, at the same time increasing its share of imports into Tajikistan.

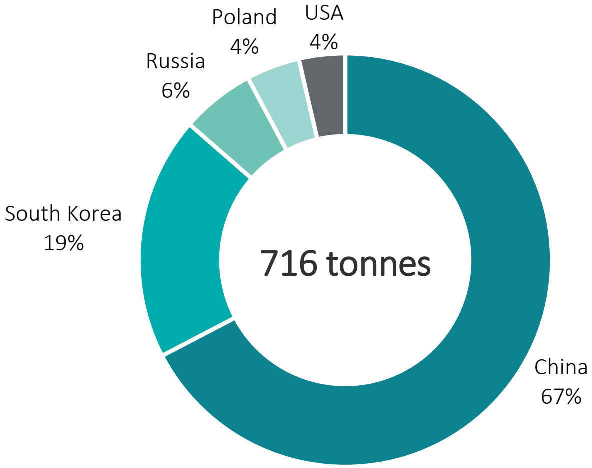
Source: ITC, Deloitte analysis

# Overview of the Kazakhstan furniture industry

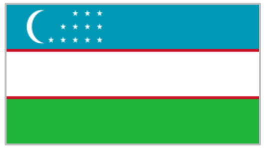
## Matrass export potential

### Mongolia

*Matrass imports in 2019 amounted to 716 tonnes.*

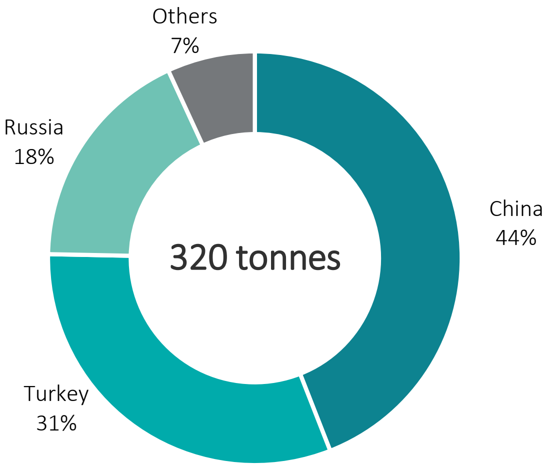



Kazakhstan already imports matrasses into Mongolia, but levels are insignificant. Kazakhstan's advantageous location and historical trade relations with Mongolia, should help it increase matrass exports to Mongolia.



### Uzbekistan

*Matrass imports in 2019 amounted to 320 tonnes.*




In 2019, a total of 320 tonnes of matrasses were imported into Uzbekistan, which is double the 2018 figure and 3.7 times higher than in 2017. Kazakhstan accounts for less than 1% of matrass imports into Uzbekistan. Due to its advantageous geographical position and logistics networks, Kazakhstan may expand its market presence.

