## IMPORTANT NOTICE

**NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES OR TO ANY U.S. PERSON OTHER THAN AS PERMITTED BY REGULATION S UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE NOT U.S. PERSONS (AS DEFINED BELOW) LOCATED OUTSIDE OF THE UNITED STATES.**

**IMPORTANT:** You must read the following before continuing. The following applies to this prospectus (the "**Prospectus**") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer (as defined in the Prospectus) and the Managers (as defined below) as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES (AS DEFINED IN THE PROSPECTUS) HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS OR ANY U.S. PERSON. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS REQUIREMENT MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES.

**Confirmation of your Representation:** In order to be eligible to view this Prospectus or make an investment decision with respect to the Notes, prospective investors must be located outside the United States and must not be U.S. persons (within the meaning of Regulation S under the Securities Act). This Prospectus is being sent at your request and by accepting the e-mail and accessing this Prospectus, you shall be deemed to have represented to the Issuer and to BNP Paribas, HSBC Bank plc (together, the "**Joint Lead Managers**"), JSC Kazkommerts Securities (the "**Kazakhstan Manager**", and together with the Joint Lead Managers, the "**Managers**") that you are not a U.S. person; you are located outside the United States; the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia; and that you consent to delivery of such Prospectus by electronic transmission.

You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Managers or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Managers or such affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this Prospectus who intend to subscribe for or purchase the Notes are reminded that any subscription or purchase may only be made on the basis of the information contained in the final prospectus to be made available to the public in due course. This Prospectus may only be communicated to persons in the United Kingdom in circumstances where Section 21(1) of the Financial Services and Markets Act 2000 does not apply.

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Managers or any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version available to you on request from the Managers.

EASTCOMTRANS

**EASTCOMTRANS LLP**

(*a limited liability partnership incorporated under the laws of the Republic of Kazakhstan*)

**U.S.$100,000,000 7.75 per cent. Senior Secured Notes due 2018**

**Issue Price 98.986 per cent.**

The U.S.$100,000,000 7.75 per cent. Senior Secured Notes due 2018 (the "**Notes**") will be issued by Eastcomtrans LLP (the "**Issuer**"). The Notes will be constituted under a trust deed to be entered into between US Bank Trustees Limited as trustee and security trustee (the "**Trustee**") and the Issuer on or around 22 April 2013 (the "**Trust Deed**"). The Notes will be subject, to and have the benefit of, the Trust Deed.

Holders of the Notes will benefit from the security arrangements described in this Prospectus ("**Prospectus**"). See "*Description of the Security*" for a further description of the security arrangements.

The Issuer will pay interest on the Notes at an annual rate equal to 7.75 per cent. of their outstanding principal amount. Interest on the Notes is payable semi-annually in arrear on 22 April and 22 October of each year, commencing on 22 October 2013. Payments on the Notes will be made without withholding or deduction for or on account of taxes, unless such withholding or deduction is required by law. In the event of any withholding or deduction for or on account of taxes of the Republic of Kazakhstan, the Issuer will, subject to certain exceptions and limitations, pay additional amounts to the holder of any Note to the extent described under *"Terms and Conditions of the Notes - Taxation"*. The Issuer may redeem the Notes in whole but not in part at 100 per cent. of the principal amount thereof, plus accrued and unpaid interest, in the event of certain taxation changes and otherwise as described under *"Terms and Conditions of the Notes - Redemption and Purchase - Redemption for Tax Reasons"*. The Issuer may also redeem the Notes, in whole or in part, at any time, having given not less than 30 days' notice to Noteholders, at their principal amount plus the Make Whole Premium (as defined in Condition 6.4(b) of the Notes*),* together with accrued interest to the redemption date (see Condition 6.4 of the Notes *("Terms and Conditions of the Notes - Redemption and Purchase - Optional Redemption at Make Whole"))*.

Upon certain Change of Control (as defined in Condition 20 of the Notes) events, each of the Noteholders shall have the right to exercise its Change of Control Put Option (as defined in Condition 6.3 of the Notes) in respect of all or part of its Notes, following which the Issuer shall redeem the Notes in relation to which the Change of Control Put Option shall be exercised at 101 per cent. of the principal amount thereof, together with accrued interest to the redemption date ("*Term and Conditions of the Notes - Redemption and Purchase - Redemption upon a Change of Control*").

The Notes constitute direct, senior, secured (in the manner described in Condition 2) and unsubordinated (subject to Condition 4.7) obligations of the Issuer and shall at all times rank *pari passu* and rateably without any preference among themselves.

**AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE THE SECTION OF THIS PROSPECTUS ENTITLED "RISK FACTORS" BEGINNING ON PAGE 6 OF THIS PROSPECTUS.**

This Prospectus constitutes a "prospectus" for the purposes of the Directive 2003/71/EC (the "**Prospectus Directive**") as amended (which includes the amendments made by Directive 2010/73/EU (the "**2010 PD Amending Directive**"). This Prospectus has been submitted for approval to the Financial Conduct Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 ("**FSMA**") (the "**UK Listing Authority**") and as competent authority under the Prospectus Directive. Application has been made to the UK Listing Authority for the Notes to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Regulated Market**"). The Regulated Market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC. No certainty can be given that the application will be granted. Furthermore, admission of the Notes to the Official List and trading on the Regulated Market is not an indication of the merits of the Issuer or the Notes. References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Regulated Market. There can be no assurance that a trading market in the Notes will develop or be maintained. In addition, application has been made for the consent of the Kazakhstan Stock Exchange (the "**KASE**") for the admission of the Notes to the "rated debt securities" category of the official list of the KASE. On 15 March 2013, the KASE granted its consent for the admission of the Notes to the "rated debt securities" category of the official list of the KASE. It is expected that the admission of the Notes to the "rated debt securities" category of the official list of the KASE will become effective on 23 April 2013. In addition, no Notes may be issued or placed without the prior permission of the Committee for the Control and Supervision of the Financial Market and the Financial Organisations of the National Bank of the Republic of Kazakhstan (the "**FMSC**") for issue and placement and listing abroad of the Notes (the "**FMSC Permission**"). FMSC permission has been granted in relation to the Notes. Simultaneously with the commencement of the placement of the Notes outside the Republic of Kazakhstan, not less than 20 per cent. of the Notes must be offered and placed on the KASE on terms substantially similar to the offer of the Notes outside the Republic of Kazakhstan. If there is not sufficient investor interest to take up all or part of the above-mentioned 20 per cent. of the Notes in the Republic of Kazakhstan, then all or any remaining part of those Notes (after take-up by investors in the Republic of Kazakhstan) may be offered and placed outside the Republic of Kazakhstan.

**THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THE NOTES ARE BEING OFFERED OUTSIDE THE UNITED STATES BY THE MANAGERS (AS DEFINED HEREIN) IN ACCORDANCE WITH REGULATION S ("REGULATION S") UNDER THE SECURITIES ACT, AND MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.**

The Notes will be issued in registered form in the denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes will be represented by a global registered note certificate (the "**Global Note Certificate**") registered in the name of the nominee for, and deposited with, the common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). Individual note certificates ("**Note Certificates**") evidencing holdings of Notes will only be available in certain limited circumstances. See "*Overview of Provisions of the Notes while in Global Form*".

The Notes are expected upon issue to be rated B3, Stable by Moody's Investors Service Limited ("**Moody's**") and B, Stable by Fitch Ratings CIS Limited ("**Fitch**"). The Issuer's long-term foreign and local currency issuer default rating and national long-term rating by Fitch is 'B' and 'BB(kaz)', respectively. The Issuer's corporate family rating, probability of default rating and national scale rating by Moody's is B3, B3-PD and B3.kz, respectively. Each of Moody's and Fitch is established in the European Community and registered under Regulation (EC) No 1060/2009 on credit rating agencies (the "**CRA Regulation**"). The list of credit rating agencies registered in accordance with the CRA Regulation is available on the European Securities and Market Authority's website (http://www.esma/europa.eu/popup2/php?id=7692). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

*Joint Lead Managers*

**BNP PARIBAS** **HSBC**

*Kazakhstan Manager*

**JSC Kazkommerts Securities**

The date of this Prospectus is 18 April 2013

## IMPORTANT INFORMATION ABOUT THE OFFERING

**For information about the Issuer, this offering (the "Offering") and the terms and conditions of the Notes, you should rely only on the information contained in this Prospectus. BNP Paribas, HSBC Bank plc (together, the "Joint Lead Managers"), JSC Kazkommerts Securities (the "Kazakhstan Manager", and together with the Joint Lead Managers, the "Managers"), the Issuer and U.S. Bank Trustees Limited (the "Trustee") have not authorised any person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that, unless otherwise indicated, the information appearing in this Prospectus is accurate as of the date of this Prospectus only. The Issuer's business, financial condition, results of operations and the information set forth in this Prospectus may have changed since that date.**

**THE NOTES ARE OF A SPECIALIST NATURE AND SHOULD ONLY BE BOUGHT AND TRADED BY INVESTORS WHO ARE PARTICULARLY KNOWLEDGEABLE IN INVESTMENT MATTERS. AN INVESTMENT IN THE NOTES IS SPECULATIVE, INVOLVES A HIGH DEGREE OF RISK AND MAY RESULT IN THE LOSS OF ALL OR PART OF THE INVESTMENT.**

*The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*Notwithstanding the preceding paragraph, the Issuer obtained the market data used in this Prospectus from internal surveys, industry sources, government sources and publicly available information. Although the Issuer believes that its sources are reliable, information and data from industry and government sources and publicly available information has not been independently verified by the Issuer, the Managers or the Trustee or any of their respective affiliates or agents. None of the Issuer, the Managers or the Trustee nor any of their respective affiliates or agents makes any representation or warranty relating thereto other than the representation made by the Issuer in "Information Extracted from Third Parties".*

*Neither the Managers nor the Trustee makes any representation or warranty, express or implied, as to the accuracy or completeness of any of the information in this Prospectus or any other information supplied in connection with the Notes. Each person receiving this Prospectus acknowledges that such person has not relied on any of the Managers or the Trustee in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating accepting the Offering and making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and its own determination of the suitability of such investment, with particular reference to its own investment objectives and experience, and any other factors that may be relevant to it in connection with such investment. No person has been authorised in connection with the Offering to make or provide any representation or information regarding the Issuer or the Notes other than as contained in this Prospectus. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Managers or the Trustee.*

*Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note in the Offering shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Prospectus. Unless otherwise indicated, all information in this Prospectus is given as of the date hereof. Neither the Issuer nor any other person assumes any obligation (and expressly declares that it has no such obligation) to update or change any information contained in this Prospectus once there is no longer a requirement under the Prospectus Directive for the Prospectus to be updated.*

*This Prospectus does not constitute an offer of, or the solicitation of an offer to buy or an invitation to subscribe for or purchase, by or on behalf of the Issuer, the Managers or any other person, the Notes in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offering, sale and delivery of the Notes in the Offering in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Managers, the Issuer and the Trustee to inform themselves about and to observe any such restrictions. This Prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorised or is unlawful. For a description of certain further restrictions on offers, sales and deliveries of the Notes and distribution of this information, see the section of this Prospectus entitled "Subscription and Sale".*

*The Notes have not been and will not be registered under the Securities Act and subject to certain exceptions, may not be offered, sold or delivered within the United States or to U.S. persons.*

*None of the Issuer, the Managers, the Trustee or any of their respective affiliates or agents makes any representation about the legality of the acceptance of the Offering or the purchase of, or exchange for, the Notes by an investor under applicable investment or similar laws. Each prospective investor is advised to consult its own counsel and business adviser as to legal, business and related matters concerning the acceptance of the Offering and the Notes. The contents of this Prospectus are not to be construed as legal, business or tax advice. Prospective purchasers should be aware that they might be required to bear the financial risks of an investment in the Notes for an indefinite period of time.*

*Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should: (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency; (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and (v) be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.*

*The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.*

*Potential investors should not invest in the Notes unless they have the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the prospective investor's overall investment portfolio.*

*Each prospective purchaser of the Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Notes and must obtain any consent, approval or permission required of it for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and none of the Issuer, the Managers or the Trustee or any of their respective affiliates or agents shall have any responsibility therefor.*

## STABILISATION

IN CONNECTION WITH THE ISSUE OF THE NOTES, HSBC BANK PLC (THE "STABILISING MANAGER") (OR PERSONS ACTING ON ITS BEHALF) MAY OVER ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON ITS BEHALF) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFERING OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON ITS BEHALF) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

## LIMITATION ON ENFORCEABILITY OF CIVIL LIABILITIES

The Issuer's presence outside the United Kingdom may limit legal recourse against the Issuer. The Issuer is a limited liability partnership incorporated under the laws of the Republic of Kazakhstan. The Issuer's directors and executive officers named in this Prospectus reside outside the United Kingdom. As a result, it may not be possible for the Trustee, acting on behalf of Noteholders or, in certain circumstances, a Noteholder, to:

- effect service of process within the United Kingdom on the Issuer or on the Issuer's officers and directors named in this Prospectus; or
- obtain or enforce English judgments against the Issuer, the Issuer's officers and directors on any basis, including actions under the civil liability provisions of English law.

Under the terms of the Trust Deed, the Issuer will appoint an agent for service of process in London, England, for claims under the Trust Deed. It is possible that the Kazakhstan courts will not recognise this appointment. It may be difficult for the Trustee, acting on behalf of Noteholders, to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom, liabilities predicated upon English law. The Issuer has agreed in the Notes and the Trust Deed that disputes arising thereunder are subject to arbitration in London, England. See "*Terms and Conditions of the Notes – Governing Law and Jurisdiction*" and "*Terms and Conditions of the Notes – Governing Law and Jurisdiction – Arbitration*". Kazakhstan's courts will not enforce any judgment obtained in a court established in a country other than Kazakhstan unless there is a treaty in effect between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and England. However, Kazakhstan and England are parties to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the "**Convention**") and, accordingly, such an arbitral award under the Convention should generally be recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention and Kazakhstan laws are met.

However, it may be difficult to enforce arbitral awards in Kazakhstan due to:

- the limited experience of the Kazakhstan courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Kazakhstan companies in favour of foreign investors; and
- the inability of the Kazakhstan courts to enforce such orders and corruption.

See "*Risk Factors - Kazakhstan's legislative, judicial, tax and regulatory framework is developing and evolving*" and *"- The security interests in the Security will be granted to the Trustee rather than directly to the Noteholders. The ability of the Trustee to enforce the Security may be restricted by Kazakhstan law*".

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus contains "forward-looking statements". Forward-looking statements are not historical facts and can often be identified by the use of terms like "**estimates**", "**projects**", "**anticipates**", "**expects**", "**intends**", "**believes**", "**will**", "**may**", "**should**", "**plans**", "**target**", "**aim**" or the negative of these terms, and similar statements of a future or forward-looking nature. All forward-looking statements, including discussions of strategy, plans, objectives, goals and future events or performance, involve risks and uncertainties.

While these statements are based on sources believed to be reliable and on the Issuer's management's current knowledge and best belief, they are merely estimates or predictions and cannot be relied upon. The Issuer cannot assure you that the indicated, expressed or implied future results will be achieved. The following factors and features are exposed to risks and uncertainties which may cause the Issuer's actual results to differ materially from the results indicated, expressed or implied in the forward-looking statements used in this Prospectus:

- the Issuer's ability to service its existing indebtedness;
- demand in the Kazakhstan rail freight transportation market;
- the Issuer's ability to fund its growth;
- the Issuer's ability to procure new rolling stock and the supply and pricing of that new rolling stock;
- changes in political, social, legal or economic conditions in Kazakhstan and the other markets which affect the Issuer's operations;
- adverse changes in the Issuer's liquidity, capital resources or capital expenditures;
- the Issuer's ability to successfully implement any of its business strategies;
- the Issuer's expectations about demand for its services;
- competition in the marketplace and the Issuer's competitive strengths and weaknesses;
- inflation and fluctuations in currency exchange rates and interest rates;
- the timing, impact and other uncertainties of future actions;
- overall economics and political conditions globally, in the CIS and within Kazakhstan and the continuing effects of the global financial crisis, the duration and magnitude of which cannot be ascertained;
- the expansion of oil pipeline capacity in Kazakhstan and the Issuer's ability to overcome competition from oil pipelines and other alternative transit routes and providers of other methods of transport;
- volatility and future decreases in global oil, gas and other commodity prices and related fluctuations in demand for such products;
- expansion of output and production within the oil and gas, mining and metals sectors in Kazakhstan;
- the Issuer's success in identifying other risks to its business and managing the risks of the aforementioned factors; and
- those described in the part of this Prospectus entitled "*Risk Factors*", which should be read in conjunction with the other cautionary statements that are included in this Prospectus.

These factors and the other risk factors described in this Prospectus (in the section entitled "*Risk Factors*") are not necessarily all of the important factors that could cause the Issuer's actual results to differ materially from those expressed in any of the Issuer's forward-looking statements. Other unknown or unpredictable factors could also harm the future results of the Issuer. Under no circumstances should the inclusion of such forward-looking statements in this Prospectus be regarded as a representation or warranty by the Issuer, the Managers, or any other person with respect to the achievement of results set out in such statements or that the underlying assumptions used will in fact be the case. The forward-looking statements included in this Prospectus are made only as of the date of this Prospectus and the

Issuer cannot assure any prospective purchaser that projected results or events will be achieved. Except to the extent required by law, the Issuer disclaims any obligation to update or revise any of these forward-looking statements, whether as a result of new information, future events or otherwise.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Financial Information

The Issuer is required to maintain its books of account in Tenge, in accordance with Kazakhstan accounting and tax regulations. The financial statements of the Issuer as at and for the years ended 31 December 2012 (the "**2012 Audited Financial Statements**") and 31 December 2011 (the "**2011 Audited Financial Statements**", together with the 2012 Audited Financial Statements, the "**Audited Financial Statements**") are presented in Kazakhstan Tenge and have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). The 2012 Audited Financial Statements were audited by Ernst & Young LLP and the 2011 Audited Financial Statements were audited by Deloitte LLP.

**The Issuer adopted certain changes to the format of presentation of its financial statements in its 2012 Audited Financial Statements. As a result, certain line items relating to comparative financial information as at and for the year ended 31 December 2011 were reclassified in the 2012 Audited Financial Statements in order to provide a consistent basis of presentation. See Note 5 to the 2012 Audited Financial Statements for further information. Unless otherwise indicated, the financial information relating to the Issuer for the year ended and as at 31 December 2011 contained in this Prospectus has been extracted from the 2012 Audited Financial Statements and is therefore provided on a reclassified basis.**

This Prospectus contains non-IFRS measures and ratios, including EBITDA and EBITDA margin (each as defined below), which are not required by, or presented in accordance with, IFRS. The Issuer presents these non-IFRS measures because the Issuer uses them in the analysis of its business, financial position and results of operations. EBITDA is typically defined as profit for the year before income tax expense, finance costs, finance income and depreciation and amortisation ("**EBITDA**"). It should not be considered as an alternative to profit for the period as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. In addition, EBITDA has important limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of the Issuer's results as reported under IFRS. The Issuer's calculation of EBITDA may be different from the calculations used by other companies and therefore comparability may be limited. "**EBITDA margin**" is defined as EBITDA divided by gross revenue, expressed as a percentage.

The Issuer uses EBITDA, and the ratios based on this measure, in assessing its performance. In addition, the Issuer believes that EBITDA and the ratios based on this measure provide useful information to investors because it in an indicator of the strength and performance of the Issuer's ongoing business operations, its ability to fund discretionary spending such as capital expenditures, and its ability to incur and service debt. In addition, EBITDA, as defined in certain of the Issuer's debt agreements, is a key measure in assessing compliance with its debt covenants. However, this measure of EBITDA may differ from EBITDA as used throughout this Prospectus as it may be computed based on the specific debt agreement.

For the Issuer's calculation of EBITDA and for a reconciliation of EBITDA to profit for the year, see ''*Selected Financial and Other Information – Financial Ratios*".

### Third-Party Information

Some of the statistical, industry and market information presented in this Prospectus, including information about Kazakhstan, the Kazakhstan transportation sector and the freight wagon operating lease market in Kazakhstan has been obtained from market research, certain publicly available information and industry publications. Generally, such data regarding Kazakhstan, the Kazakhstan transportation sector and the freight wagon operating lease market in Kazakhstan included in this Prospectus has been obtained from the Agency of the Republic of Kazakhstan for Statistics (the "**NSA**"), the Transport Industry Development Programme for 2010 to 2014 (the "**Development Programme**"), the Ministry of Transport and Communications of the Republic of Kazakhstan (the "**Ministry of Transport**"), the Ministry of Oil and Gas of the Republic of Kazakhstan (the "**Ministry of Oil and Gas**"), JSC National Company Kazakhstan Temir Zholy ("**KTZ**"), Uralvagonzavod SPC JSC ("**Uralvagonzavod**"), the Azovmash group of companies ("**Azovmash**"), the International Monetary Fund ("**IMF**"), the World Bank, Wood Mackenzie and other third party sources that are believed to be reliable. No assurance can be given as to the accuracy and completeness of any such data, which has not been independently verified, and the Managers make no representation as to the accuracy or completeness of any such data. In the case of the presented statistical information, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Any discussion of matters relating to Kazakhstan in this Prospectus is subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

The information described above has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where information has been secured from a third party, the Issuer believes such sources to be reliable, but the accuracy and completeness of such information is not guaranteed. Such data, while believed to be reliable and which has been accurately extracted by the Issuer for the purposes of this Prospectus, has not been independently verified by the Issuer or any other party and you should not place undue reliance on such data included in this Prospectus. Where third party information has been used in this Prospectus, the source of such information has been identified.

Market share information and other statistical information and quantitative statements in this Prospectus regarding the Issuer's market position relative to its competitors is not based on published statistical data or information obtained from independent third parties. Rather, such information and statements reflect the Issuer's best estimates based upon its internal records and surveys, statistics published by providers of industry data, information published by the Issuer's competitors, and information obtained from trade and business organisations and associations and other sources within the industry in which the Issuer operates. The Issuer believes that such data is useful in helping investors understand the industry in which the Issuer operates and the Issuer's position within that industry. However, the Issuer does not have access to the facts and assumptions underlying the numerical data and other information extracted from publicly available sources and has not independently verified any data provided by third parties or industry or general publications. In addition, while the Issuer believes its internal data and surveys to be reliable, such data and surveys have not been verified by any independent sources. Thus, the Issuer cannot guarantee their accuracy.

**Certain Definitions and Terminology**

In this Prospectus, references to "Kazakhstan" are to the Republic of Kazakhstan, references to the "Government" are to the government of the Republic of Kazakhstan and references to the "CIS" are to the Commonwealth of Independent States.

**Currency and Exchange Rate Information**

In this Prospectus, references to "Tenge" or "KZT" are to Kazakhstan Tenge, the official currency of Kazakhstan, references to "U.S. Dollars" or "U.S.$" are to United States Dollars, references to "£", "GBP" or "Sterling" are to the lawful currency of the United Kingdom and references to "Euro" or "€" are to the lawful currency of the member states of the European Union that have adopted the single currency in accordance with the Treaty Establishing the European Community, as amended by the Treaty on European Union and as further amended by the Treaty of Amsterdam.

This Prospectus presents recalculations of certain Tenge amounts into U.S. Dollars at specified rates. Unless otherwise stated, any statement of financial position data in U.S. Dollars is recalculated from Tenge at the National Bank of Kazakhstan ("**NBK**") exchange rate as at the period end (or, if no such rate was quoted on such date, the immediately preceding date). Unless otherwise stated, any statement of comprehensive income data in U.S. Dollars is recalculated from Tenge at the NBK average exchange rate for the relevant period (or, if no such rate was quoted on such date, the immediately preceding date). No representation is made that the Tenge or U.S. Dollar amounts in this Prospectus could have been converted into U.S. Dollars or Tenge, as the case may be, at any particular rate or at all.

The following table sets out certain period-end and average Tenge/U.S. Dollar official exchange rates. This information is based on the exchange rates of the NBK, which uses a composite pricing source. Fluctuations in the exchange rate between the Tenge and the U.S. Dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Audited Financial Statements and other information presented in this Prospectus.

| | **KZT per U.S.$1.00** | |
|---|---|---|
| | **Period end** | **Average** |
| As at and for the year ended 31 December 2010 | 147.40 | 147.35 |
| As at and for the year ended 31 December 2011 | 148.4 | 146.62 |
| As at and for the year ended 31 December 2012 | 150.74 | 149.11 |

The Tenge is generally not convertible outside of Kazakhstan. A market exists within Kazakhstan for the conversion of Tenge into other currencies, but the limited availability of other currencies may inflate their value relative to the Tenge. No representation is made that the Tenge or U.S. Dollar amounts referred to herein could have been or could be converted into Tenge or U.S. Dollars, as the case may be, at these rates, at any particular rate or at all.

## Rounding Adjustments

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

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## THE OFFERING

*The following is an overview of the terms of the Notes. This overview is extracted from, and should be read in conjunction with, the full text of the Terms and Conditions of the Notes and the Trust Deed constituting the Notes, which prevail to the extent of any inconsistency with the terms set out in this overview. Capitalised terms used herein and not otherwise defined have the respective meanings given to such terms in the Terms and Conditions of the Notes.*

| | |
|---|---|
| **Issuer** | Eastcomtrans LLP, a limited liability partnership, incorporated and existing under the laws of the Republic of Kazakhstan with registration number 50772-1910-TOO (ИУ), having its registered address at office 11, 250, Dostyk ave, Almaty, Republic of Kazakhstan. |
| **Issue Amount** | U.S.$100,000,000 aggregate principal amount of 7.75 per cent. Senior Secured Notes due 2018. |
| **Joint Lead Managers** | BNP Paribas and HSBC Bank plc |
| **Kazakhstan Manager** | JSC Kazkommerts Securities |
| **Managers** | The Joint Lead Managers and the Kazakhstan Manager |
| **FMSC Permission** | No Notes may be issued or offered without the prior approval of the FMSC |
| **Issue Price** | 98.986 per cent. of the principal amount of the Notes |
| **Closing Date** | 22 April 2013 |
| **Maturity Date** | 22 April 2018 |
| **Trustee and Security Trustee** | U.S. Bank Trustees Limited |
| **Principal Paying Agent and Transfer Agent** | Elavon Financial Services Limited, London Branch |
| **Paying Agent and Registrar** | Elavon Financial Services Limited |
| **Interest** | The Notes will accrue interest from the date of their issuance at a rate equal to 7.75 per cent. per annum, payable semi-annually in arrear on 22 April and 22 October of each year, commencing on 22 October 2013. |
| **Form** | The Notes will be issued in registered form. The Notes will be in denominations in aggregate principal amount of U.S.$200,000 each and integral multiples of U.S.$1,000 thereafter and will be represented by a global note certificate. The global note certificate will be exchangeable for Notes in individual form in the limited circumstances specified in the global note certificate. |
| **Status of the Notes** | The Notes constitute direct, senior, secured (in the manner described in Condition 2) and unsubordinated (subject to Condition 4.7) obligations of the Issuer and shall at all times rank *pari passu* and rateably without any preference among themselves. |
| **Security** | Subject to Condition 4.2 of the "*Terms and Conditions of the Notes*", the obligations of the Issuer under the Notes will be secured by the following security interests in favour of the Trustee for the benefit of itself, the Principal Paying Agent and the Noteholders:<br>(a) any pledge agreement entered into between the Issuer as pledgor and Trustee as pledgee in relation to Released Rolling Stock or Acquired Rolling Stock; |

(b) the Pledge of Rolling Stock SPAs; and

(c) the Local Account Pledge relating to the top up of additional Collateral referred to in Condition 4.2 of the "*Terms and Conditions of the Notes*".

The documents constituting the Security shall together be referred to as the Security Documents. See "*Terms and Conditions – Status and Security*" and "*Description of the Security*" for a further description of the security interests and definitions set forth above.

It should be noted that on or about the Issue Date, the Notes will not immediately be secured upon assets of the Issuer. As described in more detail in Condition 4.2(a), the Collateral Coverage Ratio shall not be tested until 30 June 2014. However, in accordance with Condition 4.2(f), the Issuer shall, up until and including 30 June 2014, procure that any railcars that are purchased with the proceeds of the Notes, any Released Rolling Stock and any sale and purchase agreements entered into relating to the purchase of railcars funded by the proceeds of the Notes, are used to secure the obligations of the Issuer under the Notes in favour of the Trustee for the benefit of itself and Noteholders, with immediate effect.

**Use of Proceeds**

The fees and expenses associated with the Offering are estimated to be approximately U.S.$1,546,262.77. The Issuer expects the aggregate net proceeds of the issuance of the Notes to be approximately U.S.$97,439,737.23.

The Issuer will use the aggregate net proceeds from the issuance of the Notes to enable the refinancing of existing indebtedness, to acquire new rolling stock, to acquire small and medium sized rolling stock companies and for the general corporate purposes of the Issuer.

**Redemption for Tax Reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, at 100 per cent. of the principal amount thereof together with interest accrued to the date fixed for redemption in the event that additional amounts are due under Condition 6.2 of the "*Terms and Conditions of the Notes*" as a result of any change in, or amendment to, the laws or regulations of Kazakhstan occurring on or after the Issue Date. See "*Terms and Conditions of the Notes - Redemption and Purchase - Redemption for Tax Reasons*".

**Redemption on Change of Control**

Upon certain Change of Control events as defined in "*Terms and Conditions of the Notes*" included in this Prospectus, each of the Noteholders shall have the right to exercise its Change of Control Put Option in respect of all or part of its Notes, following which the Issuer shall redeem the Notes in relation to which the Change of Control Put Option has been duly exercised at 101 per cent. of the principal amount thereof, together with interest accrued and unpaid as of the redemption date. See "*Terms and Conditions of the Notes - Redemption and Purchase - Redemption upon a Change of Control*".

**Optional Redemption at Make Whole**

The Notes may be redeemed at the option of the Issuer in whole or in part, at any time at 100 per cent. of the principal amount thereof then outstanding plus the Make Whole Premium equal to the greater of (a) 1 per cent. of the principal amount of the Notes then outstanding or (b) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes to be redeemed discounted to the date of redemption at the applicable treasury rate, plus 50 basis points, together with interest accrued and unpaid as of the redemption date. See "*Terms and Conditions of the Notes - Redemption and Purchase - Optional Redemption at Make Whole*".

**Covenants**

The Terms and Conditions of the Notes contain restrictions on certain activities of the Issuer, including, without limitation:

(i) limitation on indebtedness;

(ii) collateral coverage ratio;

(iii) limitation on restricted payments;

(iv) limitation on restrictions on distributions from Restricted Subsidiaries (as defined under "*Terms and Conditions of the Notes*");

(v) limitation on sales of assets and subsidiary stock;

(vi) limitation on affiliate transactions;

(vii) limitation on liens;

(viii) limitation on lines of business;

(ix) limitation on certain mergers and consolidations;

(x) limitation on layering;

(xi) limitation on sale or issuance of voting stock of Restricted Subsidiaries;

(xii) requirements for the payment of taxes and other claims;

(xiii) requirements for the maintenance of authorisations and property; and

(xiv) requirement for the provision of certain financial information.

There are significant exceptions to the requirements contained in these covenants. See "*Terms and Conditions of the Notes - Covenants*" for a further description of the restrictions and definitions set forth above.

**Events of Default**

In the case of an Event of Default as defined in the "*Terms and Conditions of the Notes*" section of this Prospectus, the Trustee may, subject as provided in the Trust Deed, give notice to the Issuer that the Notes are immediately due and repayable. Events of Default include, among others:

(i) failure by the Issuer to pay any amounts due under the Notes, and if such failure to pay relates to interest, the failure continues for 10 calendar days;

(ii) breach by the Issuer of its obligations pursuant to the limitation on indebtedness covenant set out in Condition 4.1 and pursuant to the collateral coverage ratio set out in Condition 4.2;

(iii) breach of other obligations by the Issuer under the Notes or the Trust Deed;

(iv) cross-default (for a payment default) or cross-acceleration (for all other defaults);

(v) inability to pay debts as they fall due;

(vi) non-compliance by the Issuer with an order or judgment of a judicial or administrative authority;

(vii) liquidation, examinership, insolvency, winding up of the Issuer;

(viii) unenforceability or illegality;

(ix) the Security or any Security Document (or any part of them) becomes void, illegal, invalid or unenforceable; and

(x) nationalisation or seizure of the assets of the Issuer.

**Rating**

The Notes are rated B3, Stable by Moody's and B, Stable by Fitch. Credit ratings assigned to the Notes do not necessarily mean they are a suitable investment for you. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of Notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Issuer could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The Issuer recommends that you analyse the significance of each rating independently from any other rating. Each of Moody's and Fitch are established in the European Union and registered in accordance with the CRA Regulation.

**Withholding Tax**

All payments on the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatsoever nature, unless such withholding or deduction is required by applicable laws or regulations. If any such withholding or deduction for or on account of taxes of Kazakhstan is so required, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them in respect of such Notes if no such withholding or deduction had been made or required to be made. See "*Terms and Conditions of the Notes - Taxation*".

**Listing**

Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the Regulated Market. No certainty can be given that the application will be granted. Application has also been made for the consent of the KASE for the admission of the Notes to the "rated debt securities" category of the KASE. On 15 March 2013, the KASE granted its consent for the admission of the Notes to the "rated debt securities" category of the official list of the KASE. It is expected that the admission of the Notes to the "rated debt securities" category of the official list of the KASE will become effective from 23 April 2013.

**Selling Restrictions**

The offering and sale of the Notes is subject to applicable laws and regulations including, without limitation, those of the United Kingdom, the United States, the Republic of Kazakhstan, the Russian Federation and Switzerland.

**Governing Law**

The Notes, the Trust Deed and the Agency Agreement and any non-contractual matters arising therewith will be governed by English law. The Security Documents will be governed by the laws of the Republic of Kazakhstan.

**Security Codes**

ISIN: XS0918292151
Common Code: 091829215
Classification of Financial Instruments Code: DBFXFR

| | |
|---|---|
| **Clearing** | Euroclear and Clearstream, Luxembourg. JSC Central Securities Depositary (the Republic of Kazakhstan) in relation to any Notes trading or to be traded on the KASE. |
| **Yield** | The annual yield of the Notes when issued is 8 per cent. The annual yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield. |

## RISK FACTORS

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

*Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Notes are also described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Notes for other reasons, and the Issuer does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Additional risks that may not be known to the Issuer at this time, or those that the Issuer currently believes to be immaterial, could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.*

*An investment in the Notes involves a high degree of risk. Prospective investors should consider carefully, among other matters, the risks set forth below, which represent the principal risks relating to the Issuer, its industry and the Notes, and the other information contained elsewhere in this Prospectus, prior to making any investment decision with respect to the Notes. The order in which the following risks are presented is not intended to be an indication of the probability of their occurrence or the magnitude of their potential effects.*

### RISKS RELATING TO THE ISSUER'S BUSINESS

***The Issuer is dependent on the demand in the Kazakhstan rail transportation market, which in turn depends on certain key economic sectors***

The Issuer's core business of wagon operating leasing is dependent on the demand for wagons and rail transportation services in Kazakhstan in general, which in turn is significantly influenced by domestic and global economic conditions and trends in certain key economic sectors. In particular, the Issuer's key customers are predominantly engaged in the production of oil and liquefied petroleum gas ("**LPG**") and heavy industrial goods (such as coal, sulphur, ores and metals) in Kazakhstan. The prices of these commodities have historically been cyclical and sensitive to domestic and international changes in supply and demand and can be expected to fluctuate significantly in the future. Demand for oil tank wagons and LPG wagons in Kazakhstan is directly related to oil and gas market conditions, including, in particular, production volumes and, in the case of oil, available oil pipeline capacity. Open top wagons carry loose bulk material (including coal, ores and metals) and demand for open top wagons is therefore dependent on the conditions in the metals and mining industry and production volumes.

Decreases in demand for oil, LPG, heavy industrial goods and/or a significant increase in oil pipeline capacity would be likely to result in a corresponding negative trend in the demand for and volume of freight rail turnover in Kazakhstan and therefore a reduction in the demand for wagons provided by the Issuer under operating leases, freight forwarding services and a reduction in rental rates. For example, the freight transportation market in Kazakhstan experienced a significant reduction in demand in 2009 as a result of the global financial crisis. As a result, many operating lessors in Kazakhstan reduced rental rates under operating leases significantly in order to retain customers. In addition, the price of wagon manufacturers reduced the price of new rolling stock.