Source: ITC, Deloitte analysis

# Overview of the Kazakhstan furniture industry
## Potential competitors: major local furniture manufacturers

| Company name | Production site (sites) | Business size | Products | Additional information |
|---|---|---|---|---|
| ZETA | 4 sites in Almaty; the company has a chain in 49 shops in 26 cities of Kazakhstan | Medium-sized businesses (201-250 persons) | Chairs and other seat-style furniture, office furniture, other furniture (bedrooms, sitting rooms and country houses) | https://zeta.kz/ |
| P.T.Z. LLP (part of GK ZETA) | Almaty Oblast, 1 site in Talgar, 42 shops in 24 cities of Kazakhstan | Medium-sized businesses (201-250 persons) | Chairs and other seat-style furniture | |
| Aldoni Mebel furniture production centre | 1 site in Taraz | Small businesses (21-30 persons) | Kitchen furniture | https://aldonimebel.kz/ |
| Ariba LLP | 1 site in Almaty, branches in 6 cities of Kazakhstan | Medium-sized businesses (101-150 persons) | Other furniture (couches and armchairs) | https://ariba.kz/ |
| Right Sleep Centre LLP | 1 site in Almaty | Medium-sized businesses (151-200 persons) | Frame furniture, matrasses | https://centersna.kz/ |
| Dzhamilya LLP (part of GK ZETA) | 1 site in Akmola Oblast, Zhibek Zholy village | Medium-sized businesses (101-150 persons) | Other furniture | |
| Two Whales LLP | 1 site in Kokshetau | Medium-sized businesses (101-150 persons) | Other furniture | sb.homecredit.kz/instagram/onlinezayavka/v2/dva_kita |
| Bella Mebel LLP | 1 site in Turkestan Oblast, Aksu village | Medium-sized businesses (101-150 persons) | Office furniture, matrasses and other furniture | http://bellamebel.kz/ |
| Almaty Furniture Plant | Production in Almaty; the company has 4 shops in Almaty | Small businesses (41-50 persons) | Kitchen furniture, office furniture, other furniture (bedrooms, sitting rooms and cupboards) | https://www.amfactory.kz/ |
| Sanni Master LLP | 1 site in Almaty, 2 shops in Almaty, 1 shop in Nur-Sultan | Small businesses (41-50 persons) | Kitchen furniture | http://sanni.kz/ |
| Cittadella LLP | 1 site in Shymkent | Small businesses (41-50 persons) | Other furniture, kitchen furniture, office furniture, seat-style furniture and matrasses | https://ctd.kz/ |
| TPK Alma-Mebel LLP | 1 site in Almaty | Medium-sized businesses (101-150 persons) | Kitchen furniture | https://almamebel.agrg.kz/ |

The advantage of local furniture products is that it is focused on customer preferences. Most of Kazakhstani furniture manufacturers operate in the sector of individual furniture (customized).

Source: Deloitte analysis, KAZDATA

# Overview of the Kazakhstan furniture industry
## Potential competitors: overseas furniture manufacturers

| Company name | Production site (sites) | Products | Additional information |
|---|---|---|---|
| Russia | | | |
| TD Askond LLC (and the subsidiary Askona-Vek) | 1 site in Kovrov, 1 site in Novosibirsk, a chain of shops in 6 Russian cities | Matrasses and other furniture | https://www.askona.ru/ |
| Mebel Style LLC | 1 site in Kaliningrad Oblast, a chain of shops in 300 Russian and Kazakhstan cities | Chairs and seat-style furniture, office furniture, and other furniture | https://www.mebelstyle.ru/ |
| Doc-15 LLC | 1 site in Moscow Oblast | Kitchen furniture | http://www.dok15.ru/ |
| Mariya Furniture Factory LLC | 1 site in Saratov Oblast, a chain of studios in 145 Russian and Kazakhstan cities | Kitchen furniture | https://www.marya.ru/ |
| Korol Divanov LLC | 1 site in each of Saratov Oblast, Chelyabinsk and Novosibirsk | Other furniture | https://kingsofa.ru/ |
| JSC OZ Mikron | 1 site in Pskov Oblast | Office furniture (shelves) | https://ozm.ru/ |
| JSC MK Shatura | 1 site in Moscow Oblast | Office, kitchen and other furniture | https://www.shatura.com/ |
| Orma Group LLC | 1 site in Moscow Oblast | Matrasses and other furniture | https://ormamebel.ru/ |
| Moscow Furniture Factory LLC | 1 site in Moscow Oblast | Chairs and seat-style furniture, office furniture | https://www.mfm-moscow.ru/ |
| Belarus | | | |
| CJSC Pinskdrev | 8 sites in Belarus, 16 representations in the CIS, a chain of shops in 10 Kazakhstan cities | Office furniture, other furniture, matrasses and kitchen furniture | https://pinskdrev.by/ |
| OJSC Ivatsevichdrev | A full-cycle timber processing business, 2 furniture production sites (TM MyStar) | Other furniture and kitchen furniture | https://www.mystar.by/ |
| Anrex | 1 site in the Brest SEZ, a chain of shops in 9 Kazakhstan cities | Other furniture, kitchen furniture and seat-style furniture | https://anrex.by/ |
| CJSC Molodechhomebel | 2 sites in Belarus, a chain of shops in 9 Kazakhstan cities | Chairs and other seat-style furniture, kitchen furniture and other furniture | https://www.molodechnomebel.by/ |
| Other countries | | | |
| IKEA | The Netherlands, 422 shops in 50 markets, 5 sites in Russia | Chairs and other seat-style furniture, office furniture, other furniture and kitchen furniture | https://www.ikea.com/ |
| Black Red White | Poland, 17 sites worldwide | Chairs and other seat-style furniture, office furniture, other furniture, kitchen furniture and matrasses | https://www.brw.pl/ |
| Oppein Group | China, over 7 000 showrooms worldwide | Kitchen furniture and other furniture | https://www.oppeinhome.com/ |