Given the Issuer's dependence on the freight rail transportation market in Kazakhstan and, in particular, demand for oil, LPG and heavy industrial goods, a deterioration in macroeconomic conditions could materially impair the Issuer's growth prospects and the Issuer's business, results of operations, financial condition and prospects may be materially adversely affected.

***The Issuer's customer base is significantly concentrated***

Although the Issuer's customer base of approximately 25 companies includes major domestic and international oil and gas and mining companies operating in Kazakhstan, TengizChevroil LLP ("**TCO**") remains the Issuer's largest customer.

TCO accounted for approximately 57 per cent. of the wagons leased out by the Issuer and 65 per cent. of the Issuer's total revenues for the year ended 31 December 2012 (compared to 76 per cent. and 81 per cent., respectively, for the year ended 31 December 2011 and for the year ended 31 December 2010).

The Issuer anticipates a significant reduction in demand from TCO for oil wagons in the future as a result of the planned expansion of the Caspian pipeline which connects the Tengiz oilfield with the South Ozereevka oil terminal on the Black Sea, as a result of which TCO is likely to increase the proportion of oil which it transports through that pipeline. Since 2011, the Issuer has actively sought to diversify its customer portfolio and reduce its reliance on TCO. As a result, it has signed new operating leases with companies including SIBUR-Trans, Zhaikmunai LLP ("**Zhaikmunai**"), Telf AG, KSP-Steel, Kazuglesnab, NovaZink, Arcellormittal and Casting.

However, the operating results of the Issuer will continue in the foreseeable future to depend on the Issuer's ability to enter into agreements with its largest customers and TCO in particular. There can be no assurance that the Issuer will retain TCO or any other customer in the future, or that its customers, if lost, could be easily replaced by other customers on comparable terms and/or volumes or at all. If the Issuer loses TCO as a customer or any other key customer and is not able to replace its business, then the Issuer's business, results of operations, financial condition and prospects may be materially adversely affected.

***The Issuer may be unable to re-lease its rolling stock for an acceptable rate in the future***

The Issuer's business depends on earning revenues from its rolling stock assets for their entire expected useful lives, which is generally anticipated to be at least 20 years for oil tank wagons, 40 years for LPG wagons, 22 years for open wagons, and 32 years for platforms and minimising costs associated with those assets over the same period. The inability to utilise a vehicle for its entire expected useful life at an acceptable rate could negatively impact the Issuer because it would not be able to realise the full value that it expected to earn from that vehicle. If the Issuer fails to re–lease available rolling stock at an acceptable rate before it is due for retirement from service, the Issuer's business, results of operations, financial condition and prospects may be materially adversely affected. The Issuer's ability to re–lease available rolling stock may be affected by, among other things, the perceived attractiveness among its customers of ordering newly–built rolling stock as compared to re–leasing older assets. In this assessment of rolling stock requirements, a customer's decision to order newly–built rolling stock may be influenced by price, operating characteristics such as capacity and reliability, track access costs, exchange rate movements, the cost of servicing/maintenance and changes in technology generally. The Issuer's business, results of operations, financial condition and prospects may be materially adversely affected by a failure to fully utilise rolling stock over its useful economic life at an acceptable rate.

***Railway freight transportation may be subject to increasing competition from other modes of freight transportation, and the Issuer may be subject to increasing competition from other transportation and logistics companies***

Although rail transportation is the leading mode of freight transportation in Kazakhstan, railways are subject to increasing competition from other types of transportation.

The Issuer faces its greatest competition in the transport of oil and oil products from the development of pipelines in Kazakhstan and countries that border Kazakhstan, as pipeline transportation is more cost efficient than rail transportation in transporting crude oil. According to Wood Mackenzie data, freight turnover by pipeline increased by 10 per cent. in 2011, compared to 2010. In addition, a significant expansion of the Caspian pipeline which connects the Tengiz oilfield with the South Ozereevka oil terminal on the Black Sea is currently planned for 2015 which will impact demand for the transportation of oil by rail. The Government is also developing Kazakhstan's highway infrastructure to foster short- and medium-distance truck transportation. Freight turnover by road increased by 51 per cent. of total transportation in 2011, compared to 2010. While most of these initiatives are long-term projects, should they succeed, the level of competition in the transportation industry could significantly increase. If other modes of transportation become more competitive than rail transportation or if private companies increase their share of the freight transportation market, the Issuer's business, results of operations, financial condition and prospects may be materially adversely affected.

***Significant volatility of wagon prices may affect the Issuer's business***

Prices for new wagons have demonstrated significant volatility over the last five years and there can be no assurance that future prices will not fall below the levels at which the Issuer acquired its wagons. Falling prices could occur for various reasons including, but not limited to, an unfavourable economic outlook and falling demand for wagons. Such decreases would likely result in a reduction in the market rates for operating leases which may in turn result in the Issuer's inability to receive the expected revenues derived from the wagons. A decrease in the prices of wagons would also affect the value of the wagons in the Issuer's fleet, which could lead to impairment in the value of its assets and an increase in the Issuer's leverage. Furthermore, some of the Issuer's outstanding borrowings contain financial covenants which reference the market value of the wagons owned by the Issuer. A significant decline in wagon prices may result in a breach of these covenants. As a result, the Issuer's business, results of operations, financial condition and prospects may be materially adversely affected.

***Failure to meet customer expectations could damage the Issuer's relationships with its customers and its business reputation***

The Issuer's customers rely on the Issuer to provide high-quality wagons and the availability of rolling stock. To meet these expectations, the Issuer seeks to ensure that that a sufficient number of wagons can be delivered to customers upon their request in a timely manner and in accordance with a customer's production cycle and that any wagons provided are of sufficient quality and possess the requisite certifications necessary to avoid delays when dispatching.

The Issuer may be unable to meet its customers expectations due to insufficient availability of rolling stock or for other reasons outside of its direct control. For example, the Issuer relies on third parties, primarily wagon suppliers, to deliver the wagons to the lessees. In turn, wagon lessees rely on KTZ for locomotive services and infrastructure usage.

A significant delay in the delivery of wagons could lead to significant business interruption for, and/or material losses sustained by, the Issuer's customers. Similarly, damage to the wagons being dispatched to the customer due to derailment or mishandling could also result in customer dissatisfaction with the provision of the Issuer's services. Failure to meet customer expectations could result in the loss of a customer's business and/or impairment of the Issuer's business reputation and, in turn, the Issuer's business, results of operations, financial condition and prospects may be materially adversely affected.

***A major accident or derailment could result in substantial property loss, business disruption or reputational damage to the Issuer***

Rolling stock owners are subject to accidents and derailments, both as a result of operational failures and as a result of the specific materials being transported. There can be no assurance that the Issuer would always be able to attribute responsibility to, and recover from, a third party in connection with such accidents or derailments. Any negative publicity concerning any accident or derailment could also have a material adverse effect on the perception of the Issuer and the attractiveness of its services in the future. Accordingly, the Issuer's business, results of operations, financial condition and prospects may be materially adversely affected by a major accident or derailment.

***Railway infrastructure in Kazakhstan is ageing and is not always in good state of repair***

The physical infrastructure and other assets owned and operated by KTZ, particularly its rail network, largely date back to Soviet times and have, in many cases, not been adequately maintained. There can be no assurance that the age and insufficient funding and maintenance of a substantial part of the Kazakhstan railway network and other infrastructure operated by KTZ will not in the future negatively affect the useful life of the Issuer's wagons and increase its maintenance costs. As a result, the Issuer's business, results of operations, financial condition and prospects may be materially adversely affected.

***The interests of the Controlling Shareholder may conflict with the interests of Noteholders***

As at the date of the Prospectus, the Issuer's largest beneficial owner is Mr. Marat Sarsenov (the "**Controlling Shareholder"**). Mr. Sarsenov directly holds 55.998 per cent. of the participating interests in the charter capital of the Issuer and 37.332 per cent. of the participating interests in the charter capital of the Issuer are held by Steinhardt Holding BV, an entity which is beneficially owned by Mr. Sarsenov (see "*Business Description – Charter capital and shareholders*"). The Controlling Shareholder has the ability to significantly influence the Issuer's business through his ability to control all actions that require approval of the general meeting of the participants of the Issuer, including appointments of the members of the supervisory board of the Issuer (the "**Board of Directors**" or the "**Board**") and any increase of the Issuer's charter capital.

If the Controlling Shareholders' interests conflict with the interests of the Noteholders, the Noteholders could be disadvantaged if the Controlling Shareholder takes actions contrary to the Noteholders' interests. As the holder of the majority of the participating interests in the charter capital of the Issuer, the Controlling Shareholder has the ability to exercise total control over the Issuer's acquisitions, divestures, financing or other transactions that could enhance the value of the Issuer's assets without necessarily benefiting the interests of the Noteholders. The interests of the Controlling Shareholder may therefore, in some circumstances, conflict with the interests of the Noteholders and, as a result, the Issuer's business, results of operations, financial condition and prospects may be adversely materially affected.

***The Issuer has not independently verified information that it has sourced from third parties***

In preparing the Prospectus, the Issuer has relied on and referred to information from various third-party sources, including certain companies and institutes, international organisations and governmental agencies, and it has relied on the accuracy of this information without independent verification. For example, a significant proportion of the information concerning the Issuer's competitors and the rail freight transportation market has been derived from publicly available sources published by third parties. This information and statistics may at time be less complete or reliable than those of some of the more developed market economies of Europe, as well as produced on a basis that differs from those used in Western countries. Any discussion of matters relating to Kazakhstan herein is therefore subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

## RISKS RELATING TO THE ISSUER'S FINANCIAL CONDITION

***The Issuer has significant indebtedness, including secured indebtedness, which could materially adversely affect its operations***

The business of wagon operating leasing is capital-intensive, and the Issuer has significant indebtedness, including borrowings from banks. As at 31 December 2012 the aggregate amount of its current and non-current borrowings was KZT 55.5 billion and its net debt (total borrowings, including the current portion, less cash and cash equivalents of the Issuer) was KZT 54.4 billion. Among other things, the Issuer's indebtedness could potentially: (a) limit its ability to obtain additional financing and refinance existing indebtedness, especially in light of the current market conditions; (b) limit its flexibility in planning for, or reacting to, changes in the markets in which it competes which may place the Issuer at a competitive disadvantage; (c) render it more vulnerable to general adverse economic and industry conditions; (d) require it to dedicate a substantial part of its cash flow to debt service; or (e) in the event of enforcement of any security relating to the indebtedness, result in a loss of certain of its assets.

The Issuer's ability to make payments on its indebtedness (including the Notes) depends upon its ability to maintain its operating performance at a certain level, which is subject to general economic and market conditions and to financial, business and many other factors, which the Issuer cannot control. If the Issuer's cash flow from operating activities becomes insufficient, the Issuer may be required to take certain actions, including delaying or reducing capital or other expenditures, selling its assets or other properties or seeking additional equity capital in an attempt to restructure or refinance its indebtedness. The Issuer may be unable to take any of these actions on favourable terms or in a timely manner and the Issuer would be at risk of defaulting on any such indebtedness (including the Notes), however currently the Issuer does not expect to default on any such indebtedness (including the Notes).

A significant part of the Issuer's rolling stock, some of the Issuer's bank accounts and rights under certain operating lease contracts are pledged to secure its debt obligations, and failure to service such debt obligations or comply with the covenants under the Issuer's financing arrangements leading to an enforcement of such pledges may result in the loss of the Issuer's control over a material part of its business and/or assets.

If the Issuer cannot service its debt, refinance its existing debt as it comes due or obtain additional funding or obtain funding on commercially reasonable terms, the Issuer's business, results of operations, financial condition and prospects may be materially adversely affected by such failure.

***Covenants in the Issuer's financing agreements and the Notes may limit its flexibility and breach of such covenants may negatively affect its financial position***

The Issuer's financing agreements and the Notes contain restrictive covenants that require it to abstain from certain actions. In addition, some of these financing agreements and the Notes require that the Issuer complies with various financial covenants, maintains various financial ratios (including a debt service coverage ratio and a leverage ratio as defined in the various financing agreements) or refrains from incurring additional indebtedness over certain threshold levels. The most restrictive of these financial ratio tests requires maintenance of a ratio of net financial debt to EBITDA of not more than 4.0 and tangible net worth of not less than U.S.$80 million. As a result, the Issuer's operations may be restricted. As at the date of this Prospectus, the Issuer is in compliance with the covenants contained in its existing loan agreements. However, if the Issuer is unable to comply with the covenants and restrictions in its financing arrangements, the Issuer might be required to restructure its indebtedness, obtain waivers of non-compliance or refinance its existing debt, which could be costly. In turn, the Issuer's business, results of operations, financial condition and prospects may be materially adversely affected.

Many of the Issuer's financing agreements and the Notes also contain restrictive or negative covenants and other restrictions which may affect its ability to obtain loans, pay dividends, dispose of or acquire assets, execute contracts out of the ordinary course of business, or create security. Some of these financing agreements and the Notes, contain restrictive conditions imposing limitations on change of control, ownership, corporate structure, reorganizations and mergers. See "*Description of Certain Indebtedness", "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital resources*" and "*Terms and Conditions of the*

*Notes – Covenants*". Such covenants may limit the Issuer's operational flexibility, and a breach thereof may result in a default on the instruments regulating the respective debt.

The Issuer's business, results of operations, financial condition and prospects may be materially adversely affected by such covenants, or a default on such covenants, and inability to cure the default or refinance the debt.

***The Issuer is subject to interest rate risk***

The Issuer enters into multi-year operating lease contracts with its customers with the operating lease rates fixed for the entire term of the contract whereas the majority of the Issuer's loans contain floating interest rates (typically linked to the London interbank offered rate). As a result, the Issuer's income and operating cash flows are exposed to changes in the market interest rates as an increase in interest rates would increase its overall financing costs whereas no corresponding adjustment would take place in the fixed rate operating lease contracts with its customers. In addition, the Issuer is exposed to fair value interest rate risk through market value fluctuations of loans, lease liabilities and lease receivables with fixed interest rates. The Issuer's business, results of operations, financial condition and prospects may be materially adversely affected, should such risks materialise.

***The Issuer is subject to credit risk***

The Issuer has developed a comprehensive credit policy to evaluate its prospective customers' creditworthiness, quality of their reporting and accounting and their exposure to legal, regulatory and other risks (the "**Credit Policy**"). Most of the Issuer's customers are leading businesses in their respective industries. However, there can be no assurance that the Issuer's customers will not experience financial difficulties which could lead to failures or delays in the repayment of obligations, or that the Issuer's customers will be able to return the wagons leased from the Issuer in case of customer insolvency. There is no assurance that the Issuer's credit policy will be effective in the future in which case the Issuer's business, results of operations, financial condition and prospects may be materially adversely affected.

## RISKS RELATING TO THE REPUBLIC OF KAZAKHSTAN

The Issuer's operations are almost exclusively conducted in Kazakhstan, which causes the Issuer to be subject to Kazakhstan-specific risks, including, but not limited to, those described below. The Issuer's business, results of operations, financial condition and prospects may be materially adversely affected upon the occurrence of any of the factors described below.

***Emerging markets are generally subject to greater risk than more developed markets, and actual and perceived risks associated with investing in emerging economies could dampen foreign investment in Kazakhstan***

The disruptions recently experienced in international and Kazakhstan capital markets have led to reduced liquidity and increased credit risk for certain market participants and have resulted in a reduction of available financing. Companies located in emerging markets, such as Kazakhstan, may be particularly susceptible to these disruptions, which could result in them experiencing financial difficulties. In addition, the availability and the cost of credit to entities operating within the emerging markets are significantly influenced by levels of investor confidence in these markets generally, and, as such, any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market could affect the price or availability of funding for entities within any of these markets).

Investors in emerging markets, such as Kazakhstan, should be aware that these markets are subject to greater risk because of their developing nature, including, in some cases, significant legal, economic and political risks. Investors should also note that emerging markets, such as Kazakhstan, are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly.

Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and prospective investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

As has happened in the past, the occurrence of financial problems, or an increase in the perceived risks associated with investing, in emerging economies may dampen foreign investment in Kazakhstan and adversely affect Kazakhstan's economy. In addition, during such times, companies operating in emerging markets may face severe liquidity constraints as foreign funding resources are withdrawn. Thus, whether or not Kazakhstan's economy is relatively stable, financial turmoil in any emerging market country, in particular countries in the CIS or Central Asian regions, which recently have experienced significant political instability (including terrorism), could seriously disrupt the

Issuer's business. The Issuer's business, results of operations, financial condition and prospects may be materially adversely affected by any such disruption.

***The Issuer is largely dependent on the economic and political conditions prevailing in Kazakhstan***

Kazakhstan became an independent sovereign state in 1991 as a result of the dissolution of the former Soviet Union. Since then, Kazakhstan under President Nursultan Nazarbayev has experienced significant changes as it emerged from a centrally controlled command economy to a market-oriented economy. The transition was initially marked by political uncertainty and tension, a stagnant economy marked by high inflation, instability of the local currency and rapid, but incomplete, changes in the legal environment. However, Kazakhstan actively pursued a programme of economic reform designed to establish a free market economy through privatisation of government-owned enterprises and deregulation and it is more advanced in this respect than some other countries of the former Soviet Union. Under President Nazarbayev's leadership, Kazakhstan has moved toward a market-oriented economy, and, as such, was awarded the Chairmanship of the OSCE for the calendar year 2010. The President has been the President since 1991 (President Nazarbayev is not subject to term limits), and there is currently no clear indication as to succession of the Presidency. If the current administration changes its outlook or, in the event of a change in administration, such future administration has a different outlook, the economy in Kazakhstan could be adversely affected. The Issuer's business, results of operations, financial condition and prospects may be materially adversely affected by changes to Kazakhstan's economy, including in property, tax or regulatory regimes or other changes.

Kazakhstan further depends on neighbouring states for access to world markets for a number of its major exports, including uranium, oil, natural gas, steel, copper, ferrous alloys, iron ore, aluminium, coal, lead, zinc and wheat. Therefore, Kazakhstan is dependent upon good relations with its neighbours to ensure its ability to export. As part of an agreement under the Customs Union or Single Economic Space ("**Customs Union**"), Belarus, Kazakhstan and Russia each enacted into law on 1 January 2012 rules that regulate standards for tariff policies for the rail transportation services on an agreed basis across these countries. The agreement provides for the unification of tariffs in each of these countries by 1 January 2013 across export, import and domestic freight tariffs, but the agreement permits rail transportation operators, based on certain economic factors, to change those tariffs at their discretion up to certain caps set by national laws. In addition, starting 1 January 2015, each of these countries must also provide access to their respective railway infrastructures to the transportation operators from the other countries within the Customs Union. As part of the Customs Union, these countries have agreed to cooperate on the basis of compensation of economically justifiable expenses relating to services provided within the Customs Union, the development of infrastructure and tariff transparency. However, should access to these export routes be materially impaired, this could adversely impact the economy of Kazakhstan. Moreover, adverse economic factors in regional markets may adversely impact Kazakhstan's economy. The Issuer's core business of wagon operating leasing is dependent on the economy in Kazakhstan in general and on demand in the Kazakhstan rail transportation market (see "- *The Issuer is dependent on the demand in the Kazakhstan rail transportation market, which in turn depends on certain key economic sectors").* The Issuer's business, results of operations, financial condition and prospects may be materially adversely affected by any of the factors above.

***The outcome of the implementation of further market-based economic reforms in Kazakhstan is uncertain***

The need for substantial investment in many enterprises has driven the Government's privatisation programme. The programme has excluded certain enterprises deemed strategically significant by the Government, although major privatisations in key sectors have taken place, such as full or partial sales of certain large oil and gas producers, mining companies and the national telecommunications company. However, there remains a need for substantial investment in many sectors of Kazakhstan's economy and there are areas in which economic performance in the private sector is still constrained by an inadequate business infrastructure. Further, the significant size of the shadow (or black) market in Kazakhstan may adversely affect the implementation of reforms and hamper the efficient collection of taxes. The Government has stated that it intends to continue the privatisation process and to address these problems by improving the business infrastructure. However, there can be no assurance that these measures will be effective and the Issuer's business, results of operations, financial condition and prospects may be materially adversely affected by any failure to implement them.

***Kazakhstan's legislative, judicial, tax and regulatory framework is developing and evolving***

A large volume of legislation has been enacted since early 1995, including tax codes in January 2002 and January 2009, laws relating to foreign arbitration and investment, additional regulation of the banking sector, and other legislation, covering such matters as securities exchanges, economic partnerships and companies, and State enterprise reform and privatisation. Nevertheless, the legal framework in Kazakhstan (although one of the most developed among the countries of the former Soviet Union) is still developing and evolving, compared to countries with established market economies.

The judicial system, judicial officials and other government officials in Kazakhstan may not be fully independent of external social, economic and political forces. Therefore, court decisions can be difficult to predict and administrative decisions have on occasion been inconsistent. Kazakhstan is a civil law-based jurisdiction and, as such, judicial decisions in individual cases have no precedential effect in subsequent cases.

Further, the legal and tax authorities may make arbitrary judgments and assessments of tax liabilities and challenge previous judgments and tax assessments, thereby rendering it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest. As a result of these ambiguities, in particular, the uncertainty surrounding judgments rendered under the tax code that became effective 1 January 2009, as amended ("**2009 Tax Code**" or "**Tax Code**"), the legal and tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed legal and tax system.

In particular, it is expected that tax legislation in Kazakhstan will continue to evolve, which may result in the imposition of additional taxes. The Issuer's business, results of operations, financial condition and prospects may be materially adversely affected by any substantial increase in its tax liability.

***A perception of public corruption within Kazakhstan could adversely affect the Issuer***

Despite the changes in the political, legal and economic situation occurring in Kazakhstan since it became an independent country in 1991, instances of private and governmental corruption have been reported in the international media. International press reports have also contained allegations that Government officials have engaged in selective investigations and prosecutions of businesses and their management, board of directors and shareholders in order to further the interests of the Government, individual Government officials or other business groups. According to the Corruption Perceptions Index published by Transparency International, which measures the perceived level of public corruption in 180 countries, during 2011 Kazakhstan was ranked number 120, indicating that a perception of corruption in the country remains widespread. The perception of corruption in Kazakhstan, whether justified or not, could negatively impact the business climate in Kazakhstan and customers' willingness to do business in Kazakhstan. In turn, Issuer's business, results of operations, financial condition and prospects may be materially adversely affected.

***The NBK currency exchange rate policy could have an adverse impact on the Issuer and Kazakhstan's public finances and economy***

The Tenge is convertible for current account transactions, although it is not a fully convertible currency for capital account transactions outside of Kazakhstan. Since the NBK adopted a floating rate exchange policy for the Tenge in April 1999, the Tenge has fluctuated significantly. Until its recent devaluation, the Tenge had generally appreciated in value against the U.S. Dollar over the past several years.

In February 2009, the NBK devalued the Tenge by 18 per cent. to KZT 143.98 per U.S.$1.00. This devaluation was due in part to pressure on the balance of payments of Kazakhstan as a result of a decline in commodity prices (in particular oil and gas) in the international markets. Devaluation of the Tenge was also intended to enhance export competitiveness of Kazakhstan goods. As at 31 December 2012, 31 December 2011 and 31 December 2010, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 150.74 per U.S.$1.00, KZT 148.4 per U.S.$1.00 and KZT 147.4 per U.S.$1.00, respectively. As at 30 June 2012, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 149.42 per U.S.$1.00. From 1 January 2010 to 31 December 2012, the Tenge depreciated against the U.S. Dollar by approximately 2.26 per cent.

Because the Issuer's lease revenues from Kazakhstan resident customers (other than TCO) are denominated in Tenge and a significant portion of the Issuer's borrowings are denominated in U.S. Dollars, the Issuer's accounts are sensitive to currency exchange rate fluctuations, and the devaluation of the Tenge against the U.S. Dollar has an overall adverse effect on the Issuer.

There can be no assurance that the NBK will not continue a managed exchange rate policy, which could have an adverse impact on Kazakhstan's public finances and economy generally and, in turn, the Issuer's business, results of operations, financial condition and prospects may be materially adversely affected.

***Kazakhstan has a less developed securities market than the United Kingdom and the rest of Western Europe, which may hinder the development of Kazakhstan's economy and adversely affect the value of the Notes***

An organised securities market was established in Kazakhstan beginning in the mid-1990s and procedures for settlement, clearing and registration of securities transactions may, therefore, be subject to legal uncertainties, technical difficulties and delays. Although significant developments have occurred in recent years, including an initiative to develop Almaty as a regional financial centre, the sophisticated legal and regulatory frameworks necessary for the efficient functioning of modern capital markets have yet to be fully developed in Kazakhstan. In particular, legal protections against market manipulation and insider trading are not as well developed or as strictly enforced in Kazakhstan as they are in the United Kingdom and other Western European countries, and existing laws and regulations may be applied inconsistently. Moreover, less information relating to Kazakhstan entities, such as the Issuer, may be publicly available than for entities organised in the United Kingdom or other Western European countries. These factors may impair foreign investment in Kazakhstan, which may hinder the development of Kazakhstan's economy. Further, the Issuer intends to dual list the Notes on the London Stock Exchange and the KASE. Kazakhstan's existing securities laws and regulations, including official interpretation and application thereof, are relatively new and subject to change at any point. While the Issuer believes that it is complying with all applicable securities laws in connection with the issue of the Notes and the listing on the KASE, no assurances can be given that the securities regulators may decide that the Issuer needs to comply with additional or different regulations. As at the date of this Prospectus, consequences of non-compliance with such additional regulations, are unclear. Accordingly, any such consequences could have a material adverse impact on the Issuer and/or the value of the Notes.

***The crisis in the global financial markets and deterioration of general economic conditions have materially and adversely affected Kazakhstan's banking sector and could continue to do so***

The global economy and the global financial system have experienced a period of significant turbulence and uncertainty, particularly the severe disruption of the financial markets around the world that began in August 2007, substantially worsened in 2008 and continued through most of 2009 and 2010, with adverse consequences for many large global commercial and investment banks, insurance companies and other financial institutions, including in Kazakhstan. In Kazakhstan, the crisis resulted in increased inflation, higher unemployment, reduced corporate profitability, and increased corporate and personal insolvency rates. The crisis also resulted in increased volatility in market interest rates and foreign exchange rates and increased volatility and reduced liquidity in the equity and bond markets, which limited the availability of and increased the cost of funding and heightened counterparty risk, all of which undermined business and consumer confidence. Governments around the world, including Kazakhstan, have sought to inject liquidity into their national banking systems and to recapitalise their banking sectors both to reduce the risk of systemic failure and to increase confidence in the financial markets. The above-mentioned factors may impair Kazakhstan's banking sector and investment in Kazakhstan generally, which may hinder the development of Kazakhstan's economy. In turn, the Issuer's business, results of operations, financial condition and prospects may be materially adversely affected.

## RISKS RELATING TO THE NOTES

### Risks Relating To The Notes

***Delisting of the Notes from the official list of the KASE may subject interest payments on the Notes to tax in the Republic of Kazakhstan***

In order for payments of interest to be made on the Notes exempt of Kazakhstan withholding tax, it will be necessary for the Notes to be admitted to the official list of the KASE at all times. Application has been made for the consent of the KASE for the admission of the Notes to the "rated debt securities" category of the official list of the KASE, It is expected that the admission of the Notes to the "rated debt securities" category of the official list of the KASE will become effective on 23 April 2013. It is expected that payments of interest on the Notes would be exempt from withholding tax due to the favourable treatment available for securities admitted to the official list of the KASE under Kazakhstan legislation in effect as of the date of this Prospectus (as further described in "*Tax Considerations – Republic of Kazakhstan Taxation*"). No assurance can be given that the Notes will remain admitted to the official list of the KASE as at each Interest Payment Date or during the term of the Notes, or that the tax and securities laws in the Republic of Kazakhstan will not change materially, resulting in such tax relief no longer being available.

***There is no active trading market for the Notes***

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although application has been made for the Notes to be admitted to listing on the Official List and to trading on the Regulated Market, there is no assurance that such application will be accepted or that an active trading market will develop. The liquidity of any market for the Notes will depend on a number of factors, including: (i) the number of Noteholders; (ii) the Issuer's operating performance and financial condition; (iii) the interest of securities dealers in making markets for the Notes; and (iv) prevailing interest rates. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

***Changes in market interest rates may adversely affect the value of the Notes***

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes. A drop in the level of market interest rates will have a positive impact on the price of the Notes, as the Notes pay a fixed annual rate of interest. Conversely, an increase in the market interest rate level will have an adverse impact on the price of the Notes. For investors holding the Notes until maturity, any changes in the market interest rate level during the term will not affect the yield of the Notes, as the Notes will be redeemed at par.

***The market price of the Notes is subject to a high degree of volatility***

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Issuer's operating results, adverse business developments, changes to the regulatory environment in which the Issuer operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the trading market for notes issued by or on behalf of Kazakhstan as a sovereign borrower. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Issuer's financial condition or results of operations.

***Changes to the current tax laws and practices could adversely affect investors***

Statements in this Prospectus concerning the taxation of investors are of a general nature and are based upon current law and practice in the jurisdictions stated. Such law and practice is, in principle, subject to change, possibly with retrospective effect, and this could adversely affect investors.

In addition, any change in legislation or in practice in a relevant jurisdiction could adversely impact (i) the ability of the Issuer to service the Notes and (ii) the market value of the Notes.

***The Notes may be redeemed prior to maturity***

The Terms and Conditions of the Notes provide that the Notes are redeemable at the Issuer's option in certain circumstances, or at any time at the Issuer's discretion subject to the payment of the Make Whole Premium as defined in Condition 6.4(b) of the Terms and Conditions of the Notes and, accordingly, the Issuer may choose to redeem the outstanding Notes at times when prevailing interest rates may be relatively low. In such circumstances, an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes. Even if the Issuer does not exercise its option to redeem the Notes, its ability to do so may adversely affect the value of the Notes.

***The Issuer may not be able to finance a Change of Control Put Option as required by the Conditions***

Upon the occurrence of certain Change of Control (as defined in Condition 20 of the Notes) events, the Issuer may be required by a Noteholder to redeem all of the outstanding Notes held by such holder at 101 per cent. of the principal amount of such Notes, together with interest accrued and unpaid as of the redemption date, if any. If any such event were to occur, there can be no assurance that the Issuer would have sufficient funds available at the time to redeem the aggregate principal amount of the Notes in relation to which the Change of Control Put Option (as defined in Condition 6.3 of the Terms and Conditions of the Notes) is exercised. The exercise of the Change of Control Put Option may cause the acceleration of other indebtedness that may be senior to the Notes or rank equally with the Notes. See "*Terms and Conditions of the Notes - Redemption and Purchase - Redemption upon a Change of Control*".

***Upon a default, the Trustee may not be able to realise all of the Security and, if realised, the realisation proceeds of the Security may not be sufficient to cover all loss suffered by the Noteholder by reason of the relevant default***

The obligations of the Issuer under the Notes will be secured by the Security as described in Condition 2.2 of the Terms and Conditions of the Notes.

However, it may be difficult or even impossible for the Trustee to enforce the Security. Under Kazakhstan law, security arrangements (which include, *inter alia*, pledges and mortgages) are considered secondary obligations, which automatically terminate if the secured obligation becomes void. A Kazakhstan pledge can only be enforced upon default of the obligations secured thereby. The Kazakhstan court may refuse the enforcement of the pledge if it considers a default to be insufficient and the subsequent claim of the creditors inadequate as compared to the value of the pledged property.

Furthermore, under Kazakhstan law, it is not possible for the pledgee to directly acquire ownership over the pledged property upon foreclosure (except in certain cases). Upon foreclosure, pledged property shall be sold through a public auction, and the pledgee is entitled to the proceeds received from the public auction in the amount of its secured claim. A court may delay such public sale for a period of up to one year upon a pledgor's application.

To the extent that the Security is validly created, should an event of default occur and enforcement proceedings be undertaken to sell the pledged railcars, the proceeds from such sale may not be sufficient to satisfy the obligations under the Notes. The value to be received upon a sale of the pledged railcars will depend upon many factors including, amongst others, the condition of the pledged railcars at the time of sale, the ability to sell the pledged railcars in an ordinary sale, the condition of international, national and local economies and the availability of buyers for the pledged railcars. The book value of the pledged railcars should not be relied upon as a measure of the realisable value for such assets. By their nature, pledged railcars will have a limited range of potential purchasers.

The Trustee may face difficulties in enforcement of the pledge or pledges over the Kazakhstan law governed sale and purchase agreements in relation to the purchase of railcars by the Issuer from Russian and Ukrainian suppliers (the "**SPA Pledge**"). There is no direct cross-border enforcement of pledges between the Republic of Kazakhstan, the Russian Federation and Ukraine. A Kazakhstan court judgment on the enforcement of any SPA Pledge can be enforced in the territory of the Russian Federation or Ukraine on the basis of and subject to the provisions of the convention on legal support and legal relations in relation to civil, family and criminal cases dated 22 January 1993 (the "**Minsk Convention**"). Certain conditions shall be met in order to enforce Kazakhstan court judgments in the relevant court of the Russian Federation or Ukraine. In addition, the court of the relevant country is entitled to refuse enforcement of Kazakhstan court judgments on the grounds listed in the Minsk Convention. Moreover, the procedures of enforcement of any SPA Pledge in the territory of the Russian Federation and/or Ukraine are established by internal legislation of the Russian Federation and/or Ukraine, respectively, and it is uncertain how the whole enforcement procedure will work in practice. There is no assurance that enforcement of any SPA Pledge in the Russian Federation and/or Ukraine will be successful due to the reasons listed above.

The Trustee may also face difficulties in the enforcement of the Local Account Pledge over the money in the Local Account, since there is a risk that no or an insufficient amount of money will be held in the pledged bank accounts of the Issuer at the moment of the enforcement.

A pledge over certain types of property, such as immovable property, registered vehicles (including railcars) and other types of registered property, is valid only upon registration with the relevant state registration bodies. The registration body has a right to refuse registration of such a pledge on the grounds stipulated by Kazakhstan law. The registration is not mandatory for the validity of the pledge of other types of property (including a pledge over rights to the receivables under the contract and a pledge over the money in the bank account), however, such registration gives priority ahead of pledges over the same property, unregistered or registered at a later date.

Consequently, pledges over railcars will be effective only upon registration with the relevant body (the Committee for Transport Control of the Ministry of Transport and Communications of the Republic of Kazakhstan). In the event that a third-party security interest is granted and registered before a security interest in the Security is validly registered, the Trustee will have no priority over such third party's security in respect of security interest in the Security that has been subsequently created.

Under Kazakhstan law, the receipt of any payment made by the Issuer under a security interest may be adversely affected by specific or general defences available to debtors under Kazakhstan law in respect of the validity, binding effect and enforceability of such security interest. The validity and enforceability of the obligations of the Issuer under a security interest may also be successfully contested by any creditor, or by the Issuer's receiver in bankruptcy when the Issuer is in bankruptcy proceedings, if such obligation is prejudicial to the interests of any other creditor and the other requirements for voidable preference under the Kazakhstan Bankruptcy Law are met. As a result, the value of the security interest provided by the Issuer may be limited.

***The security interests in the Security will be granted to the Trustee rather than directly to the Noteholders. The ability of the Trustee to enforce the Security may be restricted by Kazakhstan law***

The security interests in the Security that will secure obligations of the Issuer under the Notes will not be granted directly to the Noteholders but will be granted only in favour of the Trustee. Only the Trustee will have the right to enforce the Security. As a consequence, the Noteholders will not have direct security interests and will not be entitled to take enforcement action in respect of the Security on which the Notes are secured, except through the Trustee.

Under Kazakhstan law, it is not clear whether security interests can be granted to a party other than the creditor of the claim purported to be secured by such security interests. For that reason, a parallel debt structure is used in the Trust

Deed, whereby the Issuer, as separate and independent obligations, undertakes to pay to the Trustee amounts equal to the amounts due by the Issuer to the Noteholders.

Such parallel debt structure therefore creates a separate and independent claim of the Trustee which can be secured by a security interest. Consequently, the security interests are granted to the Trustee in its own capacity as creditor acting in its own name pursuant to the parallel debt, and not as a representative of the Noteholders. It is expressly agreed in such a parallel debt provision that the obligations of the Issuer to the Trustee shall be decreased to the extent that the corresponding principal obligations to the Noteholders are reduced (and vice versa). However, such a parallel debt structure has never been tested before a Kazakhstan court and there is no assurance that it will mitigate or eliminate the risk of unenforceability posed by Kazakhstan law.

Furthermore, under the terms of the Trust Deed, if the Trustee resigns or is replaced, the outgoing Trustee is required to assign the parallel debt owed to it to the incoming trustee. Although under Kazakhstan law a pledge passes to the assignee of secured obligations (i.e., of the parallel debt) by operation of law, the new trustee might face practical difficulties when enforcing the Security until such assignment is registered with the relevant registration body.

***The Terms and Conditions of the Notes include only a limited restriction on the Issuer's ability to incur additional indebtedness***

Although the Terms and Conditions of the Notes include a covenant limiting the ability of the Issuer and its Restricted Subsidiaries to Incur Indebtedness (as defined in Condition 4), subject to certain conditions, this covenant nevertheless permits the Issuer and its Restricted Subsidiaries to incur substantial additional Indebtedness in addition to the Notes (see *"Terms and Conditions of the Notes – Condition 4.1 (Limitation on Indebtedness*)". The incurrence of such additional Indebtedness may reduce the amount investors may recover in respect of the Notes in certain circumstances by adversely affecting the Issuer's ability to repay principal of, and make payments of interest on, the Notes. This could also have a material adverse effect on the trading price of the Notes.

***The Terms and Conditions of the Notes provide significant flexibility for value to leave the Issuer***

The Terms and Conditions of the Notes include a covenant restricting the declaration or payment of dividends, and the making of other distributions, in respect of the Issuer's share capital. This covenant does not prohibit, however, a variety of investments and distributions by the Issuer and its Restricted Subsidiaries, which, if made or paid, could reduce amounts that would otherwise be available to the Issuer to make payments in respect of the Notes. (See "*Terms and Conditions of the Notes – Condition 4.4 (Limitation on Restrictions on Distributions from Restricted Subsidiaries"*).

***As the Global Note Certificate is held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer***

The Notes will be represented by the Global Note Certificate except in certain limited circumstances described in the Global Note Certificate. The Global Note Certificate will be registered in the name of a nominee for, and deposited with, the common depositary for Euroclear and Clearstream, Luxembourg. Individual Note Certificates evidencing holdings of Notes will only be available in certain limited circumstances. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Note Certificate. While the Notes are represented by the Global Note Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the common depositary for Euroclear and Clearstream, Luxembourg for distribution to its account holders. A holder of a beneficial interest in the Global Note Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Note Certificate.

Holders of beneficial interests in the Global Note Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

***Minimum Denomination***

As the Notes have a minimum denomination consisting of U.S.$200,000 plus higher integral multiples of U.S.$1,000, it is possible that the Notes may be traded in amounts in excess of U.S.$200,000 that are not integral multiples of U.S.$200,000. In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive a Note Certificate in respect of such holding (should Note Certificates be printed) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination.

***Credit Rating***

Credit or corporate ratings may not reflect all risks. One or more independent rating agencies may assign ratings to the Notes and/or the Issuer. The Notes are expected upon issue to be rated B3, Stable by Moody's and B, Stable by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Such ratings may not reflect the potential impact of all risks related to the structure, the market or additional factors discussed in this section, and other factors that may affect the value of the Notes or the standing of the Issuer. In addition, any adverse change in an applicable credit rating could adversely affect the trading price for the Notes.

***Exchange rate risks and exchange controls may significantly affect an investor's yield on the Notes, the principal value payable thereunder and the market value of the Notes***

The Issuer will pay principal and interest on the Notes in U.S. Dollars (the "**Specified Currency**"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

***Modification, waivers and substitution may occur without the Noteholders' consent***

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may agree, without the consent of Noteholders, to (i) any modification of any of the provisions of the Trust Deed, the Notes, the Security Documents, the Agency Agreement or the Conditions which in the Trustee's opinion is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law, and (ii) any other modification to the Trust Deed, the Security Documents, the Agency Agreement, the Notes or the Conditions (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, the Agency Agreement, the Security Documents, the Notes or the Conditions which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Noteholders. The Trustee may, without the consent of the Noteholders, determine that any Event of Default or Potential Event of Default (as defined in the "*Terms and Conditions of the Notes*") should not be treated as such, provided that, in the opinion of the Trustee, the interests of Noteholders will not be materially prejudiced thereby.

***EU Savings Directive***

The EU Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**") requires Member States of the European Union to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person within its jurisdiction to (or for the benefit of) an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Austria and Luxembourg are instead required to operate a withholding system (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures to the Savings Directive (a withholding system in the case of Switzerland) and certain dependent or associated territories of certain Member States have adopted the same measures.

The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of or in respect of tax were to be withheld from that payment pursuant to the Savings Directive or any law implementing or complying with, or introduced in order to conform to, the Savings Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive or any law implementing or complying with, or introduced in order to conform to, the Savings Directive.

***The Noteholders face risks associated with possible changes in law***

The "*Terms and Conditions of the Notes*" are based on English law in effect as at the date of this Prospectus. The descriptions of legal matters and tax analysis elaborated in this Prospectus are based on relevant laws and regulations as currently in force. No assurance can be given as to the impact of any possible judicial decision or change to the laws and regulations or administrative practice after the date of date of this Prospectus. If the laws and regulations are amended, such amendments could have an impact on the rights and obligations of the Noteholders and the tax treatment (of income derived from) the Notes.

## USE OF PROCEEDS

The fees and expenses associated with the Offering are estimated to be approximately U.S.$1,546,262.77. The Issuer expects the aggregate net proceeds of the issuance of the Notes to be approximately U.S.$97,439,737.23.

The Issuer will use the aggregate net proceeds from the issuance of the Notes to enable the refinancing of existing indebtedness, to acquire new rolling stock, to acquire small and medium sized rolling stock companies and for the general corporate purposes of the Issuer.

# CAPITALISATION

The following table sets out the capitalisation of the Issuer as at 31 December 2012. The following table should be read in conjunction with "Selected Financial and Other Information", "*Management's Discussion and Analysis of Financial Condition and Results*" and the Audited Financial Statements and related Notes thereto.

| | As at 31 December 2012 |
|---|---|
| | *(In KZT thousands)* |
| **Current liabilities** | |
| Borrowings | 10,562,554 |
| Current portion of finance lease liabilities | 1,688,400 |
| Trade accounts payable | 962,012 |
| Advances received | 358,284 |
| Other current liabilities | 842,917 |
| **Total current liabilities** | **14,414,167** |
| **Non-current liabilities** | |
| Borrowings | 37,968,151 |
| Finance lease liabilities | 5,240,289 |
| Deferred tax liability | 7,830,051 |
| **Total non-current liabilities** | **51,038,491** |
| **Equity** | |
| Charter capital | 840,000 |
| Revaluation reserve | 14,166,827 |
| Retained earnings | 19,451,800 |
| **Total equity** | **34,458,627** |
| **Total Capitalisation** | **99,911,285** |

As at the date of this Prospectus, there has been no material change in the Issuer's capitalisation since 31 December 2012.

## SELECTED FINANCIAL AND OTHER INFORMATION

The following selected financial information presents selected historical financial information as at 31 December 2012, 31 December 2011 and 31 December 2010. The selected statement of comprehensive income data, selected statement of cash flow data and selected statement of financial position data has been extracted from the Audited Financial Statements, which are included in this Prospectus.

**The Issuer adopted certain changes to the format of presentation of its financial statements in its 2012 Audited Financial Statements. As a result, certain line items relating to comparative financial information as at and for the year ended 31 December 2011 were reclassified in the 2012 Audited Financial Statements in order to provide a consistent basis of presentation. See Note 5 to the 2012 Audited Financial Statements for further information.**

**In addition, the table below sets out the reclassification of certain amounts (relating to revenues, cost of sales, general and administrative expenses and finance costs), which were disclosed in the notes to the 2011 Audited Financial Statements and in the statement of cash flows for the year ended 31 December 2011 in accordance with the format of presentation adopted in the 2012 Audited Financial Statements.**

**Where financial information relating to the year ended and as at 31 December 2011 is presented below in comparison to financial information relating to the year ended and as at 31 December 2012, it has been extracted from the 2012 Audited Financial Statements and is therefore provided on a reclassified basis. Where financial information relating to the year ended and as at 31 December 2011 is presented below in comparison to financial information relating to the year ended and as at 31 December 2010, it has been extracted from the 2011 Audited Financial Statements and is not therefore provided on a reclassified basis.**

**Revenue for the year ended 31 December 2011**

| Captions used in the 2011 Audited Financial Statements | Captions used in the 2012 Audited Financial Statement | As previously reported[1] | Reclassification[2] | Reclassified[3] |
|---|---|---|---|---|
| | | | *(in KZT thousands)* | |
| Rent of wagon-tankers...................... | Rental income from lease of rolling stock.................................... | 15,124,120 | (600,462) | 14,523,658 |
| - | Operating services .......................... | - | 826,375 | 826,375 |
| Forwarding services.......................... | Cargo forwarding services.............. | 1,645,419 | (1,009,689) | 635,730 |
| Consignor and consignee services .... | Consignor and consignee services........................................... | 269,961 | 783,776 | 1,053,737 |
| Other................................................ | Other............................................... | 11,167 | - | 11,167 |
| | | **17,050,667** | **-** | **17,050,667** |

1 Source: 2011 Audited Financial Statements
2 Source: Internal accounting records of the Issuer.
3 Source: Internal accounting records of the Issuer.

**Cost of sales for the year ended 31 December 2011**

| Captions used in the 2011 Audited Financial Statements | Captions used in the 2012 Audited Financial Statement | As previously reported[1] | Reclassification[2] | Reclassified[3] |
|---|---|---|---|---|
| | | | *(in KZT thousands)* | |
| Depreciation ..................................... | Depreciation .................................. | 2,634,609 | - | 2,634,609 |
| Repairs and maintenance of wagons............................................. | Repairs and maintenance of wagons........................................... | 1,275,402 | - | 1,275,402 |
| Insurance of wagons ......................... | Insurance of wagons ....................... | 568,508 | - | 568,508 |
| Rent of wagons ................................. | Rent of wagons ............................... | 455,786 | - | 455,786 |
| Transportation................................... | Usage of railways ........................... | 201,658 | 139,113 | 340,771 |
| Payroll and related expenses............. | Payroll and related expenses........... | 182,328 | 5,188 | 187,516 |
| Arrangement of railway access......... | - | 178,853 | (178,853) | - |
| Spare parts and other materials......... | Spare parts and other materials....... | 68,870 | (3,878) | 64,992 |
| Servicing of carriages ....................... | Wagon servicing............................. | 51,988 | 42,679 | 94,667 |
| Other................................................ | Other............................................... | 85,714 | (4,249) | 81,465 |
| | | **5,703,716** | - | **5,703,716** |

1 Source: 2011 Audited Financial Statements
2 Source: Internal accounting records of the Issuer.
3 Source: Internal accounting records of the Issuer.

**General and administrative expenses for the year ended 31 December 2011**

| Captions used in the 2011 Audited Financial Statements | Captions used in the 2012 Audited Financial Statement | As previously reported[1] | Reclassification[2] | Reclassified[3] |
|---|---|---|---|---|
| | | | *(in KZT thousands)* | |
| Payroll and related expenses | Payroll and related expenses | 376,550 | 7,844 | 384,394 |
| Bank services | Bank commission | 123,204 | - | 123,204 |
| Taxes other than income tax | Taxes other than income tax | 104,582 | - | 104,582 |
| Information, consulting and other professional services | Information, consulting and other professional services | 69,102 | 6,912 | 76,014 |
| Rental of office | Office rent | 49,904 | - | 49,904 |
| Business expenses | Business trips | 42,109 | - | 42,109 |
| Repairs and maintenance | Repairs and maintenance | 25,313 | 2,137 | 27,450 |
| Depreciation and amortization | Depreciation and amortization | 19,757 | - | 19,757 |
| Materials | Materials | 18,761 | 4,413 | 23,174 |
| Utilities | Utilities | 17,535 | - | 17,535 |
| Telecommunications expenses | Telecommunication services | 12,440 | - | 12,440 |
| Transportation | Transportation | 10,102 | (4,492) | 5,610 |
| Fines and penalties | - | 825 | (825) | - |
| Other | Other | 109,729 | (15,989) | 93,740 |
| | | **979,913** | **-** | **979,913** |

1 Source: 2011 Audited Financial Statements

2 Source: Internal accounting records of the Issuer.

3 Source: Internal accounting records of the Issuer.

**Finance costs for the year ended 31 December 2011**

| Captions used in the 2011 Audited Financial Statements | Captions used in the 2012 Audited Financial Statement | As previously reported[1] | Reclassification[2] | Reclassified[3] |
|---|---|---|---|---|
| | | | *(in KZT thousands)* | |
| Interest expense on borrowings | Interest expense on bank loans | 2,690,684 | 203,503 | 2,894,187 |
| Interest expense on finance lease liabilities | Interest expense on finance lease | 1,038,253 | - | 1,038,253 |
| Foreign exchange loss/(gain) from borrowings | - | 437,833 | (437,833) | - |
| Interest expenses on guarantee agreements | Interest expense on guarantee agreements | 271,574 | - | 271,574 |
| Unwinding of discount on loans and borrowings | - | 203,503 | (203,503) | - |
| - | Discounting of long-term loans given to employees | | 6,723 | 6,723 |
| Loss on initial recognition of loans receivable | - | 6,609 | (6,609) | - |
| Other finance costs | - | 114 | (114) | - |
| | | **4,648,570** | **(437,833)** | **4,210,737** |
| | **Foreign exchange loss, net** | **-** | **437,833** | **437,833** |
| | | **4,648,570** | **-** | **4,648,570** |

1 Source: 2011 Audited Financial Statements

2 Source: Internal accounting records of the Issuer.

3 Source: Internal accounting records of the Issuer.

**Statement of cash flows for the year ended 31 December 2011**

| Captions used in the 2011 Audited Financial Statements | Captions used in the 2012 Audited Financial Statement | As previously reported[1] | Reclassification[2] | Reclassified[3] |
|---|---|---|---|---|
| | | | *(in KZT thousands)* | |
| Finance costs | Finance costs | 4,641,847 | (431,110) | 4,210,737 |
| - | Unrealized foreign exchange loss | - | 439,359 | 439,359 |
| Others | - | 8,249 | (8,249) | - |
| Changes in accounts receivable | Trade accounts receivable | 821,760 | (22,177) | 799,583 |
| - | Other current assets | - | 22,177 | 22,177 |
| Changes in accounts payable | Trade accounts payable | 5,626,101 | (419,453) | 5,206,648 |
| - | Advances received | - | 205,087 | 205,087 |
| - | Other current liabilities | - | 214,366 | 214,366 |
| | | **11,097,957** | **-** | **11,097,957** |

1 Source: 2011 Audited Financial Statements

2 Source: Internal accounting records of the Issuer.

3 Source: Internal accounting records of the Issuer.

Prospective investors should read the following selected financial and other information in conjunction with the information contained in the *"Presentation of Financial and Other Information", "Risk Factors", "Capitalisation", Management's Discussion and Analysis of Results of Operations",* and *"Business Description"*, as well as the Audited Financial Statements, together with the related notes thereto, all of which appear elsewhere in this Prospectus.

## STATEMENT OF COMPREHENSIVE INCOME DATA

For the years ended 31 December 2012 and 31 December 2011.

| | Year ended 31 December | |
|---|---|---|
| | **2012** | **2011*** |
| | *(in KZT thousands)* | |
| Revenue | 22,476,151 | 17,050,667 |
| Cost of sales | (8,766,962) | (5,703,716) |
| **Gross profit** | **13,709,189** | **11,346,951** |
| Other operating income | 47,831 | 16,794 |
| General and administrative expenses | (1,127,215) | (979,913) |
| Other operating expenses | (90,641) | (31,682) |
| Net (loss)/gain from disposal of property, plant and equipment | (219,222) | 1,214 |
| **Operating profit** | **12,319,942** | **10,353,364** |
| Finance income | 611,116 | 101,468 |
| Finance costs | (4,620,723) | (4,210,737) |
| Foreign exchange loss, net | (759,654) | (437,833) |
| **Profit before income tax** | **7,550,681** | **5,806,262** |
| Income tax expenses | (1,546,482) | (1,178,736) |
| **Net profit for the year** | **6,004,199** | **4,627,526** |

*Reclassified. See Note 5 to the 2012 Audited Financial Statements.

For the years ended 31 December 2011 and 31 December 2010.

| | Year ended 31 December | |
|---|---|---|
| | **2011*** | **2010** |
| | *(in KZT thousands)* | |
| Revenue | 17,050,667 | 9,806,941 |
| Cost of sales | (5,703,716) | (2,037,302) |
| **Gross profit** | **11,346,951** | **7,769,639** |
| Other operating income | 18,008 | 1,994 |
| General and administrative expenses | (979,913) | (831,736) |
| Other operating expenses | (31,682) | (49,443) |
| **Operating profit** | **10,353,364** | **6,890,454** |
| Finance income | 101,468 | 879,583 |
| Finance costs | (4,648,570) | (2,003,072) |
| **Profit before income tax** | **5,806,262** | **5,766,965** |
| Income tax expenses | (1,178,736) | (1,377,527) |
| **Net profit for the year** | **4,627,526** | **4,389,438** |

*Extracted from 2011 Audited Financial Statements.

## STATEMENT OF FINANCIAL POSITION DATA

For the years ended 31 December 2012 and 31 December 2011.

| | Year ended 31 December | |
|---|---|---|
| | 2012 | 2011* |
| | (in KZT thousands) | |
| **ASSETS** | | |
| Property, plant and equipment | 94,005,283 | 75,659,512 |
| Intangible assets | 51,527 | 53,192 |
| Loans due from employees | 21,087 | 22,464 |
| Other non-current assets | - | 4,043,120 |
| Non-current due from DAMU | 293,022 | - |
| **Total non-current assets** | **94,370,919** | **79,778,288** |
| Inventories | 68,478 | 62,278 |
| Trade accounts receivable | 3,488,662 | 2,166,373 |
| Other current assets | 665,342 | 682,602 |
| Current due from DAMU | 233,369 | - |
| Prepaid income tax | 15,279 | 7,045 |
| Loans due from employees | 18,422 | 19,290 |
| Bank deposits, short term | - | 627,832 |
| Cash and cash equivalents | 1,050,814 | 1,424,635 |
| **Total current assets** | **5,540,366** | **4,990,055** |
| **TOTAL ASSETS** | **99,911,285** | **84,768,343** |
| Charter capital | 840,000 | 840,000 |
| Revaluation reserve | 14,166,827 | 14,955,611 |
| Retained earnings | 19,451,800 | 13,584,322 |
| **TOTAL EQUITY** | **34,458,627** | **29,379,933** |
| Borrowings | 37,968,151 | 30,472,681 |
| Finance lease liabilities | 5,240,289 | 6,906,230 |
| Deferred income tax liability | 7,830,051 | 6,751,301 |
| **Total non-current liabilities** | **51,038,491** | **44,130,212** |
| Borrowings | 10,562,554 | 8,124,208 |
| Current portion of finance lease liabilities | 1,688,400 | 1,624,192 |
| Trade accounts payable | 962,012 | 700,447 |
| Advances received | 358,284 | 309,933 |
| Income tax payable | - | - |
| Other current liabilities | 842,917 | 499,418 |
| **Total current liabilities** | **14,414,167** | **11,258,198** |
| **TOTAL LIABILITIES** | **65,452,658** | **55,388,410** |
| **TOTAL EQUITY AND LIABILITIES** | **99,911,285** | **84,768,343** |

*Reclassified. See Note 5 to the 2012 Audited Financial Statements.

For the years ended 31 December 2011 and 31 December 2010.

| | Year ended 31 December | |
|---|---|---|
| | 2011* | 2010 |
| | *(in KZT thousands)* | |
| **ASSETS** | | |
| Property, plant and equipment | 75,659,512 | 49,515,217 |
| Loans receivable | 22,464 | 19,281 |
| Other non-current assets | 4,096,312 | 1,636,995 |
| **Total non-current assets** | **79,778,288** | **51,171,493** |
| Inventories | 62,278 | 40,866 |
| Accounts receivable | 2,856,020 | 2,031,584 |
| Loans receivable | 19,290 | 10,427 |
| Other non-current assets, current portion | - | 505,347 |
| Bank deposits | 627,832 | 236,000 |
| Cash and cash equivalents | 1,424,635 | 2,935,423 |
| **Total current assets** | **4,990,055** | **5,759,647** |
| **TOTAL ASSETS** | **84,768,343** | **56,931,140** |
| **TOTAL EQUITY** | **29,379,933** | **25,402,974** |
| Borrowings | 37,378,911 | 18,065,010 |
| Deferred income tax liability | 6,751,301 | 5,972,022 |
| **Total non-current liabilities** | **44,130,212** | **24,037,032** |
| Borrowings | 9,748,400 | 6,300,295 |
| Accounts payable | 1,509,798 | 1,190,839 |
| **Total current liabilities** | **11,258,198** | **7,491,134** |
| **TOTAL LIABILITIES** | **55,388,410** | **31,528,166** |
| **TOTAL EQUITY AND LIABILITIES** | **84,768,343** | **56,931,140** |

*Extracted from 2011 Audited Financial Statements.

## STATEMENT OF CASH FLOW DATA

For the years ended 31 December 2012 and 31 December 2011.

| | Year ended 31 December | |
|---|---|---|
| | 2012 | 2011 |
| | *(in KZT thousands)* | |
| **Net cash from operating activities** | **11,625,837** | **13,513,891** |
| **Net cash used in investing activities** | **(18,751,655)** | **(31,058,765)** |
| **Net cash from financing activities** | **6,716,598** | **16,015,062** |
| Net decrease in cash and equivalents | (409,220) | (1,529,812) |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | 35,399 | 19,024 |
| **CASH AND CASH EQUIVALENTS at 1 January** | **1,424,635** | **2,935,423** |
| **CASH AND CASH EQUIVALENTS at 31 December** | **1,050,814** | **1,424,635** |

For the years ended 31 December 2011 and 31 December 2010.

| | Year ended 31 December | |
|---|---|---|
| | 2011* | 2010 |
| | *(in KZT thousands)* | |
| **Net cash from operating activities** | **13,513,891** | **9,182,676** |
| **Net cash used in investing activities** | **(31,058,765)** | **(13,155,750)** |
| **Net cash from financing activities** | **16,015,062** | **5,900,479** |
| Net change in cash and equivalents | (1,529,812) | 1,927,405 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | 19,024 | - |
| **CASH AND CASH EQUIVALENTS at the beginning of the year** | **2,935,423** | **1,008,018** |
| **CASH AND CASH EQUIVALENTS at the end of the year** | **1,424,635** | **2,935,423** |

*Extracted from 2011 Audited Financial Statements.

## FINANCIAL RATIOS

As at and for the years ended 31 December 2012 and 31 December 2011.

| | As at and for the year ended 31 December | |
|---|---|---|
| | 2012 | 2011* |
| | *(in KZT thousands, except ratios)* | |
| EBITDA[1] | 17,752,625 | 13,109,198 |
| Current ratio[2] | 0.38 | 0.44 |
| Coverage ratio[3] | 2.40 | 2.25 |
| Total debt to equity ratio[4] | 1.61 | 1.60 |
| **Total debt to EBITDA(**)[5]** | **3.12** | **3.59** |

*Reclassified. See Note 5 to the 2012 Audited Financial Statements.
** For the annual periods, the value of EBITDA has been calculated for the 12 months preceding the reporting date.

[1] The Issuer defines EBITDA as EBITDA plus finance income, or profit for the year before income tax expense, finance costs, depreciation and amortisation. EBITDA is not a measure of financial performance presented in accordance with IFRS. Accordingly, they should not be considered as alternatives to profit for the period as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. See "*Presentation of Financial and Certain Other Information*" for an explanation regarding the use of these measures. EBITDA is computed as follows:

| | For the year ended 31 December | |
|---|---|---|
| | 2012 | 2011* |
| | *(in KZT thousands)* | |
| Profit for the period/year | 6,004,199 | 4,627,526 |
| Income tax expense | 1,546,482 | 1,178,736 |
| Finance costs (including foreign exchange costs) | 5,380,377 | 4,648,570 |
| Depreciation and amortisation(**) | 4,821,567 | 2,654,366 |
| **EBITDA** | **17,752,625** | **13,109,198** |

* Reclassified. See Note 5 to the 2012 Audited Financial Statements.
** Includes all depreciation and amortisation recorded under cost of sales and general and administrative expenses.

[2]The Issuer defines current ratio as current assets divided by current liabilities.

[3]The Issuer defines its coverage ratio as profit before taxation and finance cost divided by finance cost.

[4]This ratio is computed as total debt divided by total equity. Total debt represents the aggregate of total borrowings, total debt securities issued, and total finance lease liabilities.

[5]This ratio is computed as total debt divided by Issuer EBITDA.

As at and for the years ended 31 December 2011 and 31 December 2010.

| | As at and for the year ended 31 December | |
|---|---|---|
| | 2011* | 2010 |
| | *(in KZT thousands, except ratios)* | |
| EBITDA[1] | 13,109,198 | 8,611,181 |
| Current ratio[2] | 0.44 | 0.77 |
| Coverage ratio[3] | 2.25 | 3.88 |
| Total debt to equity ratio[4] | 1.60 | 0.96 |
| **Total debt to EBITDA(**)[5]** | **3.59** | **2.83** |

*Extracted from 2011 Audited Financial Statements.
** For the annual periods, the value of EBITDA has been calculated for the 12 months preceding the reporting date.

[1] The Issuer defines EBITDA as EBITDA plus finance income, or profit for the year before income tax expense, finance costs, depreciation and amortisation. EBITDA is not a measure of financial performance presented in accordance with IFRS. Accordingly, they should not be considered as alternatives to profit for the period as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. See "*Presentation of Financial and Certain Other Information*" for an explanation regarding the use of these measures. EBITDA is computed as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2011*** | **2010** |
| | *(in KZT thousands)* | |
| Profit for the period/year | 4,627,526 | 4,389,438 |
| Income tax expense (including foreign exchange costs) | 1,178,736 | 1,377,527 |
| Finance costs | 4,648,570 | 2,003,072 |
| Depreciation and amortisation(**) | 2,654,366 | 841,144 |
| **EBITDA** | **13,109,198** | **8,611,181** |

* Extracted from 2011 Audited Financial Statements.
** Includes all depreciation and amortisation recorded under cost of sales and general and administrative expenses.

[2] The Issuer defines current ratio as current assets divided by current liabilities.

[3] The Issuer defines its coverage ratio as profit before taxation and finance cost divided by finance cost.

[4] This ratio is computed as total debt divided by total equity. Total debt represents the aggregate of total borrowings, total debt securities issued, and total finance lease liabilities.

[5] This ratio is computed as total debt divided by Issuer EBITDA.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

*The following discussion and analysis is intended to assist in the understanding and assessment of the trends and significant changes in the Issuer's results of operations and financial condition. Historical results may not be indicative of future performance. This discussion is based on the Audited Financial Statements and should be read in conjunction with the Financial Statements, including the notes thereto, and other information appearing elsewhere in this Prospectus. This discussion includes forward-looking statements that involve risks and uncertainties. The Issuer's actual results could differ materially from those discussed in such forward-looking statements. Factors that may cause such a difference are described under ''Risk Factors'' and ''Forward-Looking Statements''.*

### INTRODUCTION

The Issuer is the largest privately owned operating lessor of freight wagons in Kazakhstan by number of wagons as at 31 December 2012. It was incorporated as a limited liability partnership in Kazakhstan on 4 October 2002 and its registered office is Office 11, 250 Dostyk Ave., Almaty, 050020, the Republic of Kazakhstan. The Issuer operates through its head office in Almaty, branch offices in Aktau and Atyrau and a representative office in Astana.

The Issuer's principal business is leasing freight wagons under operating lease contracts primarily for the transport of oil, LPG and heavy industrial goods (such as coal, sulphur, ores and metals) in Kazakhstan. In addition, the Issuer provides freight forwarding services for freight transportation across Kazakhstan, CIS, Central Asia and Europe, as well as transhipment services at the port of Aktau. For the year ended 31 December 2012, revenue from operating lease contracts amounted to KZT 18.2 billion (U.S.$121.8 million) (or 81 per cent. of the Issuer's total revenue), revenue from freight forwarding services amounted to KZT 0.8 billion (U.S.$ 5.2 million) (or 3 per cent. of the Issuer's total revenue) and revenue from transhipment services amounted to KZT 0.7 billion (U.S.$4.8 million) (or 3 per cent. of the Issuer's total revenue).

The Issuer currently has a portfolio of approximately 25 customers, including major domestic and international companies principally operating in the oil and gas and metals and mining sectors. The Issuer offers single and multi-year operating leases with terms ranging between 1 and 7 years. The majority of the Issuer's outstanding operating lease contracts have terms of 4 to 7 years and, as at 31 December 2012, the average length of outstanding operating lease contracts is 4 years. For the year ended 31 December 2012, approximately 65 per cent. of the Issuer's total revenues came from contracts with its major customer TCO. In 2012, the Issuer successfully extended its lease contracts with TCO to 31 December 2015.

The Issuer's fleet of approximately 9,800 wagons consists of a variety of special purpose wagons and multi-purpose wagons configured predominantly for the transportation of oil, LPG and heavy industrial goods across Kazakhstan. The Issuer estimates that its fleet represented approximately 8 to 10 per cent. of the total freight wagon fleet in Kazakhstan as at 31 December 2012 based on information published by the NSA. As at 31 December 2012, the Issuer's fleet had an average age of 4.1 years which the Issuer believes makes it one of the youngest fleets in Kazakhstan. The average fleet age in Kazakhstan is 25 years and the average technical useful life of wagons in Kazakhstan is between 22 to 40 years (source: the Ministry of Transport). Since it commenced operations in 2002, the Issuer's fleet utilisation rate has remained at 100 per cent. As at 31 December 2012, oil tank wagons comprised 57.2 per cent. of the Issuer's total fleet, LPG wagons comprised 18.4 per cent., open wagons comprised 23.0 per cent. and platforms comprised 1.4 per cent, respectively.

Wagons supplied by the Issuer are used by customers in connection with the import and export of commodities and goods to and from Kazakhstan. Demand for oil tank wagons and LPG wagons is directly related to oil and gas market conditions and, in particular, oil and gas production and available pipeline capacity in Kazakhstan. Open wagons carry heavy industrial goods (including coal, sulphur, ores and metals) and demand for open wagons in therefore dependent on the conditions in the metals and mining industries and production volumes. Prior to mid-2008, Kazakhstan's GDP experienced strong growth, increasing from U.S.$16.8 billion in 1999 to U.S.$132.2 billion in 2008, according to the NSA, which also caused railway freight transportation volumes to increase significantly during that same period. However, beginning in the fourth quarter of 2008, Kazakhstan experienced a sharp decline in GDP (down to U.S.$107.0 billion in 2009, according to the NSA), industrial production and trade. This caused a decline in demand for railway freight transportation services. Kazakhstan's economy began to recover in 2009 and its GDP grew to U.S.$183.9 billion in 2011, compared to U.S.$145.9 billion in 2010, which has resulted in increased demand for railway freight transportation services and the IMF forecast that Kazakhstan's GDP would increase by a further 5.5 per cent. in 2012.

The Issuer's fleet has grown substantially in recent years, growing by 24.6 per cent. for the year ended 31 December 2012 and by a CAGR of 38.4 per cent. since 31 December 2008.

Since 2009, the Issuer has also provided freight forwarding services to its customers across Kazakhstan, CIS, Central Asia and Europe. Freight forwarding involves arranging for transportation of goods from starting points to points of destination, preparing transportation documents, transporting freight between warehouses and railway stations. For the year ended 31 December 2012, revenue from freight forwarding services amounted to KZT 0.8 billion (U.S.$ 5.2 million) (or 3 per cent. of the Issuer's total revenue) compared to KZT 0.6 billion (U.S.$ 4.3 million) (or 4 per cent. of the Issuer's total revenue) for the year ended 31 December 2011.

In addition, the Issuer has also provided transhipment services at the port of Aktau since October 2008. Transhipment generally involves the transportation of goods to an intermediate destination, and then to yet another destination (for example, oil is shipped from sea to port and then transported by rail). Revenue from transhipment services for the year ended 31 December 2012 amounted to KZT 0.7 billion (U.S.$ 4.8 million) (or 3 per cent. of the Issuer's total revenue) compared to KZT 1.1 billion (U.S.$7.2 million) (or 6 per cent. of the Issuer's total revenue) for the year ended 31 December 2011.

For the year ended 31 December 2012, the Issuer's total revenue was KZT 22.5 billion (U.S.$150.7 million), an increase of 131.8 per cent. compared to total revenue of KZT 17.05 billion (U.S.$116.3 million) for the year ended 31 December 2011. As at 31 December 2012, the Issuer's total assets increased to KZT 99.9 billion (U.S.$ 662.8 million) from KZT 84.8 billion (U.S.$571.2 million) as at 31 December 2011. As at 31 December 2012, the Issuer's net debt was KZT 54.4 billion (U.S.$ 360.9 million), an increase of 20 per cent. from KZT 45.7 billion (U.S.$308 million) as at 31 December 2011.

As at the date of the Prospectus, the Issuer has three participants in its charter capital. The Issuer's largest participant is Mr. Marat Sarsenov. Mr. Sarsenov directly holds 55.998 per cent. of the participating interests in the charter capital of the Issuer and 37.332 per cent. of the participating interests in the charter capital of the Issuer are held by Steinhardt Holding BV, an entity which is beneficially owned by Mr. Sarsenov. In March 2013, International Finance Corporation ("**IFC**") acquired 6.67 per cent. of the participating interests in the charter capital of the Issuer, which forms part of U.S.$ 50 million of funding, to be provided by IFC in the form of equity and loans (see "*Management's Discussion and Analysis of Results of Operations and Financial Condition – Recent Developments – IFC Investment*").

The Issuer's long-term foreign and local currency issuer default rating and national long-term rating by Fitch is 'B' and 'BB(kaz)', respectively. The Issuer's corporate family rating, probability of default rating and national scale rating by Moody's is B3, B3-PD and B3.kz, respectively. The Notes are expected upon issue to be rated B3, Stable by Moody's and B, Stable by Fitch.

## FACTORS AND TRENDS AFFECTING FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The main factors that have affected the Issuer's results of operations during the periods being analysed, and that can be expected to affect the Issuer's results of operations in the future, are: macroeconomic factors in key economic sectors; the scale and quality of the Issuer's fleet and; the cost of wagon maintenance and repair. These factors should be taken into account in reviewing the Issuer's results of operations for the periods discussed.

### *Macroeconomic Factors in Key Economic Sectors*

The Issuer's core business of wagon operating leasing is dependent on the demand for wagons and the rail transportation services in Kazakhstan in general, which in turn is significantly influenced by domestic and global economic conditions and trends in certain key economic sectors. In particular, the Issuer's key customers are predominantly engaged in the production of oil, LPG and heavy industrial goods (such as coal, sulphur, ores and metals) in Kazakhstan.

Although the Issuer's customer base includes approximately 25 companies and includes major domestic and international oil and gas and mining companies operating in Kazakhstan, TCO remains the Issuer's largest customer, accounting for approximately 65 per cent. of the Issuer's total revenues for the year ended 31 December 2012 (compared to 76 per cent. and 81 per cent., respectively, for the year ended 31 December 2011 and 2010).

The prices of oil and LPG have historically been cyclical and sensitive to domestic and international changes in supply and demand and can be expected to fluctuate significantly in the future. Demand for oil wagons and LPG transportation wagons in Kazakhstan is directly related to oil and gas market conditions, including, in particular, oil and gas production volumes and, in the case of oil, available oil pipeline capacity. Decreases in demand for oil and/or LPG would be likely to result in a corresponding negative trend in the demand for and volume of freight rail turnover in Kazakhstan.

The Issuer faces its greatest competition in the transportation of oil products from the development of pipelines in Kazakhstan and countries that border Kazakhstan, as pipeline transportation is more cost efficient than rail transportation in transporting oil. According to the NSA, freight turnover by pipeline increased by approximately 15 per cent. in 2011, compared to 2010. The Issuer anticipates a significant reduction in demand from TCO for oil wagons in the future as a result of the planned expansion of the Caspian pipeline which connects the Tengiz oilfield with the South Ozerveeka oil terminal on the Black Sea, as a result of which TCO is likely to increase the proportion of oil which it transfers through that pipeline and reduce its requirements for transportation by rail freight. Demand for freight wagon leases is expected to remain strong as the Issuer moves to address expected changes in customer needs (see "*Business Description - Strategy - Rebalance the Issuer's wagon fleet to address expected changes in customer needs" and "- Participate in the development of the Kashagan offshore oilfield project*" and "*- Develop the Issuer's presence in Kazakhstan's industrial sector*".