The advantage of the imported products of competitors are following: more favorable prices, high quality and compliance with all technical requirements, the scale of mass production, as well as a variety of products.

Source: Deloitte analysis

# State support

# State support

## Support for the industry on the Entrepreneur Code platform

**Investment project**

creation of new industries or expansion of the existing ones

**Priority investment project**

an investment project worth at least US$ 14.5 million for priority activities

**Special investment project**

-an investment project implemented by the special economic zone participant/free warehouse owner
- a project on industrial assembly of motor vehicles

The Entrepreneurial Code of Kazakhstan defines the legal, economic and social conditions and guarantees that ensure freedom of entrepreneurship in the country, as well as mechanisms to protect the interests of investors.
The production of furniture (office and studio, kitchen), production of mattresses and other furniture is included in the list of priority investment projects.

**Investment preferences in Kazakhstan**

| | Investment project | Priority investment project | Special investment project |
|---|---|---|---|
| Exemption from customs duties | ✓ | ✓ | ✓ |
| State in-kind grants | ✓ | ✓ | |
| Investment subsidies | | ✓ | |
| VAT exemption on import | | ✓ | ✓ |
| Income tax exemption | | ✓ | ✓ |
| Land tax exemption | | ✓ | ✓ |
| Property tax exemption | | ✓ | ✓ |
| Unhindered attraction of foreign labor | | ✓ | |

*Source: Entrepreneur Code of Kazakhstan*

# State support

## Support for the industry through the Economy of Simple Things Program

- The goal of the Economy of Simple Things Program is to saturate the domestic market with domestic goods, raise the competitiveness of the manufacturing industry, and, above all, release a wide range of consumer goods.
- The credit facility is made available to business projects implemented in priority sectors of the economy in accordance with the approved list of goods for credit financing of priority projects, which includes the food industry. Within the Program framework, the state subsidizes the interest rate on a bank loan through banks.
- The Project operator is AO Damu. According to operator's data, 171 projects were subsidized for a loan of KZT 64.5 billion in 2019 (the amount of subsidies paid was KZT 1.1 billion). In 2020, 169 projects were subsidized for a loan amount of KZT 95 billion (the amount of subsidies paid amounted to KZT 2.7 billion).
- According to Atameken National Chamber of Entrepreneurs, the approved projects include the production of consumer goods such as clothing (jackets, suits, blouses, shoes, overalls, etc.), food products (pasta, bakery products, meat and sausages, dairy products, confectionery, etc.), chemicals (fertilizers) and building materials (bricks, cement), as well as service facilities (construction of kindergartens, preschool institutions, sanatoriums, hotels, rehabilitation centers, recreational compounds).