The transportation of crude oil from oil fields to oil refineries in Kazakhstan by railways accounted for approximately 5 per cent. to 6 per cent. of all crude oil transported in Kazakhstan in 2011 and ranks behind transportation of crude oil by pipelines. Pipelines are the predominant mode of transportation for exports of crude oil. In certain locations where oil producers do not have direct access to pipelines or oil loading sea ports, transportation by railways acts as a complementary mode of transportation facilitating delivery of crude oil from the fields to pipeline hubs and Aktau sea port. Rail transportation is also an alternative for oil producers who carry grades of crude oil that cannot be transported through the pipelines.

As at 31 December 2012, approximately 23.0 per cent. of the Issuer's fleet comprised open wagons which carry heavy industrial goods (including coal, sulphur, ores and metals). Demand for open wagons in therefore dependent on the conditions in the metals and mining industries and production volumes. The transport of coal, ore and metals accounts for the majority of rail freight cargo in Kazakhstan and the Issuer anticipates that planned increases in production capacity by major companies operating in the metals and mining sector will drive further demand for rail freight transportation. The Issuer plans to increase its fleet of open wagons to meet anticipated demand in Kazakhstan in the metals and mining sector.

See "*Risk Factors – Railway freight transportation may be subject to increasing competition from other modes of freight transportation*" and "*- the Issuer may be subject to increasing competition from other transportation and logistics companies*".

***The scale and quality of the Issuer's fleet***

The Issuer's revenue and profitability depend principally on its ability to secure multi-year operating leases with its customers which, in turn, is significantly influenced by the size and quality of its fleet. The Issuer believes that its large and young fleet is an important factor in securing long-term operating leases with larger well-established companies which have stronger credit profiles. The Issuer has substantially expanded its fleet of rolling stock in recent years, focusing on oil tank wagons and LPG wagons.

Since 2002, the Issuer has invested U.S.$ 572 million in the acquisition of wagons, which it believes makes it one of the largest purchasers of wagons in Kazakhstan during this period. The Issuer's fleet grew by 24.6 per cent. in the year ended 31 December 2012 and by a compound annual growth rate ("**CAGR**") of 38.9 per cent. since 31 December 2008.

The Issuer's fleet had an average age of 4.1 years as at 31 December 2012. This compares to the average age of the total Kazakhstan fleet of 25 years and an average technical useful life of between 22 to 40 years (source: the Ministry of Transport). The young age of the Issuer's fleet allows the Issuer to reduce its maintenance and repair costs and to keep its fleet operational for longer periods. Each wagon in the Issuer's fleet is operational for between 350 and 355 days per annum. The Issuer believes that this gives it a significant advantage over competitors with older rolling stock.

Subject to the demand for freight wagons, the availability of financing, expected rates of return, as well as a sufficient quantity of wagons available at acceptable prices, the Issuer plans to increase its fleet by approximately 1,500 to 2,000 annually. The Issuer also intends to acquire approximately 2,000 to 5,000 additional wagons by purchasing small or medium sized operating lease companies and to rebalance its fleet to address anticipated changes in customer requirements. See "*Business Description – Strategy – Rebalance the Issuer's wagon fleet to address expected changes in customer needs*" and "*Business Description – Strategy – Acquire operating lease companies within the CIS*".

Although investments in expanding the size of the fleet will increase its cost of sales and net expenses (in particular, depreciation and wagon maintenance and repair), the Issuer believes that those investments will ultimately drive revenue growth.

***The cost of wagon maintenance and repair***

The cost of maintaining and repairing the company's wagons is a major cost for the Issuer. The extent of repair and maintenance is determined by the age and mileage of the wagon in accordance with the rules of the maintenance and repair of freight cars accessed to circulation on the public railway track in international traffic No.47 dated 22-23 November 2007. For the year ended 31 December 2012, wagon maintenance and repair expenses amounted to 14.3 per cent. of the Issuer's cost of sales, compared to 22.4 per cent. and 21.5 per cent. for the years ended 31 December 2011 and 2010, respectively.

The Issuer currently enters into annual service contracts with certain wagon repair companies. Although the Issuer does not currently anticipate capacity constraints among wagon repair depots in Kazakhstan or Russia, wagon maintenance and repair costs could increase, for example, in circumstances where the existing capacity of wagon repair depots is unable to meet the level of demand.

The Issuer believes that the cost of wagon maintenance and repair will become more significant in the future as both its fleet size and the average age of the fleet increase. The number of the Issuer's wagons above three years old will increase, and therefore, the number of required depot repairs will grow faster than its fleet size. Over the period of the next ten years, most of the Issuer's wagons will also require a capital repair and one or two wheelset replacements (see "Business Description - Operations - Maintenance and Repair"). The Issuer's strategy includes plans to incorporate in-house repair facilities into its business. The Issuer believes that this will assist it to control the time, cost and quality of maintenance operations and to avoid reductions in profitability in the event of capacity constraints at repair depots (see "*Business Description – Strategy – Integrate the cost of maintaining and repairing wagons by acquiring or constructing a wagon repair depot*").

## CONSOLIDATED RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

*The following discussion is based on, and should be read in conjunction with, the Issuer's Audited Financial Statements which are included in this Prospectus beginning on page F-2.*

***The Issuer adopted certain changes to the format of presentation of its financial statements in its 2012 Audited Financial Statements. As a result, certain line items relating to comparative financial information as at and for the year ended 31 December 2011 were reclassified in the 2012 Audited Financial Statements in order to provide a consistent basis of presentation. See Note 5 to the 2012 Audited Financial Statements for further information.***

***The financial information presented below in the section headed "Consolidated results of operations for the years ended 31 December 2012 and 2011" is extracted from the 2012 Audited Financial Statements and is therefore provided on a reclassified basis.***

The following table sets out certain line items from the Issuer's statement of comprehensive income for the twelve months ended 31 December 2012 and 2011:

| | **Year ended 31 December** | | **% change for the year ended 31 December 2012 and 2011** |
|---|---|---|---|
| | **2012** | **2011** | **%** |
| | *(in KZT thousands)* | | |
| Revenue | 22,476,151 | 17,050,667 | 31.8 |
| Cost of sales | (8,766,962) | (5,703,716) | 53.7 |
| Gross profit | 13,709,189 | 11,346,951 | 20.8 |
| Other operating income | 47,831 | 16,794 | 184.8 |
| General and administrative expenses… | (1,127,215) | (979,913) | 15.0 |
| Other operating expenses | (90,641) | (31,682) | 186.1 |
| Net (loss)/gain from disposal of property, plant and equipment | (219,222) | 1,214 | (18,157.8) |
| **Operating profit** | **12,319,942** | **10,353,364** | **19.0** |
| Finance income | 611,116 | 101,468 | 502.3 |
| Finance costs | (4,620,723) | (4,210,737) | 9.7 |
| Foreign exchange loss, net | (759,654) | (437,833) | 73.5 |
| **Profit before income tax** | **7,550,681** | **5,806,262** | **30.0** |
| Income tax expenses | (1,546,482) | (1,178,736) | 31.2 |
| **Net profit for the year** | **6,004,199** | **4,627,526** | **29.7** |

Revenue

The principal sources of the Issuer's revenue were fees from freight operating leases, freight forwarding and transhipment services.

The following table provides a breakdown of the Issuer's total revenue for each of the periods indicated:

| | **Year ended 31 December** | | **% change for the year ended 31 December 2012 and 2011** |
|---|---|---|---|
| | **2012** | **2011** | **%** |
| | *(in KZT thousands)* | | |
| Rental income from lease of rolling stock | 18,155,789 | 14,523,658 | 25.0 |
| Operating services | 2,763,710 | 826,375 | 234.4 |
| Cargo forwarding services | 773,309 | 635,730 | 21.6 |
| Consignor and consignee services | 721,170 | 1,053,737 | (31.6) |
| Other | 62,173 | 11,167 | 456.8 |
| **Total revenue** | **22,476,151** | **17,050,667** | **31.8** |

The Issuer's revenue increased by KZT 5,425,484 thousand, or 31.8 per cent., to KZT 22,476,151 thousand for the year ended 31 December 2012 from KZT 17,050,667 thousand for the year ended 31 December 2011. This increase was primarily due to additional revenues incurred from operating leases which were entered into as a result of an increase in the size of the Issuer's fleet.

For the year ended 31 December 2012, KZT 14,525,800 thousand or 64.6 per cent. of revenue was derived from operating leases with TCO (compared to KZT 12,894,240 thousand or 75.6 per cent. of revenue for the year ended 31 December 2011).

Operating services were treated in the 2011 Audited Financial Statements as a category of operating lease revenues. In the 2012 Audited Financial Statements, operating services, which comprise services connected with the leasing of wagons such as wagon allocation, dispatching wagons and planning, have been re-classified as a separate line item.

*Cost of Sales*

The following table presents the Issuer's cost of sales for the periods indicated:

| | **Year ended 31 December** | | **% change for the year ended 31 December 2012 and 2011** |
|---|---|---|---|
| | **2012** | **2011** | **%** |
| | *(in KZT thousands)* | | |
| Depreciation | 4,782,054 | 2,634,609 | 81.5 |
| Insurance of wagons | 1,363,848 | 568,508 | 139.9 |
| Repairs and maintenance of wagons | 1,258,002 | 1,275,402 | (1.4) |
| Usage of railways | 560,590 | 340,771 | 64.5 |
| Rent of wagons | 245,259 | 455,786 | (46.2) |
| Payroll and related expenses | 244 901 | 187,516 | 30.6 |
| Wagon servicing | 121,367 | 94,667 | 28.2 |
| Spare parts and other materials | 31,597 | 64,992 | (51.4) |
| Other | 159,344 | 81,465 | 95.6 |
| **Total cost of sales** | **8,766,962** | **5,703,716** | **53.7** |

Cost of sales increased by KZT 3,063,246 thousand, or 53.7 per cent., to KZT 8,766,962 thousand for the year ended 31 December 2012 from KZT 5,703,716 thousand for the year ended 31 December 2011. This increase was primarily due to an increase in the number of wagons in the Issuer's fleet which resulted in a corresponding increase in the growth of fixed assets depreciation. The Issuer's re-estimation of the useful life of rolling stock in 2012 also increased the Issuer's total cost of sales. In addition, the total cost of sales were affected by an increase in the rail tariff payments made by the Issuer to KTZ for railway usage as a result of the increase in the size of the Issuer's fleet and an increase in insurance costs of 140 per cent.

## Gross Profit

The Issuer recorded a gross profit of KZT 13,709,189 thousand for the year ended 31 December 2012, an increase of 20.8 per cent. from the year ended 31 December 2011. This increase was primarily due to an increase in operating lease revenues.

*Other Operating Income*

For the year ended 31 December 2012, other operating income increased by KZT 31,037 thousand, or 184.8 per cent., to KZT 47,831 thousand from KZT 16,794 thousand for the year ended 31 December 2011. This increase was principally due to additional expense reimbursements pursuant to customer lease contracts, revenues from melting scrap metals and exchange rate fluctuations.

*General and Administrative Expenses*

The following table presents the Issuer's general and administrative expenses for the periods indicated:

| | Year ended 31 December | | % change for the year ended 31 December |
|---|---|---|---|
| | 2012 | 2011 | 2012 and 2011 |
| | *(in KZT thousands)* | | *(%)* |
| Payroll and related expenses | 462,116 | 384,394 | 20.2 |
| Bank commission | 110,114 | 123,204 | (10.6) |
| Office rent | 105,194 | 49,904 | 110.8 |
| Information, consulting and other professional services | 64,740 | 76,014 | (14.8) |
| Repairs and maintenance | 51,116 | 27,450 | 86.2 |
| Business trips | 45,003 | 42,109 | 6.9 |
| Taxes other than tax income | 43,673 | 104,582 | (58.2) |
| Provision for doubtful debts | 42,551 | - | 100 |
| Depreciation and amortisation | 39,513 | 19,757 | 100 |
| Utilities | 23,726 | 17,535 | 35.3 |
| Materials | 19,584 | 23,174 | (15.5) |
| Telecommunication services | 17,439 | 12,440 | 40.2 |
| Sponsorship | 10,100 | - | 100 |
| Transportation | 5,081 | 5,610 | (9.4) |
| Other | 87,265 | 93,740 | (6.9) |
| **Total general and administrative expenses** | **1,127,215** | **979,913** | **15.0** |

The Issuer's general and administrative expenses increased to KZT 1,127,215 thousand for the year ended 31 December 2012 from KZT 979,913 thousand for the year ended 31 December 2011. This increase was primarily due to a rise in personnel costs as a result of increases in salaries and bonuses to employees; an increase in rental payments due as a result of the Issuer moving operations to the new business centre at the Essentai Business Centre in Almaty in 2012; and an increase in impairment provisions made in connection with doubtful debts during 2012. In 2011, the Issuer received a substantial amount of services from entities outside of Kazakhstan and it paid non-residents corporate income tax on those services. As it received a lower level of services from entities outside Kazakhstan in 2012 taxes other than tax income incurred reduced significantly.

*Other Operating Expenses*

For the year ended 31 December 2012, other operating expenses increased by KZT 58,959 thousand, or 186.1 per cent., to KZT 90,641 thousand from KZT 31,682 thousand for the year ended 31 December 2011. This increase was primarily due to changes in the KZT/U.S.$ foreign exchange rate and expenses incurred from the sale of scrap metal.

*Net (loss)/gain from disposal of property, plant and equipment*

The Issuer's net (loss)/gain from disposal of property, plant and equipment increased by KZT 220,436 thousand to KZT (219,222) thousand from KZT 1,214 thousand for the year ended 31 December 2011. This reduction was primarily due to write-offs of wagon fleet components.

*Operating Profit*

The Issuer's operating profit increased to KZT 12,319,942 thousand for the year ended 31 December 2012 from KZT 10,353,364 thousand for the year ended 31 December 2011, primarily due to an increase in operating revenues as a result of increases in the size of the wagon fleet.

*Finance Income*

The following table presents the Issuer's finance income for the periods indicated:

| | Year ended 31 December | | % change for the year ended 31 December |
|---|---|---|---|
| | 2012 | 2011 | 2012 and 2011 |
| | *(in KZT thousands)* | | % |
| Income on subsidies | 603,335 | - | 100 |
| Amortisation of discount on long-term loans to employees | 4,338 | 84,557 | (94.9) |
| Interest income | 3,443 | 16,891 | (79.6) |
| **Total finance income** | **611,116** | **101,468** | **502.3** |

The Issuer's total finance income increased to KZT 611,116 thousand for the year ended 31 December 2012 from KZT 101,468 thousand for the year ended 31 December 2011, principally as a result of obtaining an interest rate subsidy from DAMU (the Entrepreneurship Development Fund) in connection a U.S.$31.05 million loan facility between the Issuer and ATF Bank.

*Finance Costs*

The following table presents the Issuer's finance costs for the periods indicated:

| | **Year ended 31 December** | | **% change for the year ended 31 December** |
|---|---|---|---|
| | **2012** | **2011** | **2012 and 2011** |
| | *(in KZT thousands)* | | *(%)* |
| Interest expense on bank loans | 3,646,073 | 2,894,187 | 26.0 |
| Interest expense on finance lease | 845,300 | 1,038,253 | (18.6) |
| Interest expenses on guarantee agreements | 125,668 | 271,574 | (53.7) |
| Discounting of long-term loans to employees | 3,682 | 6,723 | (45.2) |
| **Total finance costs** | **4,620,723** | **4,210,737** | **9.7** |

Finance costs increased by KZT 409,986 thousand or 9.7 per cent., to KZT 4,620,723 thousand for the year ended 31 December 2012 from KZT 4,210,737 thousand for the year ended 31 December 2011. This increase was primarily due to the Issuer securing additional financing with BNP Paribas (see "*-Borrowings-Bank loans*").

*Income Tax Expenses*

| | **Year ended 31 December** | | **% change for the year ended 31 December** |
|---|---|---|---|
| | **2012** | **2011** | **2012 and 2011** |
| | *(in KZT thousands)* | | *(%)* |
| Current income tax expense | 467,732 | 399,457 | 17.1 |
| Deferred income tax expense | 1,078,750 | 779,279 | 38.4 |
| **Income tax expense for the year** | **1,546,482** | **1,178,736** | **31.2** |

Income tax expenses increased by KZT 367,746 thousand or 31.2 per cent., to KZT 1,546,482 thousand for the year ended 31 December 2012 from KZT 1,178,736 thousand for the year ended 31 December 2011. This increase was primarily due to deferred income tax expenses which were accrued in the year ended 31 December 2012.

*Net profit for the Year*

Profit for the year ended 31 December 2012 increased by KZT 1,376,673 thousand, or 29.7 per cent. to KZT 6,004,199 thousand from KZT 4,627,526 thousand for the year ended 31 December 2011.

## CONSOLIDATED RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

*The following discussion is based on, and should be read in conjunction with, the Issuer's Audited Financial Statements which are included in this Prospectus beginning on page F-2.*

***The Issuer adopted certain changes to the format of presentation of its financial statements in its 2012 Audited Financial Statements. As a result, certain line items relating to comparative financial information as at and for the year ended 31 December 2011 were reclassified in the 2012 Audited Financial Statements in order to provide a consistent basis of presentation. See Note 5 to the 2012 Audited Financial Statements for further information.***

***The financial information presented below in the section headed "Consolidated results of operations for the years ended 31 December 2011 and 2010" is extracted from the 2011 Audited Financial Statements and is therefore not provided on a reclassified basis.***

The following table sets out certain line items from the Issuer's statement of comprehensive income for the twelve months ended 31 December 2012 and 2011:

| | **Year ended 31 December** | | **% change for the year ended 31 December** |
|---|---|---|---|
| | **2011** | **2010** | **2011 and 2010** |
| | *(in KZT thousands)* | | *(%)* |
| Revenue | 17,050,667 | 9,806,941 | 73.9 |
| Cost of sales | (5,703,716) | (2,037,302) | 180.0 |
| Gross profit | 11,346,951 | 7,769,639 | 46.0 |
| Other operating income | 18,008 | 1,994 | 803.1 |
| General and administrative expenses | (979,913) | (831,736) | 17.8 |
| Other operating expenses | (31,682) | (49,443) | (35.9) |
| Operating profit | 10,353,364 | 6,890,454 | 50.3 |
| Finance income | 101,468 | 879,583 | (88.5) |
| Finance costs | (4,648,570) | (2,003,072) | 132.1 |
| Profit before income tax | 5,806,262 | 5,766,965 | 0.7 |
| Income tax expenses | (1,178,736) | (1,377,527) | (14.4) |
| Profit for the year | 4,627,526 | 4,389,438 | 5.4 |

*Revenue*

The principal sources of the Issuer's revenue were fees from freight operating leases, freight forwarding and transhipment services.

The following table provides a breakdown of the Issuer's total revenue for each of the periods indicated:

| | **Year ended 31 December** | | **% change for the year ended 31 December** |
|---|---|---|---|
| | **2011** | **2010** | **2011 and 2010** |
| | *(in KZT thousands)* | | *(%)* |
| Rent of wagon-tankers | 15,124,120 | 8,482, 573 | 78.3 |
| Forwarding services | 1,645,419 | 1,138,787 | 44.5 |
| Consignor and consignee services | 269,961 | 162,572 | 66.1 |
| Dispatching services | - | 431 | (100) |
| Other | 11,167 | 22,578 | (50.5) |
| **Total revenue** | **17,050,667** | **9,806,941** | **73.9** |

The Issuer's revenue increased by KZT 7,243,726 thousand, or 73.9 per cent., to KZT 17,050,667 thousand for the year ended 31 December 2011 from KZT 9,806,941 thousand for the year ended 31 December 2010. This increase was primarily due to additional revenues incurred from operating leases which were entered into as a result of increases in the size of the Issuer's fleet in 2011 and 2010.

For the year ended 31 December 2011, KZT 12,894,240 thousand or 75.6 per cent. of revenue was derived from operating leases with TCO (compared to KZT 7,912,187 thousand or 80.7 per cent. of revenue for the year ended 31 December 2010).

*Cost of Sales*

The following table presents the Issuer's cost of sales for the periods indicated:

| | Year ended 31 December | | % change for the year ended 31 December |
|---|---|---|---|
| | 2011 | 2010 | 2011 and 2010 |
| | *(in KZT thousands)* | | *(%)* |
| Depreciation | 2,634,609 | 823,062 | 220.1 |
| Repairs and maintenance of wagons | 1,275,402 | 437,427 | 191.6 |
| Insurance of wagons | 568,508 | 22,730 | 2,401.1 |
| Rent of wagons | 455,786 | 890,490 | (48.8) |
| Transportation | 201,658 | 64,222 | 214.0 |
| Payroll and related expenses | 182,328 | 110,800 | 64.6 |
| Arrangement of access railway | 178,853 | 47,753 | 274.5 |
| Spare parts and other materials | 68,870 | 32,243 | 113.6 |
| Servicing of carriages | 51,988 | 30,347 | 71.3 |
| Recovery of loss on revaluation of property, plant and equipment, previously recognised in profit and loss | - | (474,693) | (100) |
| Other | 85,714 | 52,921 | 62.0 |
| **Total cost of sales** | **5,703,716** | **2,037,302** | **180.0** |

Cost of sales increased by KZT 3,666,414 thousand, or 180 per cent., to KZT 5,703,716 thousand for the year ended 31 December 2011 from KZT 2,037,302 thousand for the year ended 31 December 2010. This increase was primarily due to increases in the Issuer's fleet during 2011 and 2010 which resulted in an increase in the growth of fixed assets depreciation. The cost of wagon repair services also increased. The Issuer's insurance costs also increased as the Issuer opted to take out additional insurance in order to protect it against political risks. This additional political risk insurance policy will not be renewed in 2013. During 2011, rail tariffs charged by KTZ to freight wagon operating lessors also increased.

## Gross Profit

The Issuer has a gross profit of KZT 11,346,951 thousand for the year ended 31 December 2011, an increase of 46 per cent. from the year ended 31 December 2010. This increase was primarily due to an increase in operating lease revenues.

*Other Operating Income*

The Issuer's other operating income consists primarily of gains on disposal of property, plant and equipment/foreign exchange losses. For the year ended 31 December 2011, other operating income increased by KZT 16,014 thousand, or 803.1 per cent., to KZT 18,008 thousand from KZT 1,994 thousand for the year ended 31 December 2010. This increase was primarily due to securing additional financing with BNP Paribas and changes in the KZT/U.S.$ foreign exchange rate. See "*-Borrowings-Bank loans*"

*General and Administrative Expenses*

The following table presents the Issuer's general and administrative expenses for the periods indicated:

| | Year ended 31 December | | % change for the year ended 31 December |
|---|---|---|---|
| | 2011 | 2010 | 2011 and 2010 |
| | *(in KZT thousands)* | | *(%)* |
| Payroll and related expenses | 376, 550 | 370,277 | 1.7 |
| Bank services | 123,204 | 35,349 | 248.5 |
| Taxes other than tax income | 104,582 | 41,155 | 154.1 |
| Information, consulting and other professional services | 69,102 | 79,308 | (12.9) |
| Rental of office | 49,904 | 2,358 | 2016.4 |
| Business expenses | 42,109 | 22,828 | 84.5 |
| Repairs and maintenance | 25,313 | 4,085 | 519.7 |
| Depreciation and amortisation | 19,757 | 18,082 | 9.3 |
| Materials | 18,761 | 11,671 | 60.7 |
| Utilities | 17,535 | 2,008 | 773.3 |
| Telecommunications expenses | 12,440 | 10,795 | 15.2 |
| Transportation | 10,102 | 5,274 | 91.5 |
| Fines and penalties | 825 | 46,675 | (98.2) |
| Accrual of provision for bad debt allowance | - | 82,878 | (100) |
| Sponsorship | - | 2,300 | (100) |
| Other | 109,729 | 96,693 | 13.5 |
| **Total general and administrative expenses** | **979,913** | **831,736** | **17.8** |

The Issuer's general and administrative expenses increased to KZT 979,913 thousand for the year ended 31 December 2011 from KZT 831,736 thousand for the year ended 31 December 2010, primarily due to arrangement fees for banking facilities.

*Other Operating Expenses*

The Issuer's other operating expenses consist primarily of losses on derivative financial instruments and losses from disposal of property, plant and equipment. For the year ended 31 December 2011, other operating expenses decreased by KZT 17,761 thousand, or 35.9 per cent., to KZT 31,682 thousand from KZT 49,443 thousand for the year ended 31 December 2010. This reduction was principally due to the termination of foreign exchange currency hedging arrangements.

*Operating Profit*

The Issuer's operating profit increased to KZT 10,353,364 thousand for the year ended 31 December 2011 from KZT 6,890,454 thousand for the year ended 31 December 2010, primarily due to an increase in operating revenues as a result of increases in the size of the wagon fleet.

*Finance Income*

The following table presents the Issuer's finance income for the periods indicated:

| | Year ended 31 December | | % change for the year ended 31 December |
|---|---|---|---|
| | 2011 | 2010 | 2011 and 2010 |
| | *(in KZT thousands)* | | *(%)* |
| Unwinding of discount on loans receivable | 84,577 | 515,071 | (83.6) |
| Interest income | 16,891 | 364,512 | (95.4) |
| **Total finance income** | **101,468** | **879,583** | **(88.5)** |

The Issuer's total finance income decreased to KZT 101,468 thousand for the year ended 31 December 2011 from KZT 879,583 thousand for the year ended 31 December 2010, primarily as a result of reductions in the interest income on deposits with banks.

*Finance Costs*

The following table presents the Issuer's finance costs for the periods indicated:

| | Year ended 31 December | | % change for the year ended 31 December |
|---|---|---|---|
| | **2011** | **2010** | **2011 and 2010** |
| | *(in KZT thousands)* | | *(%)* |
| Interest expense on borrowings | 2,690,684 | 1,234,627 | 117.9 |
| Interest expense on finance lease liabilities | 1 ,038,253 | 526,556 | 97.2 |
| Foreign exchange loss/(gain) from borrowings | 437,833 | (22,534) | (2,043) |
| Interest expenses on guarantee agreements | 271,574 | 129,199 | 110.2 |
| Unwinding of discount on loans and borrowings | 203,503 | 80,382 | 153.2 |
| Loss on initial recognition of loans receivable | 6,609 | 53,634 | (87.7) |
| Other finance costs | 114 | 1,208 | (90.6) |
| **Total finance costs** | **4,648,570** | **2,003,072** | **132.1** |

Finance costs increased by KZT 2,645,498 thousand, or 132 per cent., to KZT 4,648,570 thousand for the year ended 31 December 2011 from KZT 2,003,072 thousand for the year ended 31 December 2010. This increase was primarily due to increased interest expenses as new loans were incurred.

*Income Tax Expenses*

| | Year ended 31 December | | % change for the year ended 31 December |
|---|---|---|---|
| | **2011** | **2010** | **2011 and 2010** |
| | *(in KZT thousands)* | | *(%)* |
| Current income tax expense | 399,457 | 268,505 | 48.8 |
| Deferred income tax expense | 779,279 | 1,109,022 | (29.7) |
| **Income tax expense for the year** | **1,178,736** | **1,377,527** | **(14.4)** |

Income tax expenses decreased by KZT 198,791 thousand, or 14.4 per cent., to KZT 1,178,736 thousand for the year ended 31 December 2011 from KZT 1,377,527 thousand for the year ended 31 December 2010. This decrease was primarily due to deferred income tax expenses.

*Profit for the Year*

Profit for the year ended 31 December 2011 increased by KZT 238,038 thousand, or 5.4 per cent., to KZT 4,627,526 thousand from KZT 4,389,438 thousand for the year ended 31 December 2010.

## LIQUIDITY AND CAPITAL RESOURCES

***Where financial information relating to the year ended and as at 31 December 2011 is presented below in comparison to financial information relating to the year ended and as at 31 December 2010, it has been extracted from the 2011 Audited Financial Statements and is not therefore provided on a reclassified basis.***

### General

The business of wagon operating leasing is capital-intensive. In the periods under review, the Issuer's liquidity needs arose primarily from the need to incur substantial expenditures for, among other things, expansion and maintenance of its fleet of rolling stock and general working capital requirements. The Issuer has been able to meet its liquidity and capital expenditure needs through cash generated from operating activities, available cash balances, and long-term borrowing. Cash generated from operation activities and long-term borrowings are the primary sources of cash used to fund daily operations (see "*—Liquidity and Capital Resources— Capital resources*").

The Issuer believes that it has sufficient working capital for the next twelve months and that the proceeds of the Notes will enable it to repay U.S.$120 million of its outstanding borrowings and expand its business if the market continues to improve and appropriate opportunities arise. In the longer term, the Issuer plans to fund its liquidity and any discretionary capital expenditure and acquisition needs from cash generated from operations and borrowed funds, including euro and domestic bond issuances, supplemented if required by additional equity offerings.

### Capital expenditures

The Issuer's capital expenditures have principally been made to fund the acquisition of rolling stock. Capital expenditures in connection with the purchase of new rolling stock amounted to KZT 22 billion (U.S.$151 million) for the year ended 31 December 2012 compared to KZT 21 billion (U.S.$ 143 million) for the year ended 31 December 2011 and KZT 17 billion (U.S.$117.1 million) for the year ended 31 December 2010. This operating cost is expected to grow in line with the age of the Issuer's fleet.

The Issuer currently intends to invest approximately KZT 35 billion in 2013 and 2014 primarily in acquiring new rolling stock (principally, hoppers, LPG wagons and platforms). The Issuer anticipates funding its budgeted capital expenditures primarily through the net proceeds from the issue of the Notes, long-term borrowings and its own funds. However, no assurances can be provided that these intended investments will be made in the manner currently contemplated or that the financing for these plans will be received on terms that are satisfactory to the Issuer or at all, or that the amounts currently budgeted will be sufficient to meet the Issuer's capital expenditure requirements for the periods indicated.

## CASH FLOWS

The following table summarises the Issuer's cash flows for the years ended 31 December 2012 and 2011:

| | Year ended 31 December | |
|---|---|---|
| | **2012** | **2011*** |
| | *(in KZT thousands)* | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit before income tax | 7,550,681 | 5,806,262 |
| Adjustments for: | | |
| Depreciation and amortisation | 4,821,567 | 2,654,366 |
| Finance income | (611,116) | (101,468) |
| Finance costs | 4,620,723 | 4,210,737 |
| Net loss/(gain) from disposal of property, plant and equipment | 219,222 | (1,214) |
| Provision for doubtful debts | 42,551 | - |
| Recovery of loss on revaluation of property, plant and equipment | - | - |
| Unrealised foreign exchange loss | 704,614 | 439,359 |
| **Working capital adjustments** | | |
| (Increase)/decrease in operating assets: | | |
| Inventories | (6,200) | (21,412) |
| Trade accounts receivable | (1,359,331) | (799,583) |
| Other current assets | 89,181 | (22,177) |
| Increase/(decrease) in operating liabilities: | | |
| Trade accounts payable | 261,565 | 5,206,648 |
| Advances received | 48,351 | 205,087 |
| Other current liabilities | 172,419 | 214,366 |
| **Cash generated from operating activity** | 16,554,227 | 17,790,971 |
| Income tax paid | (475,966) | (423,991) |
| Interest paid on finance lease liability | (850,438) | (1,051,085) |
| Interest paid on borrowings | (3,601,986) | (2,802,004) |
| **Net cash from operating activities** | **11,625,837** | **13,513,891** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment | (19,540,751) | (31,223,073) |
| Purchase of intangible assets | (566) | (44,610) |
| Proceeds from sale of property, plant and equipment | 158,930 | 594,732 |
| Deposits withdrawn/(placed) | 627,832 | (393,078) |
| Repayment of loans due from employees | 46,965 | 31,564 |
| Loans provided to employees | (44,065) | (24,300) |
| **Net cash used in investing activities** | **(18,751,655)** | **(31,058,765)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from borrowings | 19,440,455 | 28,644,977 |
| Repayment of borrowings, including loan origination fees | (10,413,809) | (10,709,222) |
| Repayment of finance lease liabilities | (1,596,235) | (1,270,126) |
| Dividends paid | (713,813) | (650,567) |
| **Net cash from financing activities** | **6,716,598** | **16,015,062** |
| **Net decrease in cash and cash equivalents** | **(409,220)** | **(1,529,812)** |
| Effect of foreign exchange difference on cash and cash equivalents | 35,399 | 19,024 |
| **CASH AND CASH EQUIVALENTS at the beginning of the year** | **1,424,635** | **2,935,423** |
| **CASH AND CASH EQUIVALENTS as at the end of the year** | **1,050,814** | **1,424,635** |

*Reclassified. See Note 5 to the 2012 Audited Financial Statements.

The following table summarises the Issuer's cash flows for the years ended 31 December 2011 and 2010:

| | Year ended 31 December | |
|---|---|---|
| | **2011*** | **2010** |
| | *(in KZT thousands)* | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit before income tax | 5,806,262 | 5,766,965 |
| Adjustments for: | | |
| Depreciation and impairment of property, plant and equipment | 2,654,366 | 841,144 |
| Provision for bad debt allowance | - | 82,878 |
| Gain on disposal of property, plant and equipment | (1,214) | - |
| Losses on derivative financial instruments, net | - | 28,054 |
| Recovery of loss on revaluation of property, plant and equipment | - | (474,693) |
| Finance income | (101,468) | (879,583) |
| Finance costs | 4,641,847 | 1,970,764 |
| Others | 8,249 | 656 |
| Operating cash flows before working capital changes: | 13,008,042 | 7,336,185 |
| Changes in accounts receivable | (821,760) | (851,367) |
| Changes in inventories | (21,412) | (32,853) |
| Changes in accounts payable | 5,626,101 | 4,744,221 |
| Cash generated from operations | 17,790,971 | 11,196,186 |
| Income taxes paid | (423,991) | (254,385) |
| Interest paid on finance lease liability | (1,051,085) | (507,351) |
| Interests paid on borrowings | (2,802,004) | (1,251,774) |
| **Net cash from operating activities** | **13,513,891** | **9,182,676** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sale of property, plant and equipment | 594,732 | - |
| Purchase of property, plant and equipment | (31,223,073) | (18,918,771) |
| Purchase of intangible assets | (44,610) | (7,508) |
| Deposits placed | (393,078) | (236,000) |
| Proceeds from repayment of loans receivable | 31,564 | 7,042,148 |
| Issuance of loans receivable | (24,300) | (1,234,530) |
| Changes in other non-current assets | - | 198,911 |
| **Net cash used in investing activities** | **(31,058,765)** | **(13,155,750)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Receipts of borrowings | 28,644,977 | 11,457,667 |
| Repayment of borrowings | (10,709,222) | (4,114,075) |
| Repayment of finance lease liability | (1,270,126) | (571,479) |
| Dividends paid | (650,567) | (871,634) |
| **Net cash from financing activities** | **16,015,062** | **5,900,479** |
| **Net change in cash and cash equivalents** | **(1,529,812)** | **1,927,405** |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | 19,024 | - |
| **CASH AND CASH EQUIVALENTS at the beginning of the year** | **2,935,423** | **1,008,018** |
| **CASH AND CASH EQUIVALENTS as at the end of the year** | **1,424,635** | **2,935,423** |

*Extracted from 2011 Audited Financial Statements.

**Net Cash Flows From Operating Activities**

For the year ended 31 December 2012, net cash flows from operating activities decreased by KZT 1,888,054 thousand, or 14 per cent., to KZT 11,625,837 thousand from KZT 13,513,891 thousand for the same period in 2011. This decrease was primarily due to an increase in trade accounts payable in 2011 as compared to 2010 and an increase in interest paid by the Issuer.

For the year ended 31 December 2011, net cash flows from operating activities increased by KZT 4,331,215 thousand, or 47 per cent. to KZT 13,513,891 thousand from KZT 9,182,676 thousand for the same period in 2010. This increase was primarily due to an increase of profit before income tax adjusted for depreciation in 2011.

**Net Cash Flows Used In Investing Activities**

For the year ended 31 December 2012, net cash flows used in investing activities decreased by KZT 12,307,110 thousand, or 40 per cent., to KZT 18,751,655 thousand from KZT 31,058,765 thousand for the same period in 2011. This decrease was primarily due to a reduction in the number of wagons purchased in 2012, compared to 2011.

For the year ended 31 December 2011, net cash flows used in investing activities increased by KZT 17,903,015 thousand, or 136 per cent., to KZT 31,058,765 thousand from KZT 13,155,750 thousand for the same period in 2010. This increase was primarily due to an increase in the number of wagons purchased in 2011, compared to 2010.

**Net Cash Flows From Financing Activities**

For the year ended 31 December 2012, net cash flows from financing activities decreased by KZT 9,348,464 thousand, or 58 per cent., to KZT 6,716,598 thousand from KZT 16,015,062 thousand for the same period in 2011. This decrease was primarily due to the Issuer entering into more borrowings in 2011 as compared to 2012.

For the year ended 31 December 2011, net cash flows from financing activities increased by KZT 10,114,583 thousand, or 171.4 per cent., to KZT 16,015,062 thousand from KZT 5,900,479 thousand for the same period in 2010. This increase was primarily due to the Issuer entering into more additional borrowings in 2011 as compared to 2010.

## BORROWINGS

*Bank loans*

The Issuer's main sources of borrowings are bank loans from Kazakhstan banks and foreign banks. The following table sets forth the Issuer's short-term and long-term bank loans as at 31 December 2012 and 2011:

| | Currency | Effective interest rate | Date maturing | 31 December 2012 | 31 December 2011 |
|---|---|---|---|---|---|
| | | *(%)* | | *(in KZT thousands)* | |
| BNP Paribas | U.S. Dollars | 7.57 - 8.03 | 2017 | 15,523,560 | – |
| BNP Paribas | U.S. Dollars | 7.43 | 2016 | 10,987,639 | 13,289,901 |
| ATF bank | U.S. Dollars | 8.55 | 2017 | 9,870,458 | 9,429,778 |
| ATF bank | U.S. Dollars | 7.2 | 2016 | 3,293,556 | 4,048,869 |
| HSBC | U.S. Dollars | 8.28-8.29 | 2016 | 6,825,142 | 7,995,269 |
| HSBC | U.S. Dollars | 10.79 | 2014 | 1,073,158 | 1,754,598 |
| HSBC | U.S. Dollars | 8.73 | 2013 | 75,857 | – |
| HSBC | U.S. Dollars | 8.43-8.82 | 2012 | – | 178,163 |
| Al Hilal | U.S. Dollars | 11.4-11.5 | 2016 | 620,768 | 770,109 |
| Al Hilal | U.S. Dollars | 8 | 2012 | – | 56,432 |
| Al Hilal | U.S. Dollars | 8 | 2013 | 73,326 | – |
| Annmar Management Limited | U.S. Dollars | 5 | 2013 | 187,241 | 1,055,252 |
| Mr Marat Sarsenov | | | | – | 18,518 |
| | | | | 48,530,705 | 38,596,889 |
| **Less: amounts due for settlement within 12 months** | | | | **(10,562,554)** | **(8,124,208)** |
| **Amounts due for settlement after 12 months** | | | | **37,968,151** | **30,472,681** |

The loan agreements related to the Issuer's borrowings require that the Issuer comply with certain affirmative and negative covenants in the operation of their respective business. While the specific provisions of each loan agreement vary, they generally require that the Issuer takes or refrain from taking certain actions specified in the loan agreement. These provisions require the Issuer to obtain the prior written consent of the lender prior to implementing any material change to the scope or nature of its business. In addition, lender consent generally is required prior to any merger, consolidation or reorganisation of the Issuer, prior to encumbering assets and prior to certain sales, transfers and dispositions of properties in excess of a specified value or which are essential to the conduct of its business, although certain agreements contain exceptions for reorganisations or transfers of assets pursuant to the Issuer's strategy for development. Any disposition of the core fleet would require consent of certain lenders. Other transactions that are limited by one or more of the agreements include incurring capital expenditures greater than amounts specified in the loan agreement and incurring additional indebtedness without the prior approval of the lender.

In addition to imposing affirmative and negative obligations regarding the conduct of the business of members of the Issuer, existing loan agreements require that the Issuer maintains or periodically satisfies certain financial tests as at particular dates. The most restrictive of these financial ratio tests and covenants requires maintenance of a ratio of total debt to EBITDA (defined as profit for the period before income tax expense, amortisation, depreciation and finance costs) to finance costs of 4 or more, a loan-to-value ratio of 0.70 or less, tangible net worth of at least U.S.$80 million, a debt service cover ratio of 130 per cent., a dividend payment of less than 25 per cent., capital expenditure allowance without consent of U.S.$30 million and a maximum advance prepayment of 50 per cent.. As a result, the Issuer's operations may be restricted.

As at the date of this Prospectus, all of the Issuer's outstanding indebtedness is secured by pledges of part of the Issuer's fleet and certain other assets.

In the fourth quarter of 2012, the Issuer approved U.S.$50 million of funding to be provided by IFC pursuant to which the Issuer expects to receive a secured loan of U.S.$30 million from IFC with a term of 10 years (see "*Management's Discussion and Analysis of Results of Operations and Financial Condition – Recent Developments – IFC Investment*").

As at the date of this Prospectus, the Issuer believes that it is in compliance with the covenants contained in its existing loan agreements. However, if it were to become impossible or difficult for the Issuer to comply with the covenants and restrictions in its financing arrangements, the Issuer might be required to restructure its indebtedness, obtain waivers of non-compliance or refinance its existing debt, which could be costly, and could have a material adverse effect on the Issuer's business, prospects, financial condition, cash flows or results of operations.

See "Risk Factors – Risk Factors Relating to the Issuer – The Issuer's operations may be restricted by its loan covenants".

*Finance Leases*

The Issuer has entered into finance leases to finance the purchase of wagons. The following table sets forth the Issuer's finance leases as at 31 December 2012 and 2011:

| | **31 December 2012** | **31 December 2011** | **31 December 2012** | **31 December 2011** |
|---|---|---|---|---|
| | **Minimum lease payments** | **Minimum lease payments** | **Present value of minimum lease payments** | **Present value of minimum lease payments** |
| **Finance lease payable amounts** | | | | |
| Due in a year | 2,336,486 | 2,475,282 | 1,688,400 | 1,624,192 |
| After 1 year but not more than 5 years | 6,383,099 | 6,359,723 | 5,240,289 | 5,667,834 |
| After 5 years | - | 2,359,862 | - | 1,238,396 |
| | 8,719,585 | 11,194,867 | 6,928,689 | 8,530,422 |
| Less amounts representing interest charges | (1,790,896) | (2,664,445) | | |
| Present value of minimum lease payments | **6,928,689** | **8,530,422** | **6,928,689** | **8,530,422** |
| Less: amounts due for settlement within 12 months | | | 1,688,400 | 1,624,192 |
| Amounts due for settlement after 12 months | | | 5,240,289 | 6,906,230 |

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the sensitivity of income, fair market values and capital to changes in commodity prices, foreign currency exchange rates, interest rates and other relevant market prices and rates. The Issuer is exposed to a variety of market risks arising in the operation of its business, including: (i) foreign currency risk (ii) interest rate risk (iii) liquidity risk and (v) credit risk.

Under the direction of the Board, the Issuer has adopted procedures and policies to mitigate these risks. The objective of market risk management is to monitor and control market risk exposures within acceptable limits.

**Foreign Currency Risk**

The Issuer operates in Kazakhstan and therefore its Audited Financial Statements are denominated in Kazakhstan Tenge. However, its operating lease contracts with its major client, TCO, and non-Kazakhstan resident customers are denominated in U.S. Dollars. The daily lease rates for operating lease contracts with Kazakhstan resident customers (such as those with SIBUR-Trans and Zhaikmunai) are denominated in KZT and indexed to the local KZT/U.S.$ exchange rate at the rate applicable on the date of the contract and re-set on a monthly basis. The purchase price for wagons under the Issuer's contracts with its suppliers are also denominated in U.S. Dollars.

The Issuer is therefore exposed to currency risk related to changes in exchange rates of the U.S. Dollar and the Kazakhstan Tenge. Changes in the value of the U.S. Dollar involve the most risk for the Issuer as all of the Issuer's borrowings are either denominated in U.S. Dollars or denominated in Kazakhstan Tenge and linked to the U.S. Dollar exchange rate. Any devaluation of the Tenge against the U.S. Dollar will result in increased foreign exchange losses.

To manage its foreign currency exchange risk, the Issuer monitors changes in exchange rates in the currencies in which its cash, cash equivalents, bank term deposits, accounts receivable and accounts payable are denominated. The Issuer maintains a portion of its cash in U.S. Dollars in order to partially offset foreign currency gain or loss on its borrowings.

**Interest Rate Risk**

The Issuer earns almost all of its income through the lease rental payments it receives under operating lease contracts with its customers. The lease levels, expressed as a daily lease rate payable per wagon, are agreed at the start either as a fixed rate throughout the contract term or, in some cases, with periodical pre-defined increases or indexation options based on market lease rates at the time of signing. As a result the revenue stream of the Issuer is largely fixed over the term of the current lease portfolio. A substantial proportion of the Issuer's long term loans are subject to a floating rate of interest expressed as a margin over one or three-month U.S.$ LIBOR. Consequently, the Issuer is exposed to an increase in interest rates as the cost for its loans would increase, whereas its income from its leases would remain unchanged.

As at 31 December 2012, 2011 and 2010, 77 per cent., 66 per cent. and 24.1 per cent., respectively, of the Issuer's total borrowings were borrowings with variable interest rates. The Issuer does not have formal policies and procedures in place for the management of interest rate risk as management considers that it is not a significant risk for the Issuer's business.

**Liquidity Risk**

Liquidity risk is the risk that the Issuer will not be able to meet its liabilities as they fall due. The Issuer seeks to control liquidity risk using operating cash flow forecasts. The Issuer manages liquidity risk in accordance with a range of internal regulations by maintaining reserves, bank loans and accessible credit lines and by monitoring the projected and actual cash flows.

However, as at 31 December 2011, the Issuer's current liabilities exceeded its current assets by KZT 6.3 billion and the Issuer's current liabilities exceeded its current assets by KZT 1.7 billion as at 31 December 2010. The decrease in the Issuer's current liquidity ratio from 0.77 as at 31 December 2010 to 0.44 as at 31 December 2011 was primarily caused by entering into additional borrowings (see "- *Borrowings*") and opening new investment credit lines.

As at 31 December 2012, the Issuer's current liabilities exceeded its current assets by KZT 8.9 billion and the Issuer's current liabilities exceeded its current assets by KZT 6.3 billion as at 31 December 2011. The decrease in the Issuer's current liquidity ratio from 0.44 as at 31 December 2011 to 0.38 as at 31 December 2012 was primarily caused by entering into additional borrowings (see "- *Borrowings*") and opening new investment credit lines.

The Issuer's current liabilities exceeded current assets as at 31 December 2012 and 2011 because the Issuer is required by IFRS to include within current liabilities all debt payments falling due during the following twelve-month period whereas accounts receivable as part of current assets reflect only proceeds to be received by the Issuer within the following one month.

The table set out below presents an analysis of financial liabilities of the Issuer by repayments periods based on the outstanding period from the reporting date until the date of repayment.

| | Less than 1 year | Between 1 and 5 years | Above 5 years | Total |
|---|---|---|---|---|
| **2012** | | | | |
| Bank loans | 14,026,564 | 44,098,886 | 82,719 | 58,208,169 |
| Financial lease liabilities | 2,358,716 | 5,393,633 | - | 7,752,349 |
| Trade accounts payable | 962,012 | - | - | 962,012 |
| **Total future payments** | **17,347,292** | **49,492,519** | **82,719** | **66,922,530** |
| **2011** | | | | |
| Borrowings | 9,851,508 | 36,642,233 | 590,303 | 47,084,044 |
| Borrowings from non-financial organisations | 1,189,487 | 250,060 | - | 1,439,547 |
| Financial lease liabilities | 2,475,282 | 6,359,723 | 2,359,862 | 11,194,867 |
| Trade and other payables | 700,447 | - | - | 700,447 |
| **Total future payments** | **14,216,724** | **43,252,016** | **2,950,165** | **60,418,905** |
| **2010** | | | | |
| Borrowings | 2,801,642 | 12,335,632 | 12,486,202 | 27,623,476 |
| Borrowings from non-financial organisations | 384,548 | 1,109,710 | - | 1,494,258 |
| Financial lease liabilities | 1,342,132 | 4,130,502 | 506,595 | 5,979,229 |
| Trade and other payables | 800,941 | - | - | 800,941 |
| **Total future payments** | **5,329,263** | **17,575,844** | **12,992,797** | **35,897,904** |

## Counterparty Credit Risk

Credit risk is the risk of financial loss to the Issuer if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk arises principally from the Issuer's lease contracts with customers and deposits with banks and financial institutions.

The Issuer has developed a Credit Policy to determine the creditworthiness of any potential customer which includes an assessment of independent ratings, where available, the financial condition and scale of the customer and other factors. The Issuer's credit policy may require that a customer makes prepayments in certain circumstances.

The Credit Policy contains guidance on how to assess the acceptability of each new leasing transaction, how to monitor the lease portfolio from a risk perspective and a conceptual framework to manage the risk associated with the wagon fleet mix. The Credit Policy sets a series of checks and thresholds to maintain concentration limits for specific types of wagon and also provides a specific process to manage exceptions.

The Credit Policy provides that each lessee must, at inception of a potential transaction, meet a number of quantitative and qualitative criteria and that each transaction must be assessed not only on the basis of the customer's credit profile but also in relation to the type of equipment to be leased and the transaction's overall profitability and structure.

The Credit Policy also covers counterparty risk related to its suppliers, including various policies of managing risks related to down payments for wagons and manufacturers' warranties. The Issuer also assesses supplier default risk by analyzing its financial position and results prior to purchase deal conclusion. Further the financial statements of current Issuer suppliers are requested and analyzed on a quarterly basis.

To control supplier default risk the Issuer ensures that the amount of advance payments made to suppliers does not at any time exceed certain pre-determined amount. In addition, the Issuer occasionally uses bank guarantees and letter of credit instruments in order to further minimize the exposure to any suppliers' risks. Sale and purchase contracts with suppliers also ensure the supplier warranty for the production defects, late delivery of wagons, and the respective potential loss of lease revenues.

The Credit Policy also seeks to balance the overall risk profile of the operating leasing portfolio through the inclusion of a variety of concentration limits, including:

- Individual lessee limit;
- Industry sector limit; and
- Wagon type limit.

Given the Issuer's focus on open wagons and LPG transportation wagons there is, and will likely remain, a relatively large exposure to the oil, gas and chemical and mineral fertilizer and transportation industries.

The Issuer's chief executive officer is responsible for updating the Credit Policy and seeking approval of the Credit Policy by the Board. The Board of Directors has delegated the implementation of the Credit Policy to the Chief Financial Officer and the approval of exceptions to the Credit Policy to the Credit Committee.

In addition, the Issuer is exposed to potential losses in relation to supply contract counterparties. Supply contract counterparty risk mainly relates to the loss of prepayments for wagons and equipment, as well as warranty claims and the corresponding economic loss. So far all of Issuer's supply contracts have been fulfilled and the corresponding warranties received.

**Off-Balance Sheet Arrangements**

The Issuer does not currently have any material off-balance sheet arrangements.

**Critical Accounting Judgments and Estimates**

Critical accounting estimates and judgments are those that require the application of management's most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions.

A detailed description of certain critical accounting estimates and judgements used in preparing the Issuer's Audited Financial Statements are set out in Note 4 to the Issuer's Audited Financial Statements as at, and for the year ending, 31 December 2012.

**RECENT DEVELOPMENTS – IFC INVESTMENT**

In the fourth quarter of 2012, the Issuer and IFC approved U.S.$50 million of funding to be provided by IFC in the form of equity and convertible loans (the "**IFC Investment**"). IFC confirmed its participation in the IFC Investment in a press release issued by it on 28 January 2013. The principal terms of the IFC Investment are as follows:

*U.S.$30 million convertible loan*

IFC will provide the Issuer with a secured convertible loan of U.S.$30 million with a term of 10 years. Repayments of principal are required to be made on a monthly basis from the date which is one year after the loan is drawn down. Interest is payable on a monthly basis at a rate of LIBOR plus 5.5 per cent. per annum. The loan is convertible into shares in the Issuer at the option of IFC in the event that the Issuer obtains a public listing or sale of at least 20 per cent. of its shares.

*U.S.$20 million investment in charter capital and change in charter capital*

IFC has acquired 6.67 per cent. of the participating interests in the charter capital of the Issuer and, as a result, Mr. Sarsenov's direct holding of participating interests in the Issuer's charter capital is 55.998 per cent. and the participating interest of Steinhardt Holdings BV, an entity beneficially owned by Mr. Sarsenov, is 37.332 per cent. As at the date of the Prospectus, the Issuer anticipates that it will receive payment by IFC of the subscription price of U.S.$20 million in relation to IFC's investment in the charter capital of the Issuer on or before 30 May 2013. The Issuer has fulfilled all conditions precedent required in relation to IFC's investment.

*Board Representation*

As at the date of the Prospectus, the Board is comprised of 3 members. Following its acquisition of 6.67 per cent. of the participating interests in the charter capital of the Issuer, IFC is entitled to appoint an additional independent member to the Issuer's Board of Directors.

## BUSINESS DESCRIPTION

### Overview

The Issuer is the largest privately owned operating lessor of freight wagons in Kazakhstan by number of wagons as at 31 December 2012. It was incorporated as a limited liability partnership in Kazakhstan on 4 October 2002 and its registered office is Office 11, 250 Dostyk Ave., Almaty, 050020, the Republic of Kazakhstan. The Issuer operates through its head office in Almaty, branch offices in Aktau and Atyrau and a representative office in Astana.

The Issuer's principal business is leasing freight wagons under operating lease contracts primarily for the transport of oil, LPG and heavy industrial goods (such as coal, sulphur, ores and metals) in Kazakhstan. In addition, the Issuer provides freight forwarding services for freight transportation across Kazakhstan, CIS, Central Asia and Europe, as well as transhipment services at the port of Aktau. For the year ended 31 December 2012, revenue from operating lease contracts amounted to KZT 18.2 billion (U.S.$ 121.8 million) (or 81 per cent. of the Issuer's total revenue), and revenue from freight forwarding services amounted to KZT 0.8 billion (U.S.$ 5.2 million) (or 3 per cent. of the Issuer's total revenue) and revenue from transhipment services amounted to KZT 0.7 billion (U.S.$ 4.8 million) (or 3 per cent. of the Issuer's total revenue).

The Issuer currently has a portfolio of approximately 25 customers, including major domestic and international companies principally operating in the oil and gas and metals and mining sectors. The Issuer offers single and multi-year operating leases with terms ranging between 1 and 7 years. The majority of the Issuer's outstanding operating lease contracts have terms of 4 to 7 years and, as at 31 December 2012, the average length of outstanding operating lease contracts is 4 years. For the year ended 31 December 2012, approximately 65 per cent. of the Issuer's total revenues came from contracts with its major customer TCO. In 2012, the Issuer successfully extended its lease contracts with TCO to 31 December 2015.

The Issuer's fleet of approximately 9,800 wagons consists of a variety of special purpose wagons and multi-purpose wagons configured predominantly for the transportation of oil, LPG and heavy industrial goods across Kazakhstan. The Issuer estimates that its fleet represented approximately 8 to 10 per cent. of the total freight wagon fleet in Kazakhstan as at 31 December 2012 based on information published by the NSA. As at 31 December 2012, the Issuer's fleet had an average age of 4.1 years which the Issuer believes makes it one of the youngest fleets in Kazakhstan. The average fleet age in Kazakhstan is 25 years and the average technical useful life of wagons in Kazakhstan is between 22 to 40 years (source: the Ministry of Transport). Since it commenced operations in 2002, the Issuer's fleet utilisation rate has remained at 100 per cent. As at 31 December 2012, oil tank wagons comprised 57.2 per cent. of the Issuer's total fleet, LPG wagons comprised 18.4 per cent., open wagons comprised 23.0 per cent. and platforms comprised 1.4 per cent, respectively.

Wagons supplied by the Issuer are used by customers in connection with the import and export of commodities and goods to and from Kazakhstan. Demand for oil tank wagons and LPG wagons is directly related to oil and gas market conditions and, in particular, oil and gas production and available pipeline capacity in Kazakhstan. Open wagons carry heavy industrial goods (including coal, sulphur, ores and metals) and demand for open wagons in therefore dependent on the conditions in the metals and mining industries and production volumes. Prior to mid-2008, Kazakhstan's GDP experienced strong growth, increasing from U.S.$16.8 billion in 1999 to U.S.$132.2 billion in 2008, according to the NSA, which also caused railway freight transportation volumes to increase significantly during that same period. However, beginning in the fourth quarter of 2008, Kazakhstan experienced a sharp decline in GDP (down to U.S.$107.0 billion in 2009, according to the NSA), industrial production and trade. This caused a decline in demand for railway freight transportation services. Kazakhstan's economy began to recover in 2009 and its GDP grew to U.S.$183.9 billion in 2011, compared to U.S.$145.9 billion in 2010, which has resulted in increased demand for railway freight transportation services and the IMF forecast that Kazakhstan's GDP would increase by a further 5.5 per cent. in 2012.

The Issuer's fleet has grown substantially in recent years, growing by 24.6 per cent. for the year ended 31 December 2012 and by a CAGR of 38.4 per cent. since 31 December 2008.

Since 2009, the Issuer has also provided freight forwarding services to its customers across Kazakhstan, CIS, Central Asia and Europe. Freight forwarding involves arranging for transportation of goods from starting points to points of destination, preparing transportation documents, transporting freight between warehouses and railway stations. For the year ended 31 December 2012, revenue from freight forwarding services amounted to KZT 0.8 billion (U.S.$ 5.2 million) (or 3 per cent. of the Issuer's total revenue) compared to KZT 0.6 billion (U.S.$ 4.3 million) (or 4 per cent. of the Issuer's total revenue) for the year ended 31 December 2011.

In addition, the Issuer has also provided transhipment services at the port of Aktau since October 2008. Transhipment generally involves the transportation of goods to an intermediate destination, and then to yet another destination (for example, oil is shipped from sea to port and then transported by rail). Revenue from transhipment services for the year ended 31 December 2012 amounted to KZT 0.7 billion (U.S.$ 4.8 million) (or 3 per cent. of the Issuer's total revenue) compared to KZT1.1 billion (U.S.$7.2 million) (or 6 per cent. of the Issuer's total revenue) for the year ended 31 December 2011.

For the year ended 31 December 2012, the Issuer's total revenue was KZT 22.5 billion (U.S.$150.7 million), an increase of 31.8 per cent. compared to total revenue of KZT 17.05 billion (U.S.$116.3 million) for the year ended 31 December 2011. As at 31 December 2012, the Issuer's total assets increased to KZT 99.9 billion (U.S.$ 662.8 million) from KZT 84.8 billion (U.S.$ 571.2 million) as at 31 December 2011. As at 31 December 2012, the Issuer's net debt was KZT 54.4 billion (U.S.$ 360.9 million), an increase of 20.7 per cent. from KZT 45.7 billion (U.S.$ 308 million) as at 31 December 2011.

As at the date of the Prospectus, the Issuer has three participants in its charter capital. The Issuer's largest participant is Mr. Marat Sarsenov. Mr. Sarsenov directly holds 55.998 per cent. of the participating interests in the charter capital of the Issuer and 37.332 per cent. of the participating interests in the charter capital of the Issuer are held by Steinhardt Holding BV, an entity which is beneficially owned by Mr. Sarsenov. In March 2013, IFC acquired 6.67 per cent. of the participating interests in the charter capital of the Issuer, which formed part of U.S.$ 50 million of funding to be provided by IFC in the form of equity and loans (see "*Management's Discussion and Analysis of Results of Operations and Financial Condition – Recent Developments – IFC Investment*").

The Issuer's long-term foreign and local currency issuer default credit rating was upgraded by Fitch in September 2012 to from 'B-' to 'B' (Stable outlook).

## Key Strengths

The Issuer has achieved a strong position in the freight wagon operating lease market in Kazakhstan which allows it to minimise its overheads and enjoy beneficial economies of scale in respect of its operating costs. The Issuer has consistently achieved a full fleet utilisation rate due to the quality of its fleet and strong relationships with its customer base, as well as its high standards of customer service. The Issuer believes its key strengths include:

### *Strong market position in a fast growing wagon operating leasing market*

The Issuer believes that it is well positioned to capitalise on the attractive growth opportunities offered in the Kazakhstan wagon operating leasing market as a result of the size and quality of its fleet and its strong market share in the transport of oil, LPG and heavy industrial goods by rail in Kazakhstan.

Since it commenced operations in 2002, the Issuer has built a substantial fleet with a total of approximately 9,800 wagons. The Issuer believes that the ability to access a sufficiently large wagon asset base to service large industrial companies presents a significant barrier to entry into the operating lease market. The size of its fleet also allows the Issuer to service larger, well-established companies with stronger credit profiles. In addition, the Issuer has been able to develop stronger relationships with major wagon suppliers in the CIS and this has previously enabled it to secure access to wagons in period of short supply. The Issuer has currently approved 15 suppliers from Russia and the Ukraine for the purposes of its internal risk control procedures and, as a result, it believes that it is able to source from suppliers the full range of manufactured wagons that it currently requires in its business operations.

The Issuer is the largest privately owned operating lessor of freight wagons in Kazakhstan. It has a strong market share in the transportation of oil, LPG and heavy goods in Kazakhstan by rail. According to information published by the Ministry of Oil and Gas, the Issuer's share of Kazakhstan's oil tank leasing market was 23.6 per cent. as at 31 December 2012. Aktau sea port is the largest port in the Caspian region, with an annual transhipment volume of 12 million tonnes of light crude oil (source: the Ministry of Oil and Gas). The Issuer is the principal provider of wagons on the Tengiz Oilfield to Aktau route. The Tengiz Oilfield accounted for approximately 28 per cent. of all oil production in Kazakhstan as at 31 December 2012. 13.6 per cent. of all oil exported from Kazakhstan was transported by rail as at 31 December 2012, according to the NSA.

The Issuer believes that the Kazakhstan wagon operating leasing market is still in relatively early stages of development and has strong growth potential due to a favourable macroeconomic outlook, the continued penetration of operating leases in Kazakhstan and the potential for consolidation in the wagon industry. The Issuer anticipates that demand for its services will continue to increase, driven by both the general increased need for rail transportation as the Kazakhstan economy continues to grow (in particular, in the oil and gas sector and the metals and mining sector), the increasing age of the total Kazakhstan wagon fleet and consequent replacement demand, and also as a result of a continued increase of the operating lease as a means to secure access to transportation capacity.

Wagon operating leasing is a proven and successful international business model, prevalent in developed markets. The penetration of operating leases in the Kazakhstan wagon market is expected to continue to increase as the wagon market, and associated infrastructure, develops. The Issuer expects the overall operating lease market in Kazakhstan to grow by approximately 20 per cent. of total rolling stock fleet in 2013 as a result of the launch of the Kashagan Oilfield in the first quarter of 2013. The Issuer also expects an increase in demand for wagon operating leases in Kazakhstan's mining and agricultural sectors and increased demand from Customs Union members in the next 5 to 7 years (see "– *Strategy – Rebalance the Issuer's wagon fleet to address expected changes in customer needs*.").

***High quality asset base***

The Issuer's fleet had an average age of only 4.1 years as at 31 December 2012. This compares to the average age of the total Kazakhstan fleet of 25 years and an average technical useful life of between 22 to 40 years (source: the Ministry of Transport). The young age of the Issuer's fleet allows the Issuer to reduce its maintenance and repair costs and to keep its fleet operational for longer periods. Each wagon in the Issuer's fleet is operational for between 350 and 355 days per annum. The Issuer believes that this gives it a significant advantage over competitors with older rolling stock.

Since 2002, the Issuer has invested U.S.$572.1 million in the acquisition of wagons, which it believes makes it one of the largest purchasers of wagons in Kazakhstan during this period. The Issuer's fleet grew by 24.6 per cent. in the year ended 31 December 2012 and by a CAGR of 38 per cent. since 31 December 2008.

Many of the Issuer's wagons are open wagons which can easily be redeployed and given multiple uses for different end markets.

***Conservative addition policy and full fleet utilisation***

The Issuer's business model is supported by the cash flows it receives from its single and multi-year operating leases. In order to operate as efficiently as possible, it is important that once wagons are purchased, they are able to support the Issuer's debt position by generating revenue as soon as possible. The Issuer therefore operates a conservative rolling stock purchase policy. In particular, the Issuer only purchases new wagons once operating lease contracts have been agreed with its customers. The Issuer does not engage in speculative wagon acquisition.

Since it commenced operations in 2002, the Issuer's fleet utilisation rate has remained at 100 per cent. The Issuer operates on the basis of single and multi-year lease contracts, rather than on a spot basis. The Issuer believes that whilst rates may, in the short term, generate higher current operating lease rates, the spot market is more volatile. The Issuer's wagons are leased out with contract lengths of between 1 and 7 years with the majority of contracts having terms of 4 years. As a result of its focus on single and multi-year contracts, the Issuer's revenue streams are highly stable and predictable.

***Significant experience of management personnel***

The Issuer has an experienced and highly qualified team of senior management. The key members of the Issuer's management team each have a minimum of 10 years of relevant experience in the railway and/or financial services sectors. Their knowledge combines an in-depth understanding of the Kazakhstan rail market with extensive international experience. The Issuer's management is supported by a skilled group of employees that is characterised by a high degree of university-level education and qualification. The Issuer's management team has proven its ability in managing the significant organic growth of the business. In addition, the Issuer believes that it successfully managed the business through the economic downturn of 2008 and 2009 by retaining all of its customers while only reducing its daily lease rates by approximately 4 per cent. For the year ended 31 December 2012, the Issuer's EBITDA margin was 79 per cent and 76.9 per cent. for the year ended 31 December 2011. In addition, the Issuer believes that the acquisition by IFC of 6.67 per cent. of the participating interests in the charter capital of the Issuer in March 2013, and the appointment by IFC of an independent director onto the Issuer's Board, will provide the Issuer with access to IFC's significant expertise in the transport sector in the CIS (see "*Management's Discussion and Analysis of Results of Operations and Financial Condition – Recent Developments – IFC Investment*").

***Full return on purchased wagons***

The Issuer aims to ensure a full return on proceeds invested in new wagons within a five year timeframe. As assets typically have a useful life of between 22 and 40 years, this maximises the return the Issuer can make on each wagon (see "- *Operations – Wagon fleet*").

***Low counterparty risk***

The Issuer derives a significant proportion of revenues from customers with an external credit rating. For the year ended 31 December 2012, 65 per cent. of its revenues were provided by customers with a credit rating of at least BBB by Fitch Ratings. To date, these entities have not defaulted on any payments under any operating lease contracts with the Issuer. Although the Issuer anticipates that revenues from operating lease contracts with TCO will decrease as a proportion of its total revenues, in particular as the capacity of the Caspian pipeline is increased from 2015, the Issuer's core commercial strategy is to concentrate on large, well-established customers with strong credit profiles. See "- *Strategy - Rebalance the Issuer's wagon fleet to address expected changes in customer needs*".

***Strong economic position***

For the years ended 31 December 2012 and 31 December 2011, the Issuer generated revenues of KZT 22.5 billion and KZT 17.1 billion, respectively. The Issuer's fleet has grown by a CAGR of 38 per cent. since 31 December 2008.

The Issuer has also achieved a solid profitability level, generating an EBITDA margin of 79 per cent. and profit of KZT 6 billion for the year ended 31 December 2012, compared to an EBITDA margin of 76.9 per cent. and profit of KZT 4.6 billion for the year ended 31 December 2011. This strong growth and margin profile is a function of the Issuer's market position, strong asset base and commitment to maintaining an efficient cost base.

In addition, the Issuer's cash generation profile demonstrates its financial strength and liquidity. For the year ended 31 December 2012, the Issuer's cash conversion rate, expressed as net cash from operating activities as a percentage of EBITDA, stood at 65.5 per cent., compared to a cash conversion rate of 103.1 per cent. for the year ended 31 December 2011.

In September 2012, the Issuer's long-term foreign and local currency issuer default credit rating was upgraded by Fitch from 'B-' to 'B'. Fitch identified a number of factors to support its decision to upgrade the Issuer's rating including the following: the Issuer's decreasing dependence on revenues from TCO and the commensurate diversification of its customer base; the successful extension of its existing contracts with TCO and increasing the terms of those contracts by 4 years; the expansion of the Issuer's fleet without a deterioration of the Issuer's credit metrics; the increase in the proportion of the Issuer's revenues denominated in U.S. Dollars; and a reduction in the Issuer's cost of funding as a result of refinancing certain loan facilities (see *"– Key Strengths"* and "*–History and Development*").

***Local content requirements***

Kazakhstan law and subsurface use contracts between subsurface users and the State of Kazakhstan require such subsurface users (including operating in the mining or oil and gas spheres) to use equipment, materials and products manufactured in Kazakhstan and retain Kazakhstan providers of works and services in the percentage established in the relevant subsurface use contracts (although it should be noted that TCO is only subject to minimal local content requirements). Compliance with local content requirements is strictly monitored by the responsible authorities. This confers an advantage on operators incorporated in Kazakhstan, such as the Issuer, over foreign competitors.

This advantage has increased for the Issuer following the launch of the Customs Union, which is expected to see Russian private freight wagon operators expanding into Kazakhstan (see "*– Strategy – Rebalance the Issuer's wagon fleet to address expected changes in customer needs*"). After the entry of Kazakhstan into the Customs Union, the local content requirements remained in force. The Issuer continues to benefit from the local content requirements which are not available to private freight wagon operators from other Customs Union countries operating in Kazakhstan.

**Strategy**

The Issuer's objective is to maintain its position as the largest privately owned operating lessor of freight wagons and to become the most profitable wagon operating leasing company in Kazakhstan. In order to achieve this objective, the Issuer intends to pursue the following strategies:

***Expand the size of its fleet***

The Issuer estimates that its fleet represented approximately 9.5 per cent. of the total freight wagon fleet in Kazakhstan as at 31 December 2012 based on information published by the NSA. The Issuer believes that its wagon fleet size firmly establishes it as a key participant in the Kazakhstan rail transportation market and that continued fleet growth will further strengthen its position. Increasing the size of the Issuer's fleet will allow the Issuer to generate economies of scale and strengthen its relationships and market position with key customers, as it will be able to serve more of its customers' high volume transportation needs. The Issuer plans to increase its fleet by approximately 1,500 to 2,000 annually. The Issuer also intends to acquire approximately 2,000 to 5,000 additional wagons by purchasing small or medium sized operating lease companies (see " – *Acquire operating lease companies within the CIS*"). The Issuer's fleet expansion is expected to focus on open wagons, next generation wagons and specialized wagons such as hoppers, LPG wagons and platforms which provide better returns on investment. "Next generation wagons" incorporate advances in technology allowing freight wagons to travel at increased speeds by reducing friction between the wagon wheels and the railway tracks.

As the Issuer does not engage in speculative wagon purchases, it agrees new operating leases with customers before it places purchase orders for new wagons. The Issuer's ability to generate new customer contracts and achieve its target fleet growth level of 10 to 15 per cent. per year is dependent upon many factors, including the availability of financing, external market conditions, the rate of return expected from the purchase, the type and amount of wagons available and the credit quality of the wagon supplier.

The Issuer has established firm relationships with all major wagon suppliers in the CIS, as well as leading technology and component suppliers, and benefits from these relationships by its ability to gain access to wagons in periods of short supply.

The Issuer believes that its existing management platform and expertise can support additional assets without significant increases to its infrastructure or expense base due to the scalable nature of its operations.

***Rebalance the Issuer's wagon fleet to address expected changes in customer needs***

The Issuer plans to continue to rebalance the composition of its wagon fleet, focussing in particular on LPG wagons, open wagons, platforms and hoppers and reducing the overall proportion of oil tank wagons in its fleet. As at 31 December 2012, 57.2 per cent. the Issuer's wagon fleet comprised oil tank wagons (compared to 71.3 per cent as at 31 December 2011), open wagons comprised 23.0 per cent. (compared to 17.2 per cent. as at 31 December 2011), LPG transportation wagons comprised 18.4 per cent. (compared to 11.5 per cent. as at 31 December 2011) and platform wagons comprised 1.4 per cent.