**Program conditions**

| | |
|---|---|
| Participants | private business entities (small, medium and large business) |
| Loan interest rate | 15% per annum |
| Subsidy size | up to 9% of the nominal interest rate |
| Purpose of projects | investments and replenishment of working capital; replenishment of working capital is allowed on a renewable basis |
| Maximum amount for one borrower | unlimited |
| Subsidy period | for investments - 10 years, without further prolongation of the subsidy period |
| | to replenish working capital - 3 years, without further prolongation of the subsidy period |
| Loan refinancing | not provided |
| Active loans | loans issued by banks after the entry into force of the governmental resolution dated 11 December 2018 No. 820 are allowed |

*Source: official website of the Prime Minister of the Republic of Kazakhstan*

# State support

## Support for the industry within the Business Roadmap 2025 Program framework

- The Business Roadmap 2025 Program for business support and development aims to meet the goal of the public message of the President of Kazakhstan "Kazakhstan-2050 Strategy: a new political course of the established state" dated 14 December 2012. The program implements instruments of state support in the form of subsidies for part of the interest rate on loans / financial leasing agreements and loan guarantee agreements.
- The program provides for the issuance of state grants and training for entrepreneurs aimed at supporting and developing small and medium-sized businesses in Kazakhstan.
- The objectives of the Program are to ensure sustainable and balanced growth of regional entrepreneurship, as well as to maintain existing and create new permanent jobs.
- The program provides 4 directions:
  - Support for new business initiatives of entrepreneurs in monotowns, small towns and rural settlements
  - Industry support for entrepreneurs operating in priority sectors of the economy
  - Reducing currency risks of entrepreneurs
  - Non-financial measures to support entrepreneurship
- KZT 421 billion is allocated for the implementation of the program until 2025.

| Program conditions | |
|---|---|
| Participants | Entrepreneurs / entities involved in industrial and innovative activities implementing and (or) planning to implement their own projects in priority sectors of the economy |
| End rate per borrower | 6% |
| Purpose of the projects | Purchase of fixed assets; Replenishment of working capital; Refinancing; Purchasing a franchise |
| Guarantee amount | up to 85% of the loan amount |
| Maximum amount per borrower | up to 7 billion KZT |
| Subsidy period | up to 5 years |

Source: official website of the Prime Minister of Kazakhstan

# State support

## Support for the industry under the State Program for Industrial and Innovative Development 2020-2025

- The goal of this Program is the development of Kazakhstan's competitive manufacturing industry in the domestic and foreign markets (Decree # 1050 of the Government of Kazakhstan dated 31 December 2019). During the Program implementation period, the major focus is made on the realization of key export-oriented projects.
- Baiterek National Managing Holding JSC is one of the main operators implementing the Program objectives such as increase in production volumes and expansion of the range of processed goods in demand in the domestic and foreign markets, as well as technological development and digitalization of manufacturing industries.
- In particular, Baiterek has acted as an operator of all repayable financial support measures through subsidiaries, and its powers include raising funds from external and internal debt and capital markets to provide preferential loans to manufacturers.

### Project financing and lease financing within the Program framework

1) Lending through financial institutions will continue with interbank lending schemes through Development Bank of Kazakhstan JSC and Damu JSC Entrepreneurship Development Fund.
2) Long-term financing through Development Bank of Kazakhstan JSC is practised by mixing 50/50 budget funds and commercial funds for a period of 7-10 years, with a rate of no more than 11% for the end borrower, with the company's own participation of at least 20% of the project amount..
3) Subsidizing of the interest rate on loans issued by financial institutions and guaranteeing of loan obligations is provided with a nominal interest rate not exceeding 15% per annum, pursuant to Decree No. 820 of the Government of Kazakhstan dated 11 December 2018 (the operator is Damu Entrepreneurship Development Fund JSC).

### Financing under the Program, KZT million

| Index | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| National budget | 146,065.3 | 215,725.1 | 107,896.4 | 107,863.5 | 101,996.9 | 101,249.9 |
| **Total** | **146,065.3** | **215,725.1** | **107,896.4** | **107,863.5** | **101,996.9** | **101,249.9** |

*Source: official website of the Prime Minister of the Republic of Kazakhstan*

# State support measures
## Industrial enterprises support

- QazIndustry is a single coordinator providing assistance to industrial enterprises at all stages - from technological solutions and new production lines to certification, export and implementation of digital technologies.
- The entity provides gratuitous financial measures of state support for Kazakhstan producers. These include innovative grants for the commercialization of technologies, technological development of enterprises and industries, as well as reimbursement of certain types of costs to enterprises aimed at increasing labor efficiency and promoting exports.