The rationale for rebalancing the fleet is to ensure that the Issuer appropriately anticipates future changes in customer demand, including planned expansion of pipeline capacities in Kazakhstan (in particular, a significant expansion of the Caspian pipeline which connects the Tengiz oilfield with the South Ozereevka oil terminal on the Black Sea) which will significantly reduce demand for the transportation of oil by rail from the Tengiz oilfield. The Issuer also wishes to be in a position to take advantage of anticipated growth in production of LPG in Kazakhstan (which cannot currently be transported by pipeline) and increasing demand for open wagons from customers in the metals and mining sector as a result of anticipated increases in production of coal and ferrous and non-ferrous metals and ore. The Issuer therefore plans to purchase 1,000 to 2,000 open wagons and 1,000 to 1,500 LPG transportation wagons.

In January 2010, Kazakhstan, Belarus and Russia formed the Customs Union. The Customs Union members signed a treaty that regulates certain principles in relation to tariff policy for rail transportation services in those countries commencing on 1 January 2012 and provides for the unification of export, import and domestic freight tariffs among those countries by 1 January 2013. In addition, the Customs Union envisages the implementation of a common customs tariff, the elimination of customs duties within the unified customs territory. The Customs Union's Customs Code of July 2010 incorporates a common external tariff structure (with a number of temporary exemptions) and is based largely on established Russian tariffs. The objective of the Customs Union is to harmonise and simplify standards, while reducing the costs of trade through the elimination of border controls. The Issuer anticipates an increase in demand for transit shipments within the Customs Union and intends to purchase a total of 700 new hopper cars in 2013 and 2014, primarily to service customers within the Customs Union involved in transporting bulk commodities such as grain, cement and mineral fertilisers.

***Acquire operating lease companies within the CIS***

In order to expand its fleet and customer base, the Issuer has historically purchased new wagons from suppliers rather than acquiring companies with existing fleets.

In the medium term, the Issuer may expand its business through acquisitions of small or medium sized wagon operating leasing companies within the CIS, provided that any target company has a high quality wagon fleet of between 2,000 and 5,000 wagons and a solid customer base. Purchasing a wagon operating leasing company would allow the Issuer to acquire both wagons and existing customer contracts, thereby avoiding delays in sourcing wagons from suppliers and potentially allowing the Issuer to diversify its customer base further. The Issuer is focussing in particular on expanding into the Russian wagon freight leasing market because the size of the market is far greater in Russia than Kazakhstan and because of the anticipated benefits of Kazakhstan's participation in the Customs Union. As part of this strategy, the

Issuer is considering whether to establish a representative office in Russia in order to develop a greater understanding of demand and opportunities in the Russian market.

***Expand its market share within Kazakhstan***

Although KTZ operates the largest fleet of freight wagons in Kazakhstan, the Issuer estimates (on the basis of information published by KTZ) that over 50 per cent. of the fleet has been in service for more than 25 years and its fleet has a very high depreciation level. The Issuer believes (on the basis of information published by the Development Programme) that more freight wagons will be written-off by KTZ because they will have exceeded their useful life and no longer meet minimum condition requirements than the renewal and replacement rate of KTZ's fleet. KTZ's ability to reinvest in new fleet is limited because its tariff rates are subject to strict regulations imposed by competition laws and the approval of the Agency of the Republic of Kazakhstan for the Protection of Competition (the "**Competition Agency**"). As a result, the Issuer believes that KTZ is unlikely to generate sufficient funds to be able to reinvest in new rolling stock to replace retired stock and meet anticipated increases in demand. The Issuer believes that this will create opportunities for private fleet operators to expand their fleets and market share. The Issuer's long-term goal is to increase its share of the Kazakhstan freight operating lease market up to 20 per cent. by 2020.

***Participate in the development of the Kashagan offshore oilfield project***

Kashagan Field is an offshore oilfield which was discovered in 2000 in Kazakhstan's zone of the Caspian Sea. Commercial production of crude oil is currently expected to start in the first quarter of 2013. It is estimated that Kashagan contains approximately 13.7 billion barrels of recoverable crude oil according to the Development Programme. The oil will flow along pipelines beneath the seabed to the main operational hub from drilling islands, and then a further 92 kilometers to a processing plant on the Kazakhstan coast. The Development Programme also estimates that approximately 2 million tonnes of crude oil will also be transported by railway annually by between 3,000 to 7,000 wagons.

Management expects that it will be able to meet demand from existing and new customers generated by production at Kashagan principally by redeploying a proportion of its current fleet of oil tank wagons. In particular, the increase of pipeline capacity at the Tengiz oilfield expected from 2015 is likely to reduce demand for rail transportation from TCO (see "*-Rebalance the Issuer's wagon fleet to address expected changes in customer needs*".). As a result, the Issuer intends to re-deploy a proportion of its wagons which are currently leased to TCO in order to service the new demand from Kashagan. When wagons which are currently leased to TCO are released at the end of the contract term, those wagons are expected to be re-deployed to customers for use in the Kashagan project.

***Develop the Issuer's presence in Kazakhstan's industrial sector***

The Issuer anticipates growth in the demand for open wagons in Kazakhstan from the metals and mining, construction and container shipping sectors. The transport of coal, ore and metals accounts for the majority of rail freight cargo in Kazakhstan and the Issuer anticipates that planned increases in production capacity by major companies operating in the metals and mining sector, will drive further demand for rail freight transportation.

The Issuer anticipates that increases in production in the metals and mining sector will also increase the volumes of freight turnover and therefore the demand for open wagons. In addition, the Issuer believes that the transfer by KTZ of its freight wagons to its subsidiary JSC KazTemirTrans ("**KTT**") as part of its development programme is likely to result in an increase in tariffs charged by KTT for open wagons and this will create opportunities for private rolling stock operators to increase market share.

Electricity generation is a key driver for coal demand and the government of Kazakhstan is investing in modernising existing generating facilities and building new generating capacity (such as the Balkhash thermal power station). Bogatyr Komir, a coal producer, has announced plans to increase coal production by 2015 In addition, ArcelorMittal Temirtau JSC, one of the largest companies in the metals and mining sector in Kazakhstan, and ENRC, have approved development programmes to modernise plants in Kazakhstan and increase production volumes. Kazakhmys, a major copper producer, is also planning to make substantial investments in the development of deposits of copper ore in Aktogai and Bozshakol.

There has also been significant investment in cement production in Kazakhstan and the Issuer anticipates further development in this sector in order to meet demand from large infrastructure projects in Kazakhstan. These include the construction of the Balkhash thermal power plant, preparation for "Expo-2017" in Astana, and the government's development plan for residential real estate construction "Affordable housing – 2020" in Kazakhstan. During 2013 and 2014, the Issuer plans to purchase about 200 hoppers in order to meet anticipated demand for cement transportation.

***Develop its freight forwarding operations***

The Issuer has identified further diversification of its revenue streams as an important strategic goal. For the year ended 31 December 2012, 81 per cent. of the Issuer's revenues were derived from its operating leases and 3 per cent. from freight forwarding services (compared to 4 per cent. for the year ended 31 December 2011). The Issuer aims to develop its freight forwarding services in order to balance its revenue streams.

Freight forwarding involves arranging for transportation of goods from starting points to points of destination, preparing transportation documents, transporting freight between warehouses and railway stations.

Under freight forwarding contracts, the Issuer charges both a lease rental rate and a margin for providing forwarding services and it is able to use either its own wagons or to source wagons from other providers (including KTZ). Freight forwarding can also give the Issuer a useful insight into specific customer requirements, for example, in relation to cargo volumes and the frequency of freight transport requirements.

***Integrate the cost of maintaining and repairing wagons by acquiring or constructing a wagon repair depot***

Wagon maintenance and repair costs are a significant cost for the Issuer. For the year ended 31 December 2012, wagon maintenance and repair costs accounted for 5.6 per cent. of the Issuer's revenues (compared to 7.5 per cent. for the year ended 31 December 2011).

Currently, the Issuer does not enter into long-term service agreements with wagon repair contractors as there is sufficient capacity in the market to meet its repair and maintenance requirements. The Issuer enters into wagon repair arrangements with contractors, as required. In order to reduce the costs of maintaining and repairing wagons, the Issuer intends to integrate the cost by either purchasing an existing wagon repair company or developing its own repair facilities in 2013 and 2014.

The Issuer believes that the maintenance and repair of its wagons will become more important as the size of its fleet grows. The two major drivers of the Issuer's increased exposure to maintenance and repair costs are increased fleet size and increased average age of the fleet. The number of the Issuer's wagons above three years old will increase, and as such, the number of required depot repairs will grow faster than its fleet size. Over the period of the next ten years, most of the Issuer's wagons will also require a capital repair and one or two wheelset replacements. Incorporating in-house repair facilities to the Issuer's value chain will allow the Issuer to control time, cost and quality of maintenance operations.

***Continue the Issuer's focus on its core competency of wagon operating leasing***

The Issuer will continue to focus primarily on its core competency of freight wagon operating leasing, offering services on a single and multi-year contractual basis to its customers, a business model which provides it with a steady revenue stream and good earnings visibility. In addition, the Issuer will seek to extend the term of its leases with customers.

Operating lease rates under the Issuer's single and multi-year contracts are based on the spot operating lease rates as at the time of signing the relevant contract and are either fixed through the lease term or contain an option for periodical upward revision. Accordingly, the Issuer's average contracted operating lease rates may lag behind the current spot operating lease rates in a growing market but provide the Issuer protection and stability during market downturns. The Issuer believes that the long-term cash flow stability secured through long-term contracts is more than adequate compensation for slightly lower short-term revenue in a growing market. Coupled with its low operating costs, the Issuer believes such a strategy will allow to maintain its profitability going forward.

The Issuer's focus on wagon operating leasing and the young age of its fleet allows it to maintain a low cost base, high margins and high operating cash generation. The Issuer's business operations can be effectively managed by a small team of professionals, focused on business development, wagon technology and financial management. The Issuer believes that the continued focus on its core strength of wagon operating leasing under single and multi-year contracts will allow it to maintain its profitability and strengthen its market position.

## HISTORY AND DEVELOPMENT

The Issuer was incorporated in 2002 as a limited liability partnership to provide freight wagon leasing services for oil and gas transportation in Kazakhstan. Upon incorporation, the Issuer was beneficially owned by Mr. Marat Sarsenov. In November 2011, Mr. Sarsenov sold 40 per cent. of the Issuer shareholding to Steinhardt Holding BV, an entity which is indirectly owned by Mr. Sarsenov.

In 2003, the Issuer entered into a term loan agreement with BTA Bank in Kazakhstan for up to U.S.$81 million and KZT 713.4 million due 2012 (the "**BTA Debt**"). In 2003, the Issuer entered into its first one year freight wagon operating lease with TCO for 200 wagons. From 2002 to 2004, the Issuer developed relationships with wagon producers including Azovmash, Rushimmash and Uralvagonzavod.

In 2008, the Issuer entered into freight wagon sale and leaseback arrangements with Raiffeisen Leasing Kazakhstan LLP. The Issuer also refinanced its loan portfolio, resulting in a reduction in the BTA Debt. As part of this refinancing, the Issuer entered into a new term loan agreement with HSBC Bank Kazakhstan due 2014. The Issuer also successfully completed its ISO audit.

In 2009, HSBC Bank Kazakhstan refinanced a U.S.$25 million loan outstanding from BTA Bank. This reduced the Issuer's dependence on BTA Bank and enabled the Issuer to take advantage of certain pricing benefits. In 2009, the Issuer expanded its fleet further in order to provide wagons under operating lease contracts with new customers. It purchased 200 wagons from wagon manufacturer Azovobshemash JSC using a finance leasing arrangement. As at 31 December 2009, the Issuer's wagon fleet amounted to 2,822 wagons (an increase of 7.6 per cent. from 31 December 2008 when the Issuer's wagon fleet amounted to 2,622).

Since 2010, the Issuer has also provided freight forwarding and transhipment services at the port of Aktau.

In 2010, the Issuer was assigned its first long-term foreign currency and local currency issuer default credit rating of 'B-' by Fitch. The Issuer entered into a 7 year LPG wagon operating lease contract with oil and gas producer Zhaikmunai for the transportation of oil and LPG from the Chinarevskoye Field in the province of Batys Kazakhstan. The Issuer continued to increase the size of its wagon fleet and, as at 31 December 2010, the Issuer's wagon fleet amounted to 5,253 wagons (an increase of 86.2 per cent. from 31 December 2009).

In 2011, HSBC Bank Kazakhstan extended a new U.S.$60 million, 5 year term loan to the Issuer which was used to finance the purchase of 950 new oil and open wagons. For further discussions of the Issuer's borrowings, see "*Management's Discussion and Analysis of Results of Operations and Financial Condition – Borrowings*".

From 2008 to 2012, the Issuer focussed on increasing the size of its wagon fleet and diversifying its operating portfolio. During this period, the Issuer entered into new freight wagon operating leases and freight forwarding agreements with oil producers China National Petroleum Corporation, CJSC Turgai Petroleum, KuatAmlonMunai JV LLP and oil and gas producer Karakudukmunay JSC.

In 2011 and 2012, the Issuer entered into two secured syndicated term loans arranged by BNP Paribas. The amounts raised by the Issuer were used to purchase 2,433 additional wagons. New operating lease contracts were also agreed with SIBUR-Trans, TELF AG, MSC and Arcellormittal. For the year ended 31 December 2012, the proportion of the Issuer's revenues obtained from contracts with TCO reduced to approximately 65 per cent. of the Issuer's total revenues (a reduction from 76 per cent. for the year ended 31 December 2011 and 81 per cent. for the year ended 31 December 2010). In the fourth quarter of 2012, IFC approved U.S.$ 50 million of funding to be provided by IFC in the form of equity and loans (see "*Management's Discussion and Analysis of Results of Operations and Financial Condition – Recent Developments – IFC Investment*").

## OPERATIONS

The Issuer is the largest privately owned provider of freight wagon operating leases to corporate customers, primarily for the transport of oil, LPG and heavy industrial goods (such as coal, sulphur, oils and metals) in Kazakhstan. The Issuer leases out wagons that it either owns or holds on finance lease, under single and multi-year operating leases principally to customers involved in oil and gas and mining production sectors in Kazakhstan. In addition, the Issuer offers freight forwarding services, as well as transhipment services at Aktau sea port. For the year ended 31 December 2012, revenue from operating lease contracts amounted to KZT 18.2 billion (U.S.$121.8 million) (or 81 per cent. of the Issuer's total revenue), revenue from freight forwarding services amounted to KZT 0.8 billion (U.S.$ 5.2 million) (or 3 per cent. of the Issuer's total revenue) and revenue from transhipment services amounted to KZT 0.7 billion (U.S.$ 4.8 million) (or 3 per cent. of the Issuer's total revenue).

### Wagon fleet

Over the past four years, the Issuer's fleet has grown rapidly to approximately 9,800 wagons as at 31 December 2012. The following table shows the growth of the Issuer's fleet since 2007:

| | As at 31 December, | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Fleet Size | 2,325 | 2,622 | 2,822 | 5,253 | 7,851 | 9,782 |

There are 4 main types of general purpose and semi-specialised wagons in the Issuer's portfolio:

- ***Oil tank cars*** – the oil tank car is designed to carry liquids, including oil and petroleum products, chemically active and aggressive liquid substances (acids, alkalis and other compound substances), liquefied gas (propane-butane, oxygen) and others. The average technical useful life for an oil tank car is 32 years;

- ***LPG wagons*** – the LPG wagon is designed to carry only liquefied petroleum gas. The average technical useful life for an LPG wagon is 40 years;

- ***Open wagons*** – the open wagon is an open-top high-sided wagon designed for carrying loose bulk materials (iron, ore, crushed stones, etc.). An open wagon may be equipped with dump doors in the floor and hinged ends or a solid body. The average technical useful life for an open wagon is 22 years; and

- ***Platforms*** – the platform is a wagon designed to transport timber, wheeled and track-type vehicles, boxed cargoes, metal structures and long cargoes. The average technical useful life for a platform is 32 years.

The Issuer also intends to purchase hoppers in order to anticipate expected changes in customer demand (see " – *Strategy – Rebalance the Issuer's wagon fleet to address expected changes in customer needs*"). The hopper car is a closed-top wagon used to transport loose bulk commodities such as mineral fertilisers, cement, grain, etc. A hopper's dumper body is shaped like a funnel and has gates at the bottom to empty cargo by the force of gravity, making for quick and effective unloading. The average technical useful life for a hopper is 26 years.

The following table lists the number, the percentage of the Issuer's fleet and average age of each type of wagon that the Issuer owns or holds on finance lease, as at 31 December 2012:

| Type of Railcar | Number in Fleet | % of Fleet | Average Age (years) |
|---|---|---|---|
| Oil tank car | 5,596 | 57.2 | 4 |
| LPG wagon | 1,803 | 18.4 | 2 |
| Open wagon | 2,250 | 23.0 | 3 |
| Platform | 133 | 1.4 | 1 |
| Total | 9,782 | 100 | 4.1 |

The young age of the Issuer's fleet is one of its key strengths. The average age of the Issuer's wagons is 4.1 years, compared to the market average in Kazakhstan of 25 years and an average technical useful life of between 22 to 40 years (source: the Ministry of Transport). The Issuer believes it has one of the youngest fleets in the Kazakhstan market. The Issuer plans to diversify and add to its specialist wagon fleet by purchasing 700 hoppers to transport cement, grain and mineral fertilisers and 950 other special purpose and multi-purpose wagons before 2015 (see "– *Strategy – Expand the size of its fleet*").

The Issuer has developed a proprietary IT wagon tracking system that enables it to monitor wagon locations. The tracking system provides information on wagon locations (such as the start location, current location and final destination) and additional information (such as the type of cargo being transported, the weight of the cargo and the wagon identification number).

#### *Wagon suppliers*

The Issuer has established firm relationships with Uralvagonzavod and Azovmash, both of which are major wagon manufacturers and component suppliers. The Issuer believes that its strong purchase history, scale and ongoing relationships with these companies give it the ability to gain access to wagons in periods of short supply and to achieve more favourable pricing terms than the prevailing market prices. Approximately 36.6 per cent. of the Issuer's current fleet was supplied by Uralvagonzavod and 55.4 per cent. was supplied by Azovmash.

Uralvagonzavod is a Russian company which specialises in manufacturing rolling stock, road-building and special civil engineering and armoured military vehicles and trucks. Its main products are open wagons, tanks, platforms and hoppers. Its production capacity is approximately 28 thousand units of rolling stock per year and it is the largest Russian producer of open wagons (source: Uralvagonzavod data). Azovmash is based in Ukraine and is the largest producer of platforms in the CIS. It also manufactures open wagons, platforms, hoppers and covered wagons and has a production capacity of approximately 16,000 units of rolling stock per month (source: Azovmash data).

The Issuer also sources platforms from Dnepromash, a Ukrainian manufacturer and has previously sourced wagons from Rushimmash and Altaivagonzavod.

As part of its risk management procedures, the Issuer has also pre-approved the following Russian and Ukrainian suppliers as suppliers of wagons and wagon components: Volgohimmash; Krukovskii; Lemtrans; and Novokuznezkii.

The following table shows the average price the Issuer has paid per wagon since 2007:

| | As at 31 December, | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| | *(in U.S.$ thousands)* | | | | | |
| Average price paid per wagon ..................... | 45,000 | 70,000 | 53,000 | 55,000 | 75,000 | 77,000 |

In order to secure production capacity, the Issuer is usually required to make an advanced payment to its supplier for part of the price of the wagons being supplied. The prepayment ranges from 30 per cent. to 50 per cent. of the price of a wagon. The purchase price for wagons under the Issuer's contracts with its suppliers are denominated in U.S. Dollars.

The delivery time for a new wagon is typically 4 months from the date upon which an order is placed. The delivery time depends upon the number of wagons being ordered. The customs process to clear wagons for import and registration in Kazakhstan takes approximately one month.

The Issuer only places purchase orders with suppliers if its customers have entered into an operating lease with the Issuer for the delivery of the relevant wagons. Wagon rental payments under operating leases commence upon the availability of the wagons. If a customer subsequently needs to delay delivery of their wagons (for example, due to a delay in the oil or gas production process), then the Issuer will endeavour to sub-lease those wagons (on behalf of the customer and at their risk). The customer is required to ensure that it is adequately insured to cover any environmental liability risks.

***Operating Lease Contracts***

The Issuer's principal business is leasing freight wagons to customers under single and multi-year operating lease contracts. Under operating leases, the leased asset remains on the balance sheet of the Issuer whilst the utilisation risk is transferred to the lessee. The Issuer retains the title and exposure to the residual value at the end of the lease. The Issuer offers single and multi-year operating leases with terms ranging between 1 and 7 years. The majority of the current contracts have terms of 4 to 7 years and, as at 31 December 2012, the average length of its outstanding operating lease contracts is 4.1 years. The Issuer's operating lease contracts typically permit a 10-day payment period after each monthly invoice, with significant penalties for late payments.

The Issuer also offers short term one year contracts to smaller clients who rent up to 100 wagons per annum, in order to mitigate the risks associated with wagon rent price fluctuations.

Under the Issuer's operating lease contracts, the operating lease rate is expressed as the amount of payment for possession and use of one wagon per day and is payable on a monthly basis. The Issuer's operating lease rates are based on the spot operating lease rates as at the time of signing the relevant contract and are either fixed through the lease term or contain an option for periodical upward revision. The Issuer determines the minimum rental rate on a customer-by-customer basis taking into account the cost of the wagons being leased, the lease period and options for transferring ownership of the wagons.

The Issuer offers three main types of operating lease to customers: the simple wagon lease; the lease with partial transfer; and the lease with full transfer. Specific lease terms are negotiated on a case-by-case basis with the customer. Leases can be offered with an option to transfer ownership of all or a proportion of the wagons to customers after a defined period of time and potentially without additional compensation for the Issuer.

Some of the Issuer's operating leases grant customers the option to terminate the operating lease contract without cause on giving between 1 and 6 months' notice (depending on the term of the contract). The Issuer's operating leases contain provision for breakage costs and penalties upon the early termination of an operating lease. The Issuer's operating lease contracts with TCO do not contain an option to terminate the contract without cause.

In its contracts with TCO and contracts with non-Kazakhstan resident customers, daily lease rates are denominated in U.S. Dollars. The daily lease rates for operating lease contracts with Kazakhstan resident customers (such as those with SIBUR-Trans and Zhaikmunai) are denominated in KZT and indexed to the local KZT/U.S.$ exchange rate at the rate applicable on the date of the contract and re-set on a monthly basis.

Operating lease contracts are popular with customers who wish to preserve their debt capacity and equity capital whilst guaranteeing the availability of a non-core asset essential for their transportation needs.

The Issuer offers full-service operating leases, under which the lessor assumes depot repair risk in addition to the residual value risk. Under these contracts, the Issuer accepts responsibility for wagon maintenance that is included in the lease rate.

The Issuer believes that operating leases with the Issuer provide its customers with:

- the ability to "lock in" a significant portion of transportation costs over an extensive period, thereby avoiding volatility from the short term lease market;
- flexible management of wagon fleet needed for transporting their cargo;
- ability to secure availability of transportation capacity whilst preserving capital for investment in core activities; and
- access to one of the newest wagon fleets in the Kazakhstan market.

***Remarketing and Extension of Operating Lease Contracts***

Where possible, the Issuer seeks to have its current customers extend their operating lease contracts at market rates as they mature. The Issuer's lessees may request an extension of a lease on at least 30 days' notice, in order to provide the Issuer's management with sufficient time to examine alternative deployment of the wagon, if necessary. If a lessee fails to provide the Issuer with such notice, the operating lease will automatically expire at the end of the term, and the lessee will be required to return the wagon pursuant to the lease terms. The Issuer's operating leases contain detailed provisions regarding the required condition of the wagon and its components upon redelivery at the end of the operating lease term. If a wagon is to be returned to the Issuer at the end of the lease, the customer is obliged to compensate the Issuer up to 20 per cent. of the rail tariff for delivering the wagon from its current location to the Issuer, which creates substantial switching costs for the Issuer's customers—an additional incentive for them to renew their leases.

The quality of the Issuer's fleet of wagons as well as its portfolio of long term operational leases have enabled the Issuer to maintain a fleet utilisation rate of 100 per cent.

***Leaseback Contracts***

A leaseback is an acquisition of used wagons from the existing owner-operator and subsequent provision of wagons to the seller on an operating lease basis. This means of financing can provide the customer with immediate cash flow as well as capital structure benefits. Although the Issuer has not previously entered into sale and leaseback contracts with customers, in the near future, the Issuer believes that there will be opportunities to actively develop sale and leaseback products. Transportation operators and freight owners are likely to be more willing to outsource their wagon fleet and focus financial resources on their core businesses and, at the same time, to be assured of the availability of wagons when needed.

***Operating Lease Rates***

The Issuer's pricing for the daily rates under its operating lease contracts is primarily determined by the prevailing prices in the spot market at the time the operating lease contract is entered into. In negotiating the operating lease rates the Issuer adjusts the market price of wagons based upon a number of factors, including the length of the contract.

As customers typically compare the economics of leasing a wagon versus owning it, there is a direct correlation between rental rates (also known as daily rates) and the cost of a new wagon. In an environment where wagon prices are high, the average daily operating lease rate tends to increase. By contrast, when wagon prices decreases, daily operating lease rates tend to decrease as well. In certain situations, for example when there is insufficient supply to meet current demand for wagons, daily lease rates depend more on the overall balance of supply and demand in the market rather than the prices of new wagons.

There is also a fairly strong correlation between operating lease rates in Kazakhstan and those in Russia for a number of reasons. For example, most new wagons and components for wagons in Kazakhstan are purchased from Russian and Ukrainian manufacturers. Since Russia, Ukraine and Kazakhstan share the same railway gauge and Russia and Kazakhstan are members of the Customs Union, the price level for new wagons across these countries is comparable. In addition, the average age of wagon fleets in Russia and Kazakhstan is relatively comparable and the Issuer expects that demand for open wagons and oil tank wagons will remain constant in both countries.

Although this correlation is expected to continue, over the last 5 years, average daily operating lease rates have been higher in Kazakhstan than in Russia as a result of greater competition in the Russian operating lease market according to the Development Programme.

The following table provides the Issuer's average daily wagon operating lease rate for each quarter of 2012 and 2011:

| | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|
| | | *(U.S.$)* | | |
| 2012 | 45.7 | 45.7 | 45.7 | 45.7 |
| 2011 | 42.5 | 42.5 | 42.5 | 42.5 |

### *Customer Base*

The Issuer currently serves approximately 25 customers who principally manufacture commodities, including oil, LPG and heavy industrial goods (such as coal, sulphur, ores and metals). Major domestic and international companies in the oil, LPG and mining and metals sectors collectively accounted for 90 per cent. of the Issuer's wagons as at 31 December 2012. For the year ended 31 December 2012, TCO, the largest single customer of the Issuer, accounted for approximately 65 per cent. of the Issuer's total revenues (and approximately 76 per cent. for the year ended 31 December 2011), and the top ten customers together accounted for approximately 91 per cent. of the Issuer's operating lease revenue.

The following table shows the number of wagons leased by the Issuer and the percentage of the Issuer's leased fleet by industry, as at 31 December 2012:

| Industry | Number of wagons | % of Fleet |
|---|---|---|
| Oil | 5,596 | 57.2 |
| LPG | 1,803 | 18.4 |
| Sulfur | 800 | 8.2 |
| Iron condensate | 812 | 8.3 |
| Ferrous Metals | 543 | 5.6 |
| Coal & coke | 12 | 0.1 |
| Zink, ore, coil | 216 | 2.2 |
| **Total** | **9,782** | **100** |

The following table shows the Issuer's top 10 for the year ended 31 December 2012; their industry, the number of wagons leased to them and the average remaining contract length:

| Customer | Industry | Customer since | Number of wagons leased | Average remaining contract length (years) | % of Fleet |
|---|---|---|---|---|---|
| TCO | Oil | 2003 | 5,596 | 3 | 57.2 |
| SIBUR-Trans | LPG | 2011 | 1,100 | 6 | 11.2 |
| Other | Heavy industry | 2010 | 967 | 2 | 9.9 |
| Arcellor | Coal | 2012 | 812 | 2 | 8.3 |
| Zhaikmunai | Oil/gas | 2009 | 650 | 6 | 6.6 |
| MSC | Coal | 2012 | 488 | 1 | 5.0 |
| Litasco SA | Oil | 2004 | 80 | 2 | 0.8 |
| Texvel | Metals | 2011 | 43 | 2 | 0.4 |
| KSP Steel | Metals | 2011 | 34 | 2 | 0.3 |
| Casting | Metals | 2011 | 21 | 2 | 0.2 |
| **Total** | | | **9,782** | | **100** |

***Sales and Marketing***

The Issuer's core commercial strategy is to concentrate on large, well-established customers with strong credit profiles. The Issuer's customer portfolio therefore consists of selected corporations that meet the Issuer's credit requirements, see ("– *Key Strengths – Low counterparty risk*"). The Issuer believes that there are benefits to this strategy, such as:

- large corporations are generally more stable and typically display a better counterparty risk profile. At the same time they also require larger fleets and expect suppliers to be able to meet their demands;

- as it is able to meet a large portion of the Issuer's customers' wagon needs, the Issuer is able to build stronger relationships with its customers; and

- as it focuses on a selected group of customers, the Issuer can keep overhead costs low as only a limited sales force is required to establish and maintain relationships with its customers.

The Issuer's Sales Department is responsible for developing and maintaining relationships with the senior operations staff of the Issuer's customers, negotiating lease contracts and coordinating with their operating level staff. This close customer communication allows the Issuer to negotiate lease contracts that satisfy both the Issuer's financial return requirements and the customer's operating needs and ensures that the Issuer is aware of its customers' potential equipment shortages and that they are aware of the availability of the Issuer's wagons.

***Maintenance and Repair***

The Issuer undertakes maintenance and repair of wagons leased by it under its operating lease contracts. It outsources maintenance and repair to one of fifteen wagon repair depots in Kazakhstan and Russia. The Issuer has strong long-term relationships with its main wagon repairers, including Akzhaik, Morozovskoe Depot, Astrahanskoe Depot, Ershovskoe and Krasnodar Depot and, as a result, it believes that it enjoys certain competitive advantages when negotiating the terms for the repair of its wagons. The Issuer typically enters into annual agreements which fix the price of repairs with wagon repairers.

Wagons will or may require three types of maintenance and repair:

- *Current repairs* – these are unscheduled repairs which involve uncoupling the wagon from the train or wagon group either during preparation for shipment or en route to delivery;

- *Depot repairs* – these are scheduled repairs in order to restore a wagon to working condition. This may involve the replacement or working of certain wagon components. Depot repairs are required to be carried out every 2 to 3 years depending on the type of wagon (or earlier, depending on the distances it has covered); and

- *Capital repairs* – these are scheduled full repairs in order to restore wagons to full optimal working condition. These repairs typically involve the replacement or restructuring of key components, including base parts. Internal policy provides that capital repairs on fleet wagons must be carried out every eleventh year. The first capital repairs of the Issuer's wagons are scheduled to take place in 2014.

The Issuer believes that the maintenance and repair of its wagons will become more and more important for it as the size of its fleet increases. The two major drivers of the Issuer's increased exposure to maintenance risks are increased fleet size and increased average age of the fleet. The Issuer's fleet age structure will change over time. The number of the Issuer's wagons above three years old will increase, and as such, the number of required depot repairs will grow faster than the Issuer's fleet size. Over the period of the next 10 to 13 years most of the Issuer's wagons will also require a capital repair. Consequently, the Issuer has identified as part of its strategy the acquisition or construction of a wagon repair depot (see "- *Strategy – Integrate the cost of repairing wagons by acquiring or constructing a wagon repair depot*"). Own maintenance will allow the Issuer to control the time, cost and quality of maintenance operations.

**Freight forwarding within Kazakhstan**

Freight forwarding involves arranging for transportation of goods from starting points to points of destination, preparing transportation documents, transporting freight between warehouses and railway stations and packing and marking of freight, among other things. The Issuer offers freight forward services for freight transport across Kazakhstan, CIS, Central Asia and Europe. For the year ended 31 December 2012, 3 per cent. of the Issuer's revenues were derived from its freight forwarding services (compared to 4 per cent. for the year ended 31 December 2011). The

Issuer has identified the diversification of its revenue streams as a key strategy (see "- *Strategy - Develop its freight forwarding operations*").

**Transhipment service at Aktau sea port**

Transhipment generally involves the transportation of goods to an intermediate destination, and then to yet another destination (for example, oil is shipped from sea to port and then transported by rail). The Issuer assists customers in the presentation of shipment at the origin station for transportation and shipment release at the destination station, customs clearance, shipment operations and shipment insurance services. For the year ended 31 December 2012, 3 per cent. of the Issuer's revenues were derived from its transhipment services at the Aktau port (compared to 6 per cent. for the year ended 31 December 2011). The Issuer has provided transhipment services at Aktau sea port since 2009, when it entered into an agreement with Kazkortransservice LLP to lease rail access to the oil-loading terminal. The Issuer currently has no plans to expand its transhipment services.

***Insurance***

Under the Issuer's lease contracts as well as certain of its loan agreements, the Issuer is obliged to insure its wagons against property damage and, under the Kazakhstan legislation and its loan agreements, also to arrange for third party insurance. The Issuer's current insurance policies are provided by JSC Insurance Company Victoria and JV JSC Insurance Company London Almaty and include:

- *Property damage insurance with a limited indemnity of U.S.$650 million*: covering such risks as physical loss and damage of cars, including collision and derailment. The Issuer believes that its risk to property damage is low because its wagon assets are widely distributed throughout the country. From 2013, the Issuer will not maintain insurance in respect of losses incurred as a result of public disorder;

- *Liability insurance*: covering the risk of damages and injuries to persons, including the lessee's employees (total limit U.S.$1 million).

The Issuer generally maintains the types of insurance customarily available to businesses in the same industry in Kazakhstan (including insurance to cover the risk of theft of wagons).

Under Kazakhstan law, wagon lessees are fully responsible for emergency and accidental insurance in respect of environmental damage elimination.

**COMPETITIVE ENVIRONMENT**

***Competition with other operators***

The Issuer is the largest privately owned operating lessor of freight wagons in Kazakhstan by number of wagons as at 31 December 2012. The Issuer estimates that its fleet of approximately 9,800 wagons represented approximately 8 to 10 per cent. of the total freight wagon fleet in Kazakhstan as at 31 December 2012 based on information published by the NSA.

Kazakhstan's total fleet of freight wagons is the third largest in the CIS and amounts to approximately 107,000 units according to the NSA, 55 per cent. of which are owned by KTZ. KTZ is the sole operator of Kazakhstan's railway system and the primary provider of freight and passenger rail transportation in Kazakhstan. Although KTZ's operates the largest fleet of freight wagons in Kazakhstan, the Issuer estimates on the basis of information published by KTZ that over 60 per cent. of the fleet has been in service for more than 20 years and its fleet has a depreciation level of approximately 75 per cent. According to the Development Programme, more freight wagons will be written-off by KTZ because they will have exceeded their useful life and no longer meet minimum condition requirements than the renewal and replacement rate of KTZ's fleet. KTZ's ability to reinvest in new fleet is limited because its tariff rates are subject to strict regulations imposed by competition laws and the approval of the Competition Agency. As a result, the Issuer believes that KTZ is unlikely to generate sufficient funds to be able to reinvest in new rolling stock to replace retired stock and meet anticipated demand and increase market share. The Issuer believes that this will create opportunities for private fleet operators to expand their fleets.

The Issuer estimates that there are approximately 12 major private fleets of freight wagon owners in Kazakhstan (including the Issuer) which together account for more than 95 per cent. of the total fleet of freight wagons owned by private companies.