**Types of reimbursable costs in the external market**

- Advertising of goods abroad
- Participation in foreign exhibitions, fairs, festivals
- Publishing a catalog for distribution abroad (development, translation)
- Maintenance of a representative office, retail space and warehouse abroad
- Registration of trademarks (brand) abroad
- Certification of goods abroad
- Delivery of goods by rail, road, air and sea, organization of transportation

**Size of reimbursable costs in the external market**

- No more than 13,000 minimum calculation indices per subject
- Historical reimbursement period is 32 months prior to the date of application

**Support for businesses is provided by means of:**

Reimbursement of part of the costs to the entities involved in industrial and innovative activities to promote domestic processed goods in the foreign market

Reimbursement of part of the costs to the entities involved in industrial and innovative activities to promote domestic processed goods in the internal market

Reimbursement of part of the costs to the entities involved in industrial and innovative activities to increase labor efficiency and the development of territorial clusters

40% Large business

50% Medium-size business

60% Small business

*Source: adilet zan*

# Special economic zones

- Special economic zone (SEZ) is a part of Kazakhstan territory, where a special legal regime operates and infrastructure facilities are provided to enable priority activities.
- As per Order No. 142 of Kazakhstan's Minister for Investments and Development dated 27 February 2018, production of other non-metallic mineral products is included in the list of priority activities in the context of special economic zones. In particular, the production of furniture is included in the list of priority activities of the SEZ:" Astana – New City" and SEZ "Kyzylzhar"
- According to the Tax Code of Kazakhstan, SEZ participants are exempted from paying:

- Corporate income tax
- Land tax
- Payment for the right to use a land plot
- VAT
- Property tax
- Customs duties

The following are also provided:

- Land plot for 10 years
- Hiring foreign labor under a simplified scheme

To receive tax benefits, a SEZ participant must simultaneously meet the following conditions:

**01** Be registered as a taxpayer at the place of location with the tax authority on the SEZ territory

**02** Have no structural divisions outside the SEZ territory

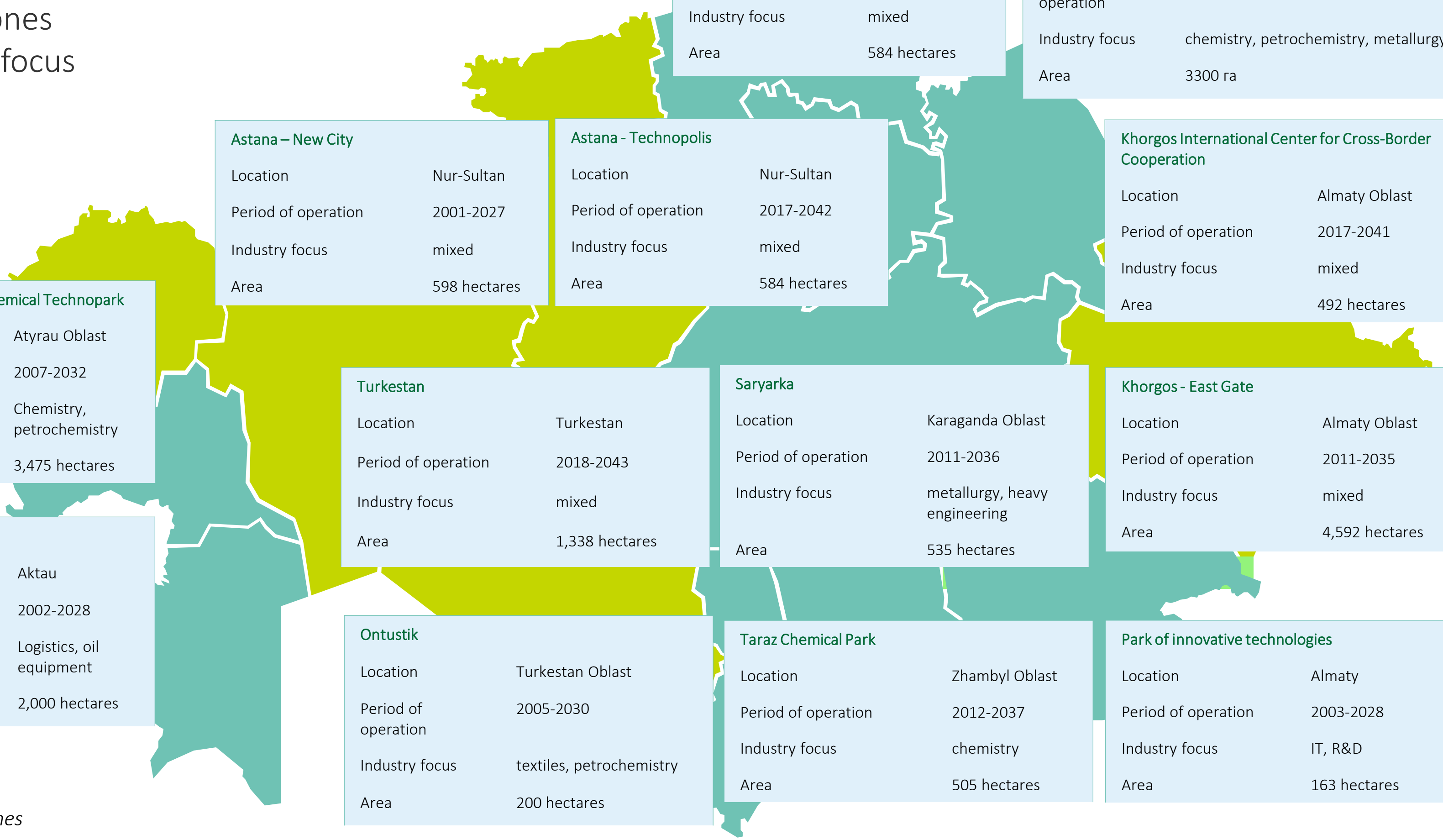
**03** At least 90% of the total annual income is income to be received from the sale of goods of own production / services (in priority areas for the selected SEZ)

*Source: adilet zan*

# Special economic zones

**Functioning special economic zones in Kazakhstan**

13 special economic zones with different industry focus operate in Kazakhstan



**Kyzylazhar**

| | |
|---|---|
| Location | Petropavlovsk |
| Period of operation | 2097-2044 |
| Industry focus | mixed |
| Area | 584 hectares |

**Pavlodar**

| | |
|---|---|
| Location | Pavlodar |
| Period of operation | 2011-2036 |
| Industry focus | chemistry, petrochemistry, metallurgy |
| Area | 3300 ra |

**Astana – New City**

| | |
|---|---|
| Location | Nur-Sultan |
| Period of operation | 2001-2027 |
| Industry focus | mixed |
| Area | 598 hectares |

**Astana - Technopolis**

| | |
|---|---|
| Location | Nur-Sultan |
| Period of operation | 2017-2042 |
| Industry focus | mixed |
| Area | 584 hectares |

**Khorgos International Center for Cross-Border Cooperation**

| | |
|---|---|
| Location | Almaty Oblast |
| Period of operation | 2017-2041 |
| Industry focus | mixed |
| Area | 492 hectares |

**National Industrial Petrochemical Technopark**

| | |
|---|---|
| Location | Atyrau Oblast |
| Period of operation | 2007-2032 |
| Industry focus | Chemistry, petrochemistry |
| Area | 3,475 hectares |