The table below sets out the major privately owned operating lease providers in Kazakhstan and their share of the operating lease market as at 31 December 2012:

| | Market share (%) |
|---|---|
| Eastcomtrans LLP | 9 |
| Transsystem LLP | 5 |
| TengizTransGas LLP | 5 |
| Bogatyr Trans Ltd. | 5 |
| TransCom LLP | 4 |
| Artis Overeas S.A. Kazakhstan LLP | 2 |
| Petroleum LLP | 2 |
| GE Logistics LLP | 2 |
| Pro Trans Logistics LLP | 2 |
| Eurasia Transit Group LLP | 2 |
| Olzha Group JSC | 1.5 |
| TRANSCO JSC | 1 |

Source: Issuer estimates

Transsystem LLP is a captive wagon operating lease company which provides resources to its affiliate Eurasian Natural Resources Corporation. Bogatyr Trans Ltd, is also a captive wagon operating lease company, which provides resources to its affiliate Bogatyr Coal LLP.

In addition, the Issuer anticipates that it is likely to face competition from Russian wagon operating lessors in the future as a result of the reduction in border controls introduced by the Customs Union. Competition would also be encouraged as both the Russian and Kazakhstan rail networks operate use the same rail gauge.

***Competition with Other Modes of Transportation***

Rail transportation competes favourably with other modes of transportation in terms of regularity of service, safety, speed and cost. The Kazakhstan railway system has a high carrying capacity at a relatively low cost for freight and passenger transportation and generally operates despite adverse weather conditions. The railway system ranks third behind that of air and road transportation with respect to the speed of freight delivery according to the Development Programme. The railway transportation system also ranks third behind water (river) and pipeline transportation in terms of freight transportation costs.

***Transportation by Pipeline***

According to the NSA, the total length of pipelines in Kazakhstan as at 31 December 2011 was 20,230.24 kilometres. The Asian Development Bank noted that a key consideration in Kazakhstan's transportation strategy is the determination of how to transport oil and gas to markets in the East, principally to China, and the West. With the development and extension of the pipeline network, the volume of crude oil transported by rail, primarily towards China, has decreased.

Transportation by pipeline offers certain advantages over other modes of transportation, since pipelines are not affected by weather or climate conditions, less complicated than other modes of transportation in terms of automation and mechanisation of operations, and less costly. Additionally, the capital investment per one unit carried is lower than all other types of transportation, according to the NSA. However, pipeline systems typically transport only oil and gas and are more limited in terms of the volume of oil and gas that may be transported, compared to other modes of transportation.

The main pipelines, which are mostly oriented to the export of crude oil from Kazakhstan to bordering states, are as follows:

- "Atyrau-Samara" pipeline, having flow capacity of 18 million tonnes per year, transports crude oil from Western Kazakhstan to Russia, according to the Development Programme;

- "Caspian Pipeline Consortium" pipeline, having flow capacity of 35 million tonnes per year with a target capacity of 52.5 million tonnes per year on Kazakhstan section of the pipeline by 2016, transports crude oil from Tengiz oilfield to Novorossiysk sea port, Russia, according to the Development Programme;

- "Atasu-Alashankou" pipeline, having flow capacity of 10 million tonnes per year, transports crude oil from Central Kazakhstan to China, according to the Development Programme; and

- "Kenkiyak-Kumkol" pipeline, having flow capacity of 6 million tonnes per year, represents a section of the contemplated Kazakhstan-China pipeline with a projected flow capacity up to 20 million tonnes per year, according to the Development Programme.

In addition to the existing pipelines an additional system of pipelines for the Kazakhstan Caspian Transport System is planned to be constructed (source: the Development Programme). This system envisages the construction of the "Eskene-Kuryk" pipeline and the establishment of the "Kuryk-Baku" Transcaspian system comprising of oil loading and unloading terminals, tankers and ships, and facilities connecting the system to the "Baku-Tbilisi-Ceyhan" international pipeline.

***Transportation by Air***

Air transportation is a high speed service that provides short delivery times for freight and passenger transportation. Kazakhstan is serviced by 25 airports, of which the airports of Almaty, Shymkent and Astana bear most of the freight and passenger transportation load. According to the NSA, the volume of freight transportation handled by Kazakhstan's airports increased by 1 per cent. from approximately 29,000 tonnes in 2010 to approximately 29,300 tonnes in 2011. Despite faster delivery times, air transportation is generally more expensive than other modes of transportation and is subject to weather conditions. Additionally, air transportation is more limited by the weight and dimension of the freight being carried than other modes of transportation.

***Transportation by Road***

According to the NSA, Kazakhstan had approximately 97,155 kilometres of roads as at 31 December 2011. The World Bank reported that much of the road network in Kazakhstan was constructed during the Soviet era and has significantly deteriorated since that time due to inadequate maintenance. According to the Development Programme, approximately half of the roads in Kazakhstan's network are in need of maintenance or full development. Further, Kazakhstan has a poor road safety record with the number of accidents and fatalities increasing in recent years. In addition, the World Bank reported that the current unsatisfactory condition of the roads in Kazakhstan prevents the development of international and regional trade and limits the access of rural communities to essential public services and work opportunities.

In light of the need for improvement in the Kazakhstan road network, the Kazakhstan South-West Roads Project was implemented. This programme was designed to help upgrade the trade route that links China to Russia and Western Europe through Kazakhstan. The project was announced on 30 April 2009 and according to the World Bank is expected to be completed by 31 December 2013. The Asian Development Bank is providing financing to the Government of Kazakhstan to assist in the implementation of the Central Asia Regional Economic Cooperation ("**CAREC**") Transport Corridor 1 Programme. The Programme involves the rehabilitation, upgrading and construction of an International Transport Corridor between Western Europe and Western China. Both projects are implemented as part of the Transcontinental Corridor "Western Europe - Western China" contemplating the opening of a transcontinental automobile road corridor. A part of the corridor of 2,787 kilometres crosses Kazakhstan, of which 2,452 kilometres require construction or rehabilitation. For this purpose three sources of financing were agreed, including state budget funds, loans from international financial organisations and private investment contributed under concession agreements. As at the date of this Prospectus, road works under the project were still in progress in all five regions of Kazakhstan that are crossed by the corridor.

Despite the poor condition of the Kazakhstani roadway system, freight delivery by way of roads is often faster than by rail due to the more extensive road network and the ability to provide door-to-door service without the need to use other transfer operations. In addition, trucking companies may efficiently deliver smaller freight quantities, compared to that of rail delivery. Further, road transportation operations require lower capital investments with respect to the development of small passenger and freight flows over small distances, compared to capital investments required for rail transportation.

***Transportation by Water***

According to the NSA, Kazakhstan has over 4,094 kilometres of internal navigable water routes as at 31 December 2011. Water transportation offers high transport capacity and low carrying costs, especially with respect to bulk freight. Despite such advantages, water transport is subject to differences in transport times and increased fuel costs that depend on whether freight is being transported with or against the current. Water transportation is relatively slower than other modes of transportation. Additionally, transportation by boat is subject to changes in weather conditions.

### *Freight competition*

The Issuer faces competition in respect of its freight transportation services from alternative means of transportation, particularly in respect of the transportation of crude oil. Within the region, freight transportation competition is generated from oil pipelines.

Despite the competition posed by the pipelines, the Issuer believes it is well positioned to continue to attract significant volumes of oil and oil products for the following reasons:

- pipelines cannot carry all grades of crude oil, and rail transport is an alternative for producers who produce a grade of crude oil that cannot be transported through the pipelines or who do not benefit from cost savings in using the pipelines. Crude oil gets mixed in pipelines, and pipelines are generally best suited for average grade oils. Low grade, high sulphur oil is generally not suitable for pipelines as it causes corrosion. Management believes that rail transport is the most viable alternative for high sulphur oil; and

- smaller regional producers typically do not have guaranteed access to pipelines throughout, as they may experience difficulties in reaching the minimum quotas required in order to use the pipelines. This makes rail transport an attractive alternative for such producers. In addition, pipelines are typically built by a consortium of oil production companies, and in return for financing the construction of a pipeline, a consortium member will generally receive priority through access and prices that are lower than those offered to a non-consortium member.

## IT SYSTEMS

The Issuer's operations are supported by an information technology infrastructure which facilitates key business functions and processes, including: business planning, Kazakhstan and IFRS accounting, proprietary wagon tracking systems, treasury, purchasing, contract administration, budgeting, personnel, front office systems, and critical business support and administration, including electronic system for contracts approval. See "*Business Description – Wagon Fleet*".

All electronic data is stored locally on servers and backed up daily using the RAID 10 data storage system. Wagon tracking data is also saved monthly onto tapes which are securely stored for 5 years. All of the Issuer's IT systems are powered with an Uninterrupted Power System.

## REGULATION AND ENVIRONMENT

### *Freight Transport Legislation in Kazakhstan*

The Law of the Republic of Kazakhstan "On Railway Transport" dated 8 December 2001, no. 266-II, as amended (the "**Railway Transport Law**") is the primary legislation regulating freight transport within Kazakhstan including safety requirements, the responsibilities of carriers and state control in the area of railway transport. The principal regulatory body with responsibility for regulating the railway transportation sector in Kazakhstan is the Ministry of Transport. The Railway Transport Law empowers the Ministry of Transport to carry out certain functions including the implementation of state policy in the railway transportation sector, the regulation and control of activities in the railway transportation sector and the enactment of secondary legislation in the form of regulations, including regulations on the provision of railway transportation services.

The Issuer's business, in particular the provision of wagons under operating leases, is not subject to licensing requirements in Kazakhstan and the Issuer is therefore not required to obtain or maintain any licences under Kazakhstan legislation in connection with its operations as a wagon operating lessor or as a railway freight operator.

### *Competition Law*

Kazakhstan's Competition Law imposes certain tests in order to determine whether a company has a dominant position in its market sector. If a company does have a dominant position, it is required to be registered in the State Register of Dominant and Monopoly Entities and its activities in that sector are subject to price regulation. The Issuer does not have a dominant position in its market and it is therefore not registered in the State Register of Dominant and Monopoly Entities. Consequently, its business is not subject to price regulation by the Competition Agency.

***Environment***

The Issuer is not exposed to any environmental liabilities, nor does it expect to be exposed to any in the future. Under laws in Kazakhstan and neighbouring countries, lessors do not bear any environmental liabilities deriving from the utilisation of leased assets by a lessee unless a hidden defect can be demonstrated, for which the supplier of the wagon will ultimately be liable. Although protected by the law, the Issuer is, nevertheless, insured against potential environmental liabilities. The Issuer also employs certain prudential measures to reduce its environmental impact. For example, the Issuer imposes contractual restrictions on the types of cargo which may be transported by lessees in the company's wagons. The Issuer's wagon fleet complies with Kazakhstan and European environmental-related wagon specifications. For example, all wagon cisterns are equipped with drainage devices which provide for enhanced protection from leakage.

Currently, the Issuer is not involved in any environmental approvals, nor does the Issuer have any environmental claims asserted against it.

## REAL PROPERTY

The Issuer leases three offices in Kazakhstan. It does not own any material real property.

## LITIGATION

In the ordinary course of business, the Issuer may be subject to governmental, legal and arbitration proceedings. No material provision has been made as at the date of this Prospectus regarding any outstanding legal proceedings against the Issuer.

## MANAGEMENT AND EMPLOYEES

### The Board of Directors

The Board is responsible for the overall direction, supervision and control of the Issuer. The day-to-day management of the Issuer is conducted by the Management Team. As at the date of the Prospectus, the Board is comprised of 3 members, including one independent member. One new independent member will be appointed to the Board following IFC's investment in the Issuer (see "*Management's Discussion and Analysis of Results of Operations and Financial Condition – Recent Developments – IFC Investment*"). New members of the Board are appointed on a majority of votes from the existing Board members.

The principal role of the Board is to oversee the implementation of the Issuer's strategic initiatives and its functions within the agreed framework in accordance with relevant statutory and regulatory structures. The Board meets at least 4 times per year. Decisions of the Board are, with limited exceptions, made by the majority of those present at the meeting. The Board (which is required to have at least 3 members) currently comprises 5 members. The business address of the Board is 77/7 Al-Farabi Ave, "Esentai Tower", 11th floor, Almaty, 050040, Kazakhstan.

The names, positions, years of birth and dates of first appointment of each member of the Board as at the date hereof are set out in the table below:

| Name | Year of Birth | Position | Year Appointed |
|---|---|---|---|
| Marat Sarsenov | 1967 | Chairman | 2008 |
| Adilzhan Kozhabergenov | 1976 | Member | 2008 |
| Yuri Lavrinenko | 1945 | Independent Member | 2013 |

Set out below is certain biographical information regarding the current members of the Board, including any relevant education and experience and certain current employment commitments and business interests outside of their role with the Issuer:

- **Mr. Marat Sarsenov** was appointed as Chairman of the Board in 2008. In 1991 Mr. Sarsenov graduated from Moscow Automobile and Road Construction Institute. Mr. Sarsenov was employed as a director from 1999-2003 for Asia Trans LLP and for Kazakhstan Railway Company. Mr. Sarsenov is also the beneficial owner of Steinhardt Holding BV, an entity which holds 37.332 per cent of the participating interests in the charter capital of the Issuer. In addition, Mr.Sarsenov has a beneficial interest in LLP "Center for wagon service - Eskene" ;

- **Mr. Adilzhan Kozhabergenov** was appointed as a member of the Board in 2008. He graduated from Kazakh State Academy of Management in 1997, specialising in Banking. In 2007 Mr. Kozhabergenov graduated from France's Hautes Etudes Commercials MBA programme; and

- **Mr Yuri Lavrinenko** was appointed as an independent member of the Board in 2013. Mr Lavrinenko has a Ph.D in Economics. Since 2010, Mr Lavrinenko has been an advisor to the Presdient of KTZ. Mr Lavrinenko was previously a general director of Kamkor Repair Corporation LLP from 2007 to 2008, Managing Director of the Branch office of KTZ from 2006 to 2007, First Vice Minister of Ministry of Transport and Communications of the Republic of Kazakhstan from 2002 to 2006 and Deputy of Mazhilis of Parliament of Republic of Kazakhstan from 1999 to 2002.

**Management Team**

The management team ("**Management Team"**) consists of 11 individuals with extensive experience in the railway and financial services sectors. The business address for each of the Management Team is 77/7 Al-Farabi Ave, "Essentai Tower", 11th floor, Almaty, 050040, Kazakhstan.

The following persons comprise the Management Team:

| Name | Year of Birth | Position |
|---|---|---|
| Vadim Malakhov | 1960 | General Director |
| Adilzhan Kozhabergenov | 1976 | CFO |
| Oleg Litvin | 1962 | Technical Director |
| Evgeniy Plakhotin | 1979 | Commercial Director |
| Zhanat Koishybekova | 1973 | Chief Accountant |
| Kaiyrzhan Kozhaly | 1978 | IT Director |
| Maksim Martynovskiy | 1979 | Head of Legal Department |
| Galina Malevanaya | 1952 | HR Director |
| Anel Shanlakbayeva | 1981 | Head of Administrative Department |
| Aidar Shakeyev | 1979 | Head of Astana Representative Office |
| Konstantin Bushuev | 1962 | Head of Aktau Branch |

Set out below is certain biographical information regarding members of the Management Team, including any relevant education and experience and certain current employment commitments and business interests outside of their role with the Issuer:

| | | |
|---|---|---|
| **General Director** | Vadim Malakhov | |
| | *Year of Appointment:* | 2002 |
| | *Educational qualifications and previous experience* | Graduated from Kazakh Polytechnic Institute in 1982 as a geochemist.<br>1982 –1994 Chief geologist - geological expedition – Yuzhkazgeologia.<br>1994 –1996 Leading specialist - Kazbek JSC.<br>1996 – 1998 Quality control manager – BEST LLP. |
| **CFO** | Adilzhan Kozhabergenov | |
| | *Year of Appointment:* | 2008 |
| | *Educational qualifications and previous experience* | Graduated from Kazakh State Academy of Management in 1997, specialising in Banking.<br>In 2007 Mr. Kozhabergenov graduated from France's Hautes Etudes Commercials MBA program. |
| **Technical Director** | Oleg Litvin | |
| | *Year of Appointment:* | 2011 |
| | *Educational qualifications and previous experience* | Graduated from Belorussian Institute Mechanization of Agriculture in 1987 as an Engineer-mechanic.<br>2000-2004 Director of captive railcars at Transsystem LLP.<br>2004 President of Remput OJSC.<br>2005 First Deputy Director of Main Lines at KTZ.<br>2006-2009 Director at Trade House RKT.<br>2010 Director at Moscow Agent "Zheldorekspeditsya". |

| | | | |
|---|---|---|---|
| **Commercial Director** | Evgeniy Plakhotin | | |
| | *Year of Appointment:* | 2009 | |
| | *Educational qualifications and previous experience* | Graduated from East-Kazakhstan state technical university in 2001 as an Engineer-economist.<br>2002 – 2007 Various roles at KTZ, including Marketing Department Director from 2006<br>2007 – 2009 Head of Moscow Representative Office from 2007 and Managing Director of Corporate Development and Asset Management from 2008 at KazTemirTrans JSC. | |
| **Chief Accountant** | Zhanat Koishybekova | | |
| | *Year of Appointment:* | 2011 | |
| | *Educational qualifications and previous experience* | Graduated from Kazakh State Academy of Architecture and Construction in 1995 as an Engineer-economist.<br>2003 – 2007 Deputy Chief Accountant at AIR-ASTANA JSC.<br>2007 – 2008 Financial Advisor to the Director General of Kartel LLP.<br>2008 – 2009 Tax, Consulting and Financial Advisor at Deloitte TCF LLP.<br>2009 – 2010 Chief Accountant of the Uralsk Branch at JSC KazStroyService.<br>2010 Director of Finance at KazakhDorStroy LLP. | |
| **IT Director** | Kaiyrzhan Kozhaly | | |
| | *Year of Appointment:* | 2011 | |
| | *Educational qualifications and previous experience* | Graduated form Kazakh National Technical University in 1999, specializing in IT.<br>2003 – 2004 Director at the Local Office in South Area of Kazakhstan, JSC Glotur.<br>2004 – 2005 Deputy Marketing Director at Kazakh British Technical University.<br>2005 – 2008 Marketing Director at Digital TV LTD.<br>2008 – 2010 General Director at Softline Kazakhstan, a Microsoft Gold Partner Reseller.<br>2010 – 2011 Business Development Director at EGS LTD, a Autodesk Gold Partner Reseller. | |
| **Head of Legal Department** | Maksim Martynovskiy | | |
| | *Year of Appointment:* | 2009 | |
| | *Educational qualifications and previous experience* | Graduated from Kazakh State Law Academy in 2000 as a qualified Lawyer.<br>2001 – 2004 Various roles including Head of Legal Department from 2002 at TRANSSYSTEM International Forwarding Company LLP.<br>2004 – 2006 Head of Legal Department at ASIA INVEST LTD LLP.<br>2006 – 2008 Deputy Director of Legal Issues at Project Support Services Ltd. LLP.<br>2008 – 2009 Head of Legal Expertise Department at Central-Asian investment consulting company LLP. | |
| **HR Director** | Galina Malevanaya | | |
| | *Year of Appointment:* | 2012 | |
| | *Educational qualifications and previous experience* | Graduated from Kazakh State University in 1976, specialising in Physics.<br>2001 – 2005 HR Co-ordinator at KPO b.v. / KARACHAGANAK<br>2003 – 2005 HR Manager at National Innovation Fund.<br>2005 – 2009 HR Manager at LLP “Borusan Makina Kazakhstan”.<br>2010 – Organization Policy Manager at Intertrade LTD.<br>2010 – 2011 HR Director at Ak Erke LTD. | |
| **Head of Administrative Department** | Anel Shanlakbayeva | | |
| | *Year of Appointment:* | 2003 | |
| | *Educational qualifications and previous experience* | Graduated from Kazakh State Academy of Management in 2002. | |

| | | |
|---|---|---|
| **Head of Astana Representative Office** | Aidar Shakeyev | |
| | *Year of Appointment:* | 2003 |
| | *Educational qualifications and previous experience* | Graduated from the Higher School of Law Adilet in 2001 as a qualified Lawyer.<br>2001 – 2003 DIA Operative Authorized Officer for the Internal Affairs Agency, Kokshetau. |
| **Head of Aktau Branch** | Konstantin Bushuev | |
| | *Year of Appointment:* | 2003 |
| | *Educational qualifications and previous experience* | Graduated in 1987 from Republican State Federal Enterprise Aktau State University as an Engineer-mechanic.<br>1987 – 1994 Engineer at Caspian Mining and Metallurgical Combine.<br>1997 – 2003 Oil and Oil Products Team Manager at NEC's Railway Service Department. |

### Committees of the Board

The Board has three committees:

- an Audit Committee to oversee the production of the Issuer's semi-annual unaudited accounts and annual audited accounts. The Audit Committee deals with all material questions concerning auditing and accounting policy matters of the Issuer. The Audit Committee comprises of 2 Board members and 3 from the executive team. The Audit Committee meets on a quarterly basis;

- a Compensation Committee to deal with remuneration of Management Team and the Board. The Compensation Committee is responsible for the alteration of employment contracts, any increases in salary and bonuses. The Compensation Committee comprises of 1 Board member, the CEO and the HR Director. The Compensation Committee meets on a quarterly basis; and

- a Corporate Governance and Nominations Committee to oversee all corporate governance matters relating to the Issuer, for example, the appointment of members to the Management Team. The Corporate Governance and Nominations Committee comprises of 1 Board member, the CFO and the Head of the Legal Department. The Corporate Governance and Nominations Committee meets on a quarterly basis.

### Conflicts

The Issuer has entered into transactions with LLP "Center for wagon service – Eskene" ("**Eskene**") as disclosed in note 21 to the Issuer's audited financial statements for the year ended and as at 31 December 2012 - see "Transactions with Related Parties". Mr. Sarsenov, the largest participant in the Issuer and the chairman of the Board, holds a beneficial interest in Eskene and therefore there is a potential conflict of interest between the duties Mr. Sarsenov owes to the Issuer and his interest in Eskene. Save as set out above, as at the date of this Prospectus, there are no potential conflicts of interest between any duties of the members of the Board and the members of the Management Team and their private interests and/or other duties.

## EMPLOYEES

As at 31 December 2012, the Issuer employed 131 people. The majority of the Issuer's employees have extensive experience either in the rail industry or in the financial services sector and have significant experience in managing risk associated with credit exposure as well as with the composition of wagon portfolios. None of the Issuer's employees are a party to any collective bargaining agreements nor are they members of any trade unions. The Issuer did not have any significant reduction in the number of employees during the economic downturn. To date, none of the Issuer's employees have been involved in any strike actions.

The following is a table of the number of employees according to department as at 31 December 2012:

| Department | Number of Employees |
|---|---|
| General director | 1 |
| Board (analyst) | 1 |
| Finance and Accounting | 18 |
| Technical | 23 |
| Legal | 5 |
| Commercial | 31 |
| Administrative | 17 |
| HR | 3 |
| IT | 5 |
| Astana representative office | 2 |
| Atyrau representative office | 1 |
| Aktau branch | 24 |
| **Total** | **131** |

Kazakhstan pension law provides for a fully-funded, defined contribution pension system which requires each employed individual to make contributions to its individual account with a pension fund of the individual's choice. Under this system, the Issuer is required to withhold such contributions from employees' earnings and transfer such contributions to the designated state organisation for onward transfer to each employee's pension fund. Currently the Issuer does not maintain any voluntary pension fund or pension programs and has no agreements with its employees to provide pension or retirement benefits.

## CHARTER CAPITAL AND SHAREHOLDERS

The Issuer has fully paid charter capital of KZT 840,000 thousand. The Issuer has three shareholders. The Issuer's largest participant is Mr. Marat Sarsenov. Mr. Sarsenov directly holds 55.998 per cent. of the participating interests in the charter capital of the Issuer and 37.332 per cent. of the participating interests in the charter capital of the issuer are held by Steinhardt Holding BV, an entity which is beneficially owned by Mr. Sarsenov. Since March 2013, IFC has owned 6.67 per cent. of the participating interests in the charter capital of the Issuer (see "*Management's Discussion and Analysis of Results of Operations and Financial Condition – Recent Developments – IFC Investment*").

Dividends by the Issuer are approved by the Board and a resolution of the general meeting of the participants of the Issuer. In 2012 the Issuer declared dividends of KZT 925,505 thousand for the year ended 31 December 2011, in 2011 the Issuer declared dividends of KZT 650,567 thousand for the year ended 31 December 2010 and in 2010 the Issuer declared KZT 917,509 thousand for the year ended 31 December 2009.

## TRANSACTIONS WITH RELATED PARTIES

Related parties include owners of the Issuer and its key management personnel. The Issuer discloses its transactions with related parties in accordance with IAS 24 "Related Party Disclosures". See Note 21 to the Issuer's audited financial statements for the year ended and as at 31 December 2012 which are included in this Prospectus beginning on page F-2.

## DESCRIPTION OF THE SECURITY

### Security

Subject to "*Terms and Conditions – Condition 4.2 Collateral Coverage Ratio*", the obligations of the Issuer under the Notes will be secured by the security interests set out below (the "**Security**") in favour of the Trustee for the benefit of itself, the Principal Paying Agent and the Noteholders:

(a) any pledge agreement governed by Kazakhstan law dated after 22 April 2013 as amended from time to time and entered into between the Issuer as pledgor and the Trustee as pledgee in relation to Released Rolling Stock or in relation to any Acquired Rolling Stock (the form of such pledge agreement is set out in Schedule 5 to the Trust Deed) (the "**Rolling Stock Pledges**");

(b) any pledge agreement governed by Kazakhstan law dated after 22 April 2013 as amended from time to time and entered into between the Issuer as pledgor and the Trustee as pledgee in relation to the Issuer's rights under any sale and purchase agreement relating to Acquired Rolling Stock (the form of such pledge agreement is set out in Schedule 6 to the Trust Deed) (the "**Pledge of Rolling Stock SPAs**"); and

(c) the pledge agreement governed by Kazakhstan law dated on or about 22 April 2013 as amended from time to time and entered into between the Local Account Bank, the Issuer as pledgor and the Trustee as pledgee in relation to the Local Accounts (the "**Local Account Pledge**") relating to the top up of additional Collateral referred to in Condition 4.2 of the *"Terms and Conditions of the Notes"*.

Capitalised terms used in the section shall have the meaning given to them in the "*Terms and Conditions of the Notes*" unless otherwise stated.

The documents constituting the Security shall together be referred to as the Security Documents. The Security Documents contain provisions relating to the release of Security following redemption of Notes in accordance with the Conditions.

It should be noted that on or about the Issue Date, the Notes will not be immediately secured upon the assets of the Issuer. As described in more detail in Condition 4.2(a), the Collateral Coverage Ratio shall not be tested until 30 June 2014. However, in accordance with Condition 4.2(f), the Issuer shall, up until and including 30 June 2014, procure that any railcars that are purchased with the proceeds of the Notes, any Released Rolling Stock and any sale and purchase agreements entered into relating to the purchase of railcars funded by the proceeds of the Notes, are used to secure the obligations of the Issuer under the Notes in favour of the Trustee for the benefit of itself and Noteholders, with immediate effect.

### Collateral Coverage Ratio

In addition, as set out in Condition 4.2 of the "*Terms and Conditions of the Notes*" the Issuer covenants that the Collateral Coverage Ratio shall not be less than 130 per cent. at any time from and including the First Test Date (as defined below). The Collateral Coverage Ratio shall be tested within 60 days of the end of each semi-annual period of each financial year of the Issuer from and including 30 June 2014 (the "**First Test Date**") provided that, for the purposes of sub Condition (e) of Condition 4.2 of the "*Terms and Conditions of the Notes*", the Collateral Coverage Ratio may be tested at any time.

However, in the event that the Collateral Coverage Ratio is less than 130 per cent.: (a) on any date of determination, the Issuer is obliged, on or prior to the last day of the Top-up Period, to procure that such additional Collateral is secured in favour of the Trustee for the benefit of itself and the Noteholders in accordance with the relevant Security Document in order that the Collateral Coverage Ratio is not less than 130 per cent; or (b) on the date immediately following the Top-up Period, the Issuer is obliged to promptly, and in any event within 30 days: (i) give notice to the Trustee and the Noteholders in accordance with Condition 16 of the "*Terms and Conditions of the Notes*" specifying the value of the Collateral and the level of the Collateral Coverage Ratio; and (ii) redeem such principal amount of Notes as is necessary to ensure that it is in compliance with the Collateral Coverage Ratio on a pro forma basis immediately after such redemption (such redemption at a price determined in accordance with Condition 6.4(a) of the "*Terms and Conditions of the Notes*").

If the Collateral Coverage Ratio is more than 140 per cent. on any date of determination, the Issuer may instruct the Trustee, subject to and in accordance with the relevant Security Document, to release such Collateral as is specified by the Issuer provided that, following the release of such Collateral (consisting of Rolling Stock and/or cash standing to the credit of the Local Account), the Collateral Coverage Ratio will not be less than 130 per cent.

Furthermore, without prejudice to sub Condition (a) of Condition 4.2 of the "*Terms and Conditions of the Notes*", the Issuer is obliged, up until and including the First Test Date, to procure that any railcars that are purchased with the proceeds of the Notes, any Released Rolling Stock and any sale and purchase agreements entered into relating to the purchase of railcars funded by the proceeds of the Notes, are used to secure the obligations of the Issuer under the Notes in favour of the Trustee for the benefit of itself and Noteholders, with immediate effect. For more detailed information about the Collateral Coverage Ratio, see "*Terms and Conditions – Condition 4.2 Collateral Coverage Ratio*".

**Enforcing the Security in the Republic of Kazakhstan**

Under Kazakhstan law, a secured creditor cannot simply take possession of the pledged property (subject to certain exceptions). The creditor must seek to sell the pledged property through a public auction and recover the debt owed to it from the proceeds of such sale. The proceeds of the sale will be used first to cover expenses associated with the enforcement procedure and auction, second to repay the debt owed to the enforcing creditor and the remaining proceeds, if any, shall be returned to the pledgor.

A Kazakhstan law pledge may be enforced either through a judicial or out-of-court procedure at the option of the parties which shall be reflected in the relevant pledge agreement.

In the out-of-court enforcement procedure, the enforcement procedure including conduct of public auction will be performed by the authorised representative of the pledgee. The procedure includes, inter alia, sending a default notice from the pledgee's representative to the defaulting debtor, registering the default notice with the body responsible for registration of the relevant pledged property, publishing an auction notice in the media, and conducting public auction.

In the event that less than two bidders attend the public auction, the auction is considered to be invalid and the pledgee has a right to either conduct a new auction or take possession of the pledged property at a value estimated by the licensed appraiser.

Unlike the judicial enforcement procedure, there is no need for the pledgee to pay any court fee in the out-of-court procedure because there is no application to the court. However, if the pledgor is reluctant to co-operate with the pledgee in selling the pledged property, the pledgee will have to initiate the judicial enforcement procedure. The court fee in the amount of 3 per cent. of the value of the pledged property is payable in this case. This fee shall be, however, reimbursed by the pledgor upon positive outcome of the case in favour of the pledgee.

In the judicial enforcement procedure, the public auction is conducted by the court marshal on the basis of the court resolution.

A pledge over certain types of property, such as immovable property, registered vehicles (including railcars) and other types of registered property, is valid only upon registration with the relevant state registration bodies. The registration body has a right to refuse registration of pledge on the grounds stipulated by Kazakhstan law. Such registration, apart from validity, gives first ranking priority before pledges over the same property, unregistered or registered at a later date.

The registration is not mandatory for the validity of the pledge of other types of property (including a pledge over rights to the receivables under the contract and a pledge over money in a bank account), however, such registration gives first ranking priority before pledges over the same property, unregistered or registered at a later date.

A pledge over the rights to receivables under the contract is enforced by way of assignment of relevant rights to the pledge. No public auction is conducted.

Under Kazakhstan law, a pledge over money placed in a bank account is possible in relation to both accounts with a Kazakhstan bank and a foreign bank. In the case of a pledge over money placed in a local account, upon default of the debtor, the pledgee shall be entitled to directly debit the relevant bank account and take possession of the money placed in such account at the moment of the enforcement. In order to make such pledge enforceable in practice, the relevant pledge agreement shall contain direct debit language and the Kazakhstan account bank shall be a party to the pledge agreement.

**The security interests in the Security will be granted to the Trustee rather than directly to the Noteholders. The ability of the Trustee to enforce the Security may be restricted by Kazakhstan law**

The security interests in the Security that will secure obligations of the Issuer under the Notes will not be granted directly to the Noteholders but will be granted only in favour of the Trustee. Only the Trustee will have the right to enforce the Security Documents. As a consequence, the Noteholders will not have direct security interests and will not be entitled to take enforcement action in respect of the Security securing the Notes, except through the Trustee.

Under Kazakhstan law, it is uncertain as to whether security interests can be granted to a party other than the creditor of the claim purported to be secured by such security interests. For that reason, a parallel debt structure is used in the Trust Deed, whereby the Issuer, under separate and independent obligations, undertakes to pay to the Trustee amounts equal to the amounts due by the Issuer to the Noteholders.

Such parallel debt structure therefore creates a separate and independent claim of the Trustee which can be secured by a security interest. Consequently, the security interests are granted to the Trustee in its own capacity as creditor acting in its own name pursuant to the parallel debt, and not as a representative of the Noteholders. It is expressly agreed in such a parallel debt provision that the obligations of the Issuer to the Trustee shall be decreased to the extent that the corresponding principal obligations to the Noteholders are reduced (and vice versa). However, such parallel debt structure has never been tested before a Kazakhstan court and there is no assurance that it will mitigate or eliminate the risk of unenforceability posed by Kazakhstan law.

Furthermore, under the terms of the Trust Deed, if the Trustee resigns or is replaced, the outgoing Trustee is required to assign the parallel debt owed to it to the incoming trustee. Although under Kazakhstan law a pledge passes to the assignee of secured obligations (i.e. of the parallel debt) by operation of law, the new trustee might face practical difficulties when enforcing the Security until such assignment is registered with the relevant registration body.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the "Terms and Conditions of the Notes" and, except for the text in italics, will be endorsed on each Individual Note Certificate (if issued):*

The issue of U.S.$100,000,000 7.75 per cent. secured senior notes due 2018 of Eastcomtrans LLP (the "**Issuer**") (the "**Notes**", which expression includes any further Notes issued pursuant to Condition 15 and forming a single series therewith) was authorised by a general meeting of participants of the Issuer held on 5 March 2013.

The Notes are constituted by a trust deed dated 22 April 2013 as amended from time to time (the "**Trust Deed**") between the Issuer and U.S. Bank Trustees Limited as trustee and security trustee (the "**Trustee**", which expression shall include all persons for the time being who are the trustee or trustees under the Trust Deed) as trustee for the Holders (as defined below) of the Notes.

These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Security Documents (as defined in Condition 2). The Issuer has entered into an agency agreement dated 22 April 2013 as amended from time to time (the "**Agency Agreement**") with the Trustee, Elavon Financial Services Limited, London Branch, as principal paying agent (the "**Principal Paying Agent**") and the transfer agent (the "**Transfer Agent**") and Elavon Financial Services Limited as the registrar (the "**Registrar**") and the paying agent (the "**Paying Agent**", and together with the Principal Paying Agent and any other paying agents appointed under the Agency Agreement, the "**Paying Agents**") named therein. The Registrar, the Transfer Agent and the Paying Agents are together referred to herein as the "**Agents**".

Copies of the Trust Deed, the Agency Agreement and the Security Documents are available for inspection during normal business hours at the specified office of the Trustee, being at the date hereof 125 Old Broad Street, London EC2N 1AR, United Kingdom, and at the specified offices of the Agents. The Noteholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Security Documents and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

Capitalised terms used but not defined in these Conditions shall have the respective meanings given to them in the Trust Deed.

### 1. FORM AND DENOMINATION

The Notes are issued in fully registered form, serially numbered and without interest coupons attached, in minimum denominations of U.S.$200,000 or integral multiples of U.S.$1,000 in excess thereof (each an "**Authorised Denomination**"). The Notes may be transferred only in amounts not less than an Authorised Denomination.

*The Notes are initially issued in global, fully registered form, and will only be exchangeable for Notes in definitive, fully registered form ("**Definitive Notes**") in the limited circumstances set forth in the Agency Agreement.*

### 2. STATUS AND SECURITY

**Status**

2.1 The Notes constitute direct, senior, secured (in the manner described in Condition 2) and unsubordinated (subject to Condition 4.7) obligations of the Issuer and shall at all times rank pari passu and rateably without any preference among themselves. The Issuer shall ensure that at all times the claims of the Noteholders against it under the Notes rank in right of payment at least pari passu with the claims of all its other present and future unsecured and unsubordinated creditors, save those whose claims are preferred by any mandatory operation of law.