**Turkestan**

| | |
|---|---|
| Location | Turkestan |
| Period of operation | 2018-2043 |
| Industry focus | mixed |
| Area | 1,338 hectares |

**Saryarka**

| | |
|---|---|
| Location | Karaganda Oblast |
| Period of operation | 2011-2036 |
| Industry focus | metallurgy, heavy engineering |
| Area | 535 hectares |

**Khorgos - East Gate**

| | |
|---|---|
| Location | Almaty Oblast |
| Period of operation | 2011-2035 |
| Industry focus | mixed |
| Area | 4,592 hectares |

**Aktau Sea Port**

| | |
|---|---|
| Location | Aktau |
| Period of operation | 2002-2028 |
| Industry focus | Logistics, oil equipment |
| Area | 2,000 hectares |

**Ontustik**

| | |
|---|---|
| Location | Turkestan Oblast |
| Period of operation | 2005-2030 |
| Industry focus | textiles, petrochemistry |
| Area | 200 hectares |

**Taraz Chemical Park**

| | |
|---|---|
| Location | Zhambyl Oblast |
| Period of operation | 2012-2037 |
| Industry focus | chemistry |
| Area | 505 hectares |

**Park of innovative technologies**

| | |
|---|---|
| Location | Almaty |
| Period of operation | 2003-2028 |
| Industry focus | IT, R&D |
| Area | 163 hectares |

*Source: sites of special economic zones*





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# Conclusions and recommendations

# Conclusions and recommendations
## Competitive advantages for the sector

### Advantageous geographical location

- Kazakhstan is very advantageously located in relation to some of the larger sales markets in the CIS, Asia and Eastern Europe, such as:
  - Turkey (imports in 2019 of US$ 477 million)
  - Bulgaria (imports in 2019 of US$ 731 million)
  - Russia (imports in 2019 of US$ 2 896 million)
  - Central Asia and Mongolia (imports in 2019 of US$ 765 million)
- The country's transit potential is underdeveloped: the Western Europe – Western China highway passes through the south and west of the country.

### Attractive investment climate

- Furniture production is a priority sector for the Kazakhstan economy.
- Economic concessions are available to reduce financial burden within the framework of the following programmes:
  - Saving Simple Things
  - 2025 Business Road Map
  - SIIDP 2020-2025
- Significant tax and customs breaks are available in the Free Warehouse SEZ, if investment contracts have been concluded under the Kazakhstan Entrepreneurial Code. The Astana New City SEZ has been created to develop the furniture sector.

### Access to human resources

- 2015-2019 saw growth in the working population in Kazakhstan.
- The working population in Kazakhstan over 15 years of age in 2019 was 9.2 million, which is 47% of the total population.
- According to EIU forecasts, this figure will reach 9.7 million by 2024.
- Southern regions of the country are the most densely populated with a cheaper work force.

### Industry potential

- According to the analytical agency MarketLine, the volume of the construction market in Kazakhstan will grow at an average annual rate of 4.2%, and by 2024 it will increase to 21.6 billion US dollars, which indicates a future positive trend in demand for furniture.
- Industry state support measures together with growing demand for furniture are key prerequisites for increasing the growth of production capacities of Kazakhstani enterprises, which will reduce import dependence, as well as increase exports.
- The development of wood processing enterprises and the strengthening of the raw material base will allow local producers to reduce their dependence on imports and reduce currency risks.

# List of abbreviations

# List of abbreviations

| | |
|---|---|
| CAGR | Compound annual growth rate |
| CJSC | Closed joint stock company |
| EIU | Economist Intelligence Unit |
| ITC | International Trade Centre |
| JSC | Joint stock company |
| Kazakhstan | Republic of Kazakhstan |
| KZT | tenge |
| LLC | Limited liability company |
| LLP | Limited liability partnership |
| $m^2$ | square metre |
| $m^3$ | cubic metre |
| OJSC | Open joint stock company |
| R&D | Research and Development |
| SEZ | Special economic zone |
| US$ | US Dollar |