**Security**

2.2 Subject to Condition 4.2, the obligations of the Issuer under the Notes will be secured by the following security interests (the "**Security**") in favour of the Trustee for the benefit of itself, the Principal Paying Agent and the Noteholders:

(a) any pledge agreement governed by Kazakhstan law dated after 22 April 2013 as amended from time to time and entered into between the Issuer as pledgor and the Trustee as pledgee in relation to Released Rolling Stock or in relation to any Acquired Rolling Stock (the form of such pledge agreement, is set out in Schedule 5 to the Trust Deed) (the "**Rolling Stock Pledges**");

(b) any pledge agreement governed by Kazakhstan law dated after 22 April 2013 as amended from time to time and entered into between the Issuer as pledgor and the Trustee as pledgee in relation to the Issuer's rights under any sale and purchase agreement relating to Acquired Rolling Stock (the form of such pledge agreement is set out in Schedule 6 to the Trust Deed) (the "**Pledge of Rolling Stock SPAs**"); and

(c) the pledge agreement governed by Kazakhstan law dated on or about 22 April 2013 as amended from time to time and entered into between the Local Account Bank, the Issuer as pledgor and the Trustee as pledgee in relation to the Local Account (the "**Local Account Pledge**") relating to the top up of additional Collateral referred to in Condition 4.2.

The documents constituting the Security shall together be referred to as the Security Documents.

The Security Documents contain provisions relating to the release of Security following redemption of Notes in accordance with the Conditions or in circumstances where the Issuer is permitted to instruct the Trustee to release Security pursuant to Condition 4.2(d).

## 3. REGISTER, TITLE AND TRANSFERS

**Register**

3.1 The Registrar shall maintain a Register in respect of the Notes (the Register) outside the United Kingdom at the specified office for the time being of the Registrar in accordance with the provisions of the Agency Agreement and shall record in the Register the names and addresses of the holders of the Notes, particulars of the Notes and all transfers and redemptions thereof. In these Conditions, the Holder of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and Noteholder shall be construed accordingly.

**Title**

3.2 Title to the Notes will pass by and upon registration in the Register. The Holder of each Note shall (except as otherwise required by a court of competent jurisdiction or applicable law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Note) and no person shall be liable for so treating such Holder.

**Transfers**

3.3 Subject to Conditions 3.6 and 3.7 below, a Note may be transferred in whole or in part in an Authorised Denomination upon surrender of the relevant Definitive Note representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer endorsed thereon) (the Transfer Form), duly completed and executed, at the specified office of a Transfer Agent or of the Registrar, together with such evidence as such Agent or the Registrar may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. Where not all the Notes represented by the surrendered Definitive Note are the subject of the transfer, a new Definitive Note in respect of the balance not transferred will be delivered by the Registrar to the transferor in accordance with Condition 3.4. Neither the part transferred nor the balance not transferred may be less than U.S.$200,000.

**Registration and delivery of Definitive Notes**

3.4 Within five Business Days of the surrender of a Definitive Note in accordance with Condition 3.3 above, the Registrar shall register the transfer in question and deliver a new Definitive Note to each relevant Holder at the specified office of the Registrar or (at the request of the relevant Noteholder) at the specified office of a Transfer Agent or (at the request and risk of such relevant Holder) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder.

**No Charge**

3.5 The registration of the transfer of a Note shall be effected without charge to the Holder or transferee thereof, but against such indemnity from the Holder or transferee thereof as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

**Closed periods**

3.6 Noteholders may not require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of such Note.

**Regulations concerning Transfer and Registration**

3.7 All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer and registration of Notes set out in the First Schedule to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be sent by the Registrar free of charge to any person who so requests and will be available at the specified office of the Registrar.

## 4. COVENANTS

**Limitation on Indebtedness**

4.1

(a) The Issuer shall ensure that as at 31 December in each year from and including 31 December 2013:

(i) the Consolidated Leverage Ratio shall not exceed 4 to 1; and

(ii) the Consolidated Coverage Ratio shall be 2.5 to 1 or higher.

(b) The Consolidated Leverage Ratio and the Consolidated Coverage Ratio shall be tested on an annual basis by reference to the annual audited financial statements of the Issuer on a consolidated basis prepared in accordance with IFRS and published pursuant to Condition 4.10(a)(i) provided that the first such test shall occur in 2014 in respect of the financial year ending and as at 31 December 2013.

(c) Notwithstanding the foregoing Condition 4.1(a) the Issuer and any Restricted Subsidiaries will be entitled to Incur Permitted Indebtedness at any time.

(d) Notwithstanding the foregoing, no Restricted Subsidiary will Incur any Indebtedness pursuant to Condition 4.1 if the proceeds thereof are used, directly or indirectly, to Refinance any Subordinated Obligations of any Restricted Subsidiary unless such Indebtedness shall be subordinated to the Notes to at least the same extent as such Subordinated Obligations.

(e) For purposes of determining compliance with this Condition 4.1:

(i) in the event that an item of Indebtedness (or any portion thereof) meets the criteria of more than one of the types of Indebtedness described in Condition 4.1 (including Permitted Indebtedness), the Issuer, in its sole discretion, will classify such item of Indebtedness (or any portion thereof) at the time of Incurrence and will only be required to include the amount and type of such Indebtedness in one of the above sub-Conditions;

(ii) the Issuer will be entitled to divide and classify an item of Indebtedness in more than one of the types of Indebtedness described in Condition 4.1 (including Permitted Indebtedness) and may change the classification of an item of Indebtedness (or any portion thereof) to any other type of Indebtedness described in Condition 4.1 at any time. The outstanding principal amount of any particular Indebtedness shall be counted only once and any obligations arising under any guarantees, Lien, letters of credit or similar instrument supporting such Indebtedness shall not be double counted; and

(iii) any entity that is allowed to Incur Indebtedness under Condition 4.1 (and the definition of Permitted Indebtedness) may provide a guarantee of any other entity's Incurrence of such Indebtedness, provided that such other entity Incurs such Indebtedness pursuant to Condition 4.1 (and the same paragraph of the definition of Permitted Indebtedness) under which the guaranteeing entity provides its guarantee of such Indebtedness.

(f) For purposes of determining compliance with any U.S. Dollar denominated restriction on the Incurrence of Indebtedness where the Indebtedness Incurred is denominated in a different currency, the amount of such Indebtedness will be the U.S. Dollar Equivalent determined on the date of the Incurrence of such

Indebtedness; provided, however, that if any such Indebtedness denominated in a different currency is subject to a Currency Agreement with respect to U.S. Dollars covering all principal, premium, if any, and interest payable on such Indebtedness, the amount of such Indebtedness expressed in U.S. Dollars will be as provided in such Currency Agreement. The principal amount of any Refinancing Indebtedness Incurred in the same currency as the Indebtedness being Refinanced will be the U.S. Dollar Equivalent, as appropriate, of the Indebtedness Refinanced, except to the extent that (A) such U.S. Dollar Equivalent was determined based on a Currency Agreement, in which case the Refinancing Indebtedness will be determined in accordance with the preceding sentence, and (B) the principal amount of the Refinancing Indebtedness exceeds the principal amount of the Indebtedness being Refinanced, in which case the U.S. Dollar Equivalent of such excess, as appropriate, will be determined on the date such Refinancing Indebtedness is Incurred. Notwithstanding any other provision of this Condition 4.1, the maximum amount that a Restricted Subsidiary may Incur pursuant to this Condition 4.1 shall not be deemed to be exceeded, with respect to outstanding Indebtedness, due solely as a result of fluctuations in the exchange rates of currencies.

**Collateral Coverage Ratio**

4.2

(a) Subject to Condition 4.2(d), the Issuer shall not permit the Collateral Coverage Ratio to be less than 130 per cent. at any time from and including the First Test Date (as defined below);

(b) The Collateral Coverage Ratio shall be tested within 60 days of the end of each semi-annual period of each financial year of the Issuer from and including 30 June 2014 (the "**First Test Date**") provided that, for the purposes of Sub Condition (e) of this Condition 4.2, the Collateral Coverage Ratio may be tested at any time.

(c) In the event that the Collateral Coverage Ratio is less than 130 per cent. on any date of determination, the Issuer shall, on or prior to the last day of the Top-up Period, procure that such additional Collateral is secured in favour of the Trustee for the benefit of itself and the Noteholders in accordance with the relevant Security Document in order that the Collateral Coverage Ratio is not less than 130 per cent.

(d) If, on the date immediately following the Top-up Period the Collateral Coverage Ratio is less than 130 per cent., the Issuer shall promptly, and in any event within 30 days,

   (i) give notice to the Trustee and the Noteholders in accordance with Condition 16 specifying the value of the Collateral and the level of the Collateral Coverage Ratio; and

   (ii) redeem such principal amount of Notes as is necessary to ensure that it is in compliance with the Collateral Coverage Ratio on a pro forma basis immediately after such redemption, such redemption at a price determined in accordance with Condition 6.4(a) (*Optional Redemption at Make Whole*).

(e) In the event that the Collateral Coverage Ratio is more than 140 per cent. on any date of determination, the Issuer shall be entitled to instruct the Trustee, subject to and in accordance with the relevant Security Document, to release such Collateral as is specified by the Issuer provided that, following the release of such Collateral (consisting of Rolling Stock and/or cash standing to the credit of the Local Account), the Collateral Coverage Ratio will not be less than 130 per cent.

(f) Without prejudice to sub Condition (a) of this Condition 4.2, the Issuer shall up until and including the First Test Date, procure that any railcars that are purchased with the proceeds of the Notes, any Released Rolling Stock and any sale and purchase agreements entered into relating to the purchase of railcars funded by the proceeds of the Notes, are used to secure the obligations of the Issuer under the Notes in favour of the Trustee for the benefit of itself and Noteholders, with immediate effect.

**Limitation on Restricted Payments**

4.3

(a) The Issuer will not and will not permit any of its Restricted Subsidiaries, directly or indirectly, to, make a Restricted Payment if at the time such Restricted Payment is made:

   (i) a Default or Event of Default shall have occurred and be continuing (or would result therefrom); or

(ii) the aggregate amount of such Restricted Payment and all other Restricted Payments since the Issue Date would exceed the sum of (counting each amount or event in only one category below):

(A) 50 per cent. of the consolidated net profit of the Issuer and its consolidated Restricted Subsidiaries (determined in accordance with IFRS) accrued during the period (treated as one accounting period) from the first day of the semi-annual financial period in which the Issue Date occurs to the end of the most recent semi-annual financial period ending prior to the date of such Restricted Payment for which financial statements are available (or, in the case of a consolidated net loss of the Issuer and its Restricted Subsidiaries (determined in accordance with IFRS), minus 100 per cent. of such consolidated net loss); plus

(B) 100 per cent. of the aggregate Net Cash Proceeds and the Fair Market Value of property (other than cash) received by the Issuer from the issuance or sale of its Capital Stock (other than Disqualified Stock), or warrants, options or rights to purchase shares of its Capital Stock (other than Disqualified Stock) but solely upon the exercise of such options, warrants or rights, in each case, subsequent to the Issue Date (other than an issuance or sale to a Subsidiary of the Issuer and other than an issuance or sale to an employee stock ownership plan or to a trust established by the Issuer or any of its Subsidiaries for the benefit of their employees) and 100 per cent. of any cash capital contribution received by the Issuer from its participants subsequent to the Issue Date; plus

(C) the amount by which Indebtedness of the Issuer or any Restricted Subsidiary is reduced on the Issuer's balance sheet upon the conversion or exchange subsequent to the Issue Date of any Indebtedness of the Issuer convertible or exchangeable for Capital Stock (other than Disqualified Stock) of the Issuer (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Issuer upon such conversion or exchange); provided, however, that (i) subject to sub-Condition (ii) of this Condition 4.3(a)(ii)(C), the foregoing amount shall not exceed the Net Cash Proceeds received by the Issuer or any Restricted Subsidiary from the sale of such Indebtedness (excluding Net Cash Proceeds from sales to a Subsidiary of the Issuer or to an employee stock ownership plan or a trust established by the Issuer or any of its Subsidiaries for the benefit of their employees); and (ii) the foregoing amount, as limited by sub-Condition (i) of this Condition 4.3(a)(ii)(C), shall be increased by the aggregate Net Cash Proceeds, if any, received by the Issuer or a Restricted Subsidiary upon such conversion or exchange (excluding any such Net Proceeds comprising funds borrowed from the Issuer or any Restricted Subsidiary until and to the extent such borrowing is repaid); plus

(D) 50 per cent. of any cash dividends received by the Issuer or a Restricted Subsidiary after the Issue Date from an Unrestricted Subsidiary, to the extent that such dividends were not otherwise included in the consolidated net profit (or loss) of the Issuer and its consolidated Restricted Subsidiaries (determined in accordance with IFRS) for such period.

(b) Sub-Condition 4.3(a) shall not prohibit:

(i) any Restricted Payment made out of the Net Cash Proceeds of the substantially concurrent sale of, or made by exchange for, Capital Stock of the Issuer (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary of the Issuer or an employee stock ownership plan or to a trust established by the Issuer or any of its Subsidiaries for the benefit of their employees) or a substantially concurrent cash capital contribution received by the Issuer from its participants; provided, however, that (A) such Restricted Payment shall be excluded in the calculation of the amount of Restricted Payments and (B) the Net Cash Proceeds from such sale or such cash capital contribution (to the extent so used for such Restricted Payment) shall be excluded from the calculation of amounts under sub-Condition (ii)(B) of Condition 4.3(a);

(ii) so long as no Default or Event of Default has occurred and is continuing, any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations of the Issuer made by exchange for, or out of the proceeds of the substantially concurrent Incurrence of, Refinancing Indebtedness of such Person in respect of such Subordinated Obligations; provided, however, that such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value shall be excluded in the calculation of the amount of Restricted Payments;

(iii) dividends paid by the Issuer within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with this covenant; provided, however, that such payment (without duplication of the relevant dividend) shall be included in the calculation of the amount of Restricted Payments;

(iv) so long as no Default or Event of Default has occurred and is continuing, the purchase, redemption or other acquisition of Capital Stock of the Issuer or any of its Subsidiaries from employees, former employees, directors or former directors of the Issuer or any of its Subsidiaries or any Affiliate of the Issuer (or permitted transferees of such employees, former employees, directors or former directors), pursuant to the terms of the agreements (including employment agreements) or plans (or amendments thereto) approved by the Authorised Corporate Body under which such individuals purchase or sell or are granted the option to purchase or sell, shares of such Capital Stock; provided, however, that the aggregate amount of such Restricted Payments shall not exceed U.S.$5,000,000 in the aggregate; provided further, however, that such Restricted Payments shall be included in the calculation of the amount of Restricted Payments;

(v) repurchases of Capital Stock deemed to occur upon exercise of stock options or warrants if such Capital Stock represents a portion of the exercise price of such options; provided, however, that such Restricted Payments shall be excluded from the calculation of the amount of Restricted Payments;

(vi) cash payments in lieu of the issuance of fractional shares in connection with stock dividends, splits or combinations, the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Issuer; provided, however, that any such cash payment shall not be for the purpose of evading the limitation of this Condition 4.3 (as determined in good faith by the Authorised Corporate Body); provided further, however, that such payments shall be excluded from the calculation of the amount of Restricted Payments;

(vii) in the event of a Change of Control, and if no Default or Event of Default shall have occurred and be continuing, the payment, purchase, redemption, defeasance or other acquisition or retirement of any Subordinated Obligations of the Issuer, in each case, at a purchase price not greater than 101 per cent. of the principal amount of such Subordinated Obligations, plus any accrued and unpaid interest thereon; provided, however, that prior to such payment, purchase, redemption, defeasance or other acquisition or retirement, the Issuer (or a third party to the extent permitted by the Conditions) has issued a Change of Control Put Event Notice with respect to the Notes as a result of such Change of Control and has repurchased all Notes validly tendered and not withdrawn in connection with such Change of Control; provided further, however, that such payments, purchases, redemptions, defeasances or other acquisitions or retirements shall be included in the calculation of the amount of Restricted Payments;

(viii) the purchase, repurchase, redemption, legal defeasance, acquisition or retirement for value of any intercompany Indebtedness, the Incurrence of which was permitted under Condition 4.1 and paragraph (n) of Permitted Indebtedness, provided, however, that no Default or Event of Default has occurred and is continuing or would otherwise result therefrom; provided further, however, that such payments shall be excluded in the calculation of the amount of Restricted Payment;

(ix) payments or distributions to dissenting participants pursuant to applicable law in connection with or contemplation of a merger, consolidation or transfer of assets that complies with the provisions of the Notes relating to mergers, consolidations or transfers of substantially all of the Issuer's assets;

(x) payments that are permitted pursuant to Condition 4.6;

(xi) the payment of dividends on the Issuer's ordinary shares of up to 6 per cent. per annum of the net proceeds received by the Issuer from any public offering of ordinary shares, or certificates representing shares of, the Issuer; and

(xii) Restricted Payments in an amount which, when taken together with all Restricted Payments made pursuant to this sub-Condition (xii), does not exceed U.S.$25,000,000; provided, however, that (A) at the time of each such Restricted Payment, no Default or Event of Default shall have occurred and be continuing (or result therefrom) and (B) such payments shall be included in the calculation of the amount of Restricted Payments.

**Limitation on Restrictions on Distributions from Restricted Subsidiaries**

4.4

(a) The Issuer will not and will not permit any of its Restricted Subsidiaries to, create or Incur or otherwise cause or permit to exist or become effective any encumbrance or consensual restriction on the ability of any Restricted Subsidiary to (A) pay dividends or make any other distributions on its Capital Stock to a Restricted Subsidiary or pay any Indebtedness owed to the Issuer or a Restricted Subsidiary, (B) make any loans or advances to the Issuer or a Restricted Subsidiary or (C) transfer any of its property or assets to the Issuer or another Restricted Subsidiary, except as specified in Condition 4.4(b).

(b) Condition 4.4(a) shall not apply to any of the following:

(i) any encumbrance or restriction pursuant to an agreement in effect at or entered into on the Issue Date, a Credit Facility (whether or not in effect on the Issue Date) or the Notes;

(ii) encumbrances or restrictions imposed by applicable law, rule, order, approval or regulation or by governmental licence, concession or permit;

(iii) encumbrances and restrictions contained in any agreement or other instrument of any Person acquired by the Issuer or any Restricted Subsidiary in effect at the time of such acquisition or with respect to any Unrestricted Subsidiary at the time it is designated or deemed to become a Restricted Subsidiary (but not created in contemplation thereof) which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired;

(iv) any encumbrance or restriction pursuant to an agreement with respect to Indebtedness Incurred in reliance on Condition 4.1 and paragraph (a) and/or paragraph (e) of Permitted Indebtedness;

(v) a restriction on the transfer of property or assets arising or agreed to in the ordinary course of business (i) that restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license or, (ii) by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of, either the Issuer or any Restricted Subsidiary or (iii) arising or agreed to in the ordinary course of business, not relating to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Issuer or any Restricted Subsidiary thereof in any manner material to the Issuer or any Restricted Subsidiary thereof;

(vi) customary limitations on the distribution or disposition of assets or property of a Restricted Subsidiary pursuant to joint venture agreements entered into in the ordinary course of business and in good faith; provided that such encumbrance or restriction is applicable only to such Restricted Subsidiary and provided that:

(A) the encumbrance or restriction is not materially more disadvantageous to the Noteholders than is customary in comparable agreements (as determined in good faith by the Issuer); and

(B) the Issuer determines in good faith that any such encumbrance or restriction will not materially affect the ability of the Issuer to make any anticipated principal or interest payments on the Notes and any other Indebtedness for borrowed money that is an obligation of the Issuer;

(vii) contractual requirements of a Securitisation Entity in connection with a Qualified Securitisation Transaction; provided that such sale restrictions apply only to such Securitisation Entity;

(viii) encumbrances or restrictions contained in contracts for sale of Capital Stock or assets permitted by Condition 4.5 with respect to the assets or Capital Stock to be sold pursuant to such contract or in customary merger or acquisition agreements (or any option to enter into such contracts) for the purchase or acquisition of Capital Stock assets or any of the Issuer's Subsidiaries by another Person;

(ix) Liens securing Indebtedness that is permitted to be incurred and secured under these Conditions;

(x) customary encumbrances or restrictions in connection with Purchase Money Indebtedness for property acquired in the ordinary course of business and Capital Lease Obligation that impose restrictions on the property purchased or leased;

(xi) encumbrances or restrictions on cash or other deposits or net worth imposed by customers and suppliers under contracts entered into in the ordinary course of business; and

(xii) any encumbrance or restriction of the type referred to in Condition 4.4(a) imposed by any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings of the contracts, instruments or obligations referred to in any of Condition 4.4(b)(i) to (xi); provided that such amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings are, in the good faith judgment of the Authorised Corporate Body of the Issuer, no more restrictive in any material respect with respect to such encumbrance and other restrictions taken as a whole than those prior to such amendment, modification, restatement, renewal, increase, supplement, refunding, replacement or refinancing.

**Limitation on Sales of Assets and Subsidiary Stock**

4.5

(a) The Issuer will not and will not permit any of its Restricted Subsidiaries to, directly or indirectly, consummate any Asset Disposition unless:

(i) the Issuer or such Restricted Subsidiary receives consideration at the time of such Asset Disposition at least equal to the Fair Market Value (including as to the value of all non-cash consideration) of the Capital Stock and assets subject to such Asset Disposition;

(ii) at least 75 per cent. of the consideration thereof received by the Issuer or such Restricted Subsidiary is in the form of (A) cash or (B) Cash Equivalents (as defined below); and

(iii) an amount equal to 100 per cent. of the Net Available Cash from such Asset Disposition is applied by the Issuer or such Restricted Subsidiary, as the case may be:

(A) to the extent the Issuer elects (or is required by the terms of any Indebtedness), to prepay, repay, redeem or purchase Senior Indebtedness of the Issuer or any Restricted Subsidiary (in each case other than Indebtedness owed to the Issuer or an Affiliate of the Issuer) within 180 days from the later of the date of such Asset Disposition or the receipt of such Net Available Cash;

(B) to the extent the Issuer elects (or is required by the terms of any Indebtedness), to prepay, repay, redeem or purchase Indebtedness of any Restricted Subsidiary (in each case other than Indebtedness owed to the Issuer or an Affiliate of the Issuer) within 180 days from the later of the date of such Asset Disposition or the receipt of such Net Available Cash;

(C) to the extent the Issuer elects, to invest in the Related Business;

(D) to the extent the Issuer elects, to invest in Temporary Cash Investments within 180 days from the date of such Asset Disposition or the receipt of such Net Available Cash; and

(E) to the extent the Issuer elects, any combination of the foregoing,

provided, however, that in connection with any prepayment, repayment or purchase of Indebtedness pursuant to sub-Condition (iii)(A) or (B) above, the Issuer or such Restricted Subsidiary shall permanently retire such Indebtedness and shall cause the related loan commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid or purchased and provided further that if the use of Net Available Cash is applied under sub-Condition (iii)(D) above, such Net Available Cash must be applied pursuant to sub-Condition (iii)(A) or (iii)(B) within 365 days from the date of such Asset Disposition or the receipt of such Net Available Cash.

The Issuer and any Restricted Subsidiary will be deemed to have complied with the provision described in sub-Conditions (iii)(A) through (iii)(E) if and to the extent that, within 180 days after the Asset Disposition, such Issuer or Restricted Subsidiary has entered into and not abandoned or rejected a binding agreement of any of sub-Conditions (iii)(A) through (iii)(E), and that such agreement is completed within 180 days after the end of the initial 180-day period.

(b) Any Net Available Cash from Asset Dispositions that is not applied or invested as provided in Condition 4.5(a) within 365 days after receipt thereof will be deemed to constitute Excess Proceeds and:

(i) when the aggregate amount of Excess Proceeds or the U.S. Dollar Equivalent thereof exceeds U.S.$25,000,000, the Issuer will be required to make an offer (Asset Disposition Offer) to all Holders of Notes to purchase the maximum principal amount of Notes that may be purchased out of the Excess Proceeds (equal to U.S.$200,000 and any integral multiple of U.S.$1,000 in excess thereof and provided that any unpurchased portion of any Note surrendered is in a principal amount of at least U.S.$200,000), at an offer price in cash in an amount equal to 100 per cent. of the principal amount of the Notes plus accrued and unpaid interest, and any additional amounts payable pursuant to Condition 8.1, to the date of purchase. If there is any Indebtedness outstanding that ranks pari passu with the Notes and contains similar provisions to this Condition 4.5 requiring the Issuer to make an offer to purchase such Indebtedness following as Asset Disposition, the Issuer (x) may make an offer to purchase such Indebtedness on similar terms (but at a price not exceeding 100 per cent. of the relevant principal amount) as, or on terms that are no better than the terms of, the Asset Disposition Offer and, (y) to the extent that the aggregate principal amount of Notes validly tendered and not withdrawn (the Tendered Notes) together with the amount of such pari passu Indebtedness validly tendered and not withdrawn (the Aggregate Tendered Amount) exceeds the Excess Proceeds, the proportion of the Excess Proceeds to be applied to the purchase of the Tendered Notes shall be the amount which bears the same proportion to the Excess Proceeds as the aggregate principal amount of the Tendered Notes bears to the Aggregate Tendered Amount, and any reference below to Excess Proceeds shall be taken to mean such proportional amount.

(ii) If the aggregate principal amount of Notes surrendered by Holders thereof exceeds the amount of Excess Proceeds, the Notes (equal to U.S.$200,000 and any integral multiple of U.S.$1,000 in excess thereof and provided that any unpurchased portion of any Note surrendered is in a principal amount of at least U.S.$200,000) shall be purchased on a pro rata basis. Upon completion of such Asset Disposition Offer, the amount of Excess Proceeds shall be reduced by the aggregate amount of such Asset Disposition Offer.

The Issuer will determine the relevant procedures in respect of any Asset Disposition Offer, provided that such procedures are in compliance with the rules of any stock exchange on which the Notes are listed. Notice of the Asset Disposition Offer will be given in accordance with Condition 16. The Asset Disposition Offer will remain open for a period of 20 Business Days following its commencement, except to the extent that a longer period is required by applicable law (the "**Asset Disposition Offer Period**"). No later than five Business Days after the termination of the Asset Disposition Offer Period (the "**Asset Disposition Purchase Date**"), the Issuer will purchase and pay for the principal amount of Notes plus any additional amounts required in accordance with the foregoing required to be purchased pursuant to this Condition 4.5 (the "**Asset Disposition Offer Amount**").

Any Note tendered and not accepted for purchase will be promptly mailed or delivered by the Issuer to the Holder thereof. The Issuer will publicly announce the results of the Asset Disposition Offer on the Asset Disposition Purchase Date.

The Issuer will comply, to the extent applicable, with any securities laws or regulations in connection with the repurchase of Notes pursuant to the Trust Deed. To the extent that the provisions of any securities laws or regulations conflict with provisions of this Condition, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Trust Deed by virtue of any conflict.

To the extent that all or any portion of the Excess Proceeds remains after completion of an Asset Disposition Offer, the Issuer or such Restricted Subsidiary may use any remaining Excess Proceeds for any corporate purposes permitted by the covenants contained in these Conditions.

(c) For the purposes of this Condition 4.5, the following are deemed to be Cash Equivalents:

(i) the assumption or discharge of (a) Senior Indebtedness of the Issuer (other than obligations in respect of Disqualified Stock of the Issuer) or any Restricted Subsidiary and the release of the Issuer or such Restricted Subsidiary from all liability on such Indebtedness in connection with such Asset Disposition or (b) Senior Indebtedness of a Restricted Subsidiary that is no longer a Restricted

Subsidiary as a result of such Asset Disposition, if the Issuer and each other Restricted Subsidiary is released from any obligation under such Indebtedness as a result of such Asset Disposition;

(ii) securities received by the Issuer or any Restricted Subsidiary from the transferee that are converted within 180 days by the Issuer or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion; and

(iii) Temporary Cash Investments.

**Limitation on Affiliate Transactions**

4.6

(a) The Issuer will not and will not permit any of its Restricted Subsidiaries to, enter into or permit to exist any transaction or a series of related transactions (including the purchase, sale, lease or exchange of any property, employee compensation arrangements or the rendering of any service) with, or for the benefit of, any Affiliate of the Issuer or such Restricted Subsidiary (an Affiliate Transaction) unless:

(i) the terms of the Affiliate Transaction are no less favourable to the Issuer or such Restricted Subsidiary than those that could be obtained at the time of the Affiliate Transaction in arm's length dealings with a Person who is not an Affiliate;

(ii) if such Affiliate Transaction involves an amount in excess of U.S.$10,000,000, the terms of the Affiliate Transaction are set forth in writing and the Authorised Corporate Body has determined in good faith that the criteria set forth in sub-Condition (i) above are satisfied and have approved the relevant Affiliate Transaction as evidenced by a resolution of the Authorised Corporate Body.

(b) The provisions of Condition 4.6(a) above will not prohibit:

(i) any transaction or series of related transactions in an aggregate amount not exceeding U.S.$2,500,000 in any 12 month period;

(ii) any issuance of securities, or other advances, payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment arrangements, insurance plans, deferred compensation plans, retirement and savings plans, stock options and stock ownership plans that are customary and are approved by the Authorised Corporate Body in good faith and deemed the services theretofore or thereafter to be performed for such compensation or payments to be fair consideration therefor;

(iii) loans or advances or guarantees of third party loans (but not any forgiveness of such loans or advances or guarantees) to employees, directors and officers in the ordinary course of business in accordance with the past practices of the Issuer or its Restricted Subsidiaries, but in any event not to exceed U.S.$ 1,000,000 in the aggregate outstanding at any one time;

(iv) transactions between or among all or any of the Issuer, any Restricted Subsidiaries, and any joint venture, which if involving a joint venture would constitute an Affiliate Transaction solely because the Issuer or a Restricted Subsidiary owns an equity interest in or otherwise controls such joint venture;

(v) the issuance or sale of any Capital Stock (other than Disqualified Stock) of the Issuer;

(vi) any Restricted Payment permitted by Condition 4.3;

(vii) any agreement as in effect on the Issue Date, or any renewals, extensions or amendments of any such agreement (so long as such renewals, extensions or amendments, taken as a whole, are not less favourable in any material respect to the Issuer or the Restricted Subsidiaries) and the transactions evidenced thereby;

(viii) transactions effected as part of a Qualified Securitisation Transaction;

(ix) the agreements and arrangements for the payment of fees and expenses owed by the Issuer or a Restricted Subsidiary to an Affiliate for services rendered or goods sold in an aggregate amount not exceeding U.S.$1,000,000 in any 12 month period;

(x) agreements and arrangements existing on the Issue Date and any amendment, extension, renewal, refinancing, modification or supplement thereof, provided that following such amendment, extension, renewal, refinancing, modification or supplement, the terms of any such agreement or arrangement so amended, modified or supplemented are not materially more disadvantageous to the Noteholders and to the Issuer and the Restricted Subsidiaries, as applicable, than the original agreement or arrangement as in effect on the Issue Date and provided, further, that such amendment or modification is (A) on a basis substantially similar to that which would be conducted in an arm's length transaction with third parties who are not Affiliates and (B) in the case of any transaction having a Fair Market Value of greater than U.S.$10,000,000, approved by the Issuer's Authorised Corporate Body; and

(xi) transactions with customers, clients, suppliers or purchasers or sellers of goods or services consistent with past practice, in each case, in the ordinary course of business and otherwise in compliance with these Conditions, which are fair to the Issuer or the relevant Restricted Subsidiary in the reasonable determination of the Authorised Corporate Body or the senior management of the Issuer or the relevant Restricted Subsidiary, as the case may be, in each case, that are disinterested with respect to such Affiliate Transaction or are on terms no less favourable than those that could reasonably have been obtained at such time from an unaffiliated party.

**Limitation on Liens**

4.7 The Issuer will not, directly or indirectly, create, Incur or permit or suffer to exist any Lien of any nature whatsoever over the whole or any part of the Pledged Rolling Stock. This Condition 4.7 does not apply to the Security or to the leasing of railcars by the Issuer or any Restricted Subsidiary in the ordinary course of its business.

**Limitation on Lines of Business**

4.8 The Issuer will not and will not permit any Restricted Subsidiaries to, engage in any business other than a Related Business, except to such extent as would not be material to the Issuer and the Restricted Subsidiaries taken as a whole.

**Merger and Consolidation**

4.9 The Issuer will not consolidate with or merge with or into, or convey, transfer or lease (except for leases in respect of railcars that are already leased or railcars that will be leased by the Issuer in the ordinary course of business), in one transaction or a series of transactions, directly or indirectly, all or substantially all its assets to, any Person, unless:

(a) either (A) the Issuer will be the continuing corporation or (B) the resulting, surviving or transferee Person, if not the Issuer (the Successor Issuer), shall be a Person which is organised and existing under the laws of an Issuer Approved Jurisdiction and the Successor Issuer (if not the Issuer) shall expressly assume, by executing a supplemental trust deed and any other relevant documents, in each case, in a form satisfactory to the Trustee, all the obligations of the Issuer under the Notes, the Trust Deed and the Security Documents;

(b) immediately after giving pro forma effect to such transaction (and treating any Indebtedness which becomes an obligation of the Successor Issuer or any Subsidiary as a result of such transaction as having been Incurred by such Successor Issuer or such Subsidiary at the time of such transaction), no Default or Event of Default shall have occurred and be continuing;

(c) the Issuer shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer complies with these Conditions; and

(d) the Issuer shall have delivered to the Trustee an Opinion of Counsel to the effect that the Noteholders will not recognise income, gain or loss for Kazakh income tax purposes as a result of such transaction and will be subject to Kazakh income tax on the same amounts, in the same manner and at the same times as would have been the case if such transaction had not occurred, provided, however, that Condition 4.5 will not apply to (A) the disposition of the Issuer in its entirety to a Restricted Subsidiary, whether through a merger, consolidation or sale of Capital Stock or (B) the sale of all or substantially all the assets of the Issuer to a Restricted Subsidiary.

The Successor Issuer will be the successor to the Issuer and shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the Notes the Trust Deed and the Security Documents, and the predecessor company (except in the case of a lease of all or substantially all of its assets, in which case the predecessor company shall not be released from such obligations) shall be released from the obligation to pay the principal of and interest on the Notes.

This Condition 4.9 will not apply solely as a result of a change of legal personality by the Issuer from its current limited liability partnership status to a joint stock company.

**Reports**

4.10

(a) As long as any Notes are outstanding, the Issuer will publish and furnish to the Noteholders and the Trustee:

(i) within 150 days after the end of each financial year, annual reports containing the following information: (A) audited consolidated balance sheets of the Issuer as of the end of the two most recent financial years and audited consolidated income statements and statements of cash flow of the Issuer for the two most recent financial years, in each case prepared in accordance with IFRS, and including complete footnotes to such financial statements and the report of the independent auditors on the financial statements and (B) an operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition, and liquidity and capital resources, and a discussion of material commitments and contingencies and critical accounting policies;

(ii) within 120 days after the end of each semi-annual period of each financial year of the Issuer thereafter (A) a report containing an unaudited consolidated balance sheet as of the end of such period and unaudited statements of income and cash flow for the period ending on the unaudited balance sheet date, and the comparable prior year periods, in each case prepared in accordance with IFRS, and including condensed footnotes to such interim condensed consolidated financial information (unaudited) and (B) an operating and financial review of the interim condensed consolidated financial information (unaudited), including a discussion of the results of operations, financial condition, and liquidity and capital resources, and a discussion of material commitments and contingencies and critical accounting policies;

(iii) promptly after the occurrence of a material acquisition, disposition, restructuring or change in auditors or any other material event, a report containing a description of such event; and

(iv) an Officers' Certificate of the Issuer, semi-annually, with respect to compliance with the Conditions and specifying any Unrestricted Subsidiaries or Restricted Subsidiaries, if any, in accordance with the definition thereof which certificate the Trustee will be entitled to rely on absolutely without further investigation in respect thereof.

(b) If any of the Issuer's Subsidiaries are Unrestricted Subsidiaries and, in the aggregate, such Unrestricted Subsidiaries' total assets or Net Income represent not less than ten per cent. of the Issuer's Consolidated Total Assets and consolidated net profit (or loss) of the Issuer and its consolidated Restricted Subsidiaries (determined in accordance with IFRS) as at the date of the balance sheet included in a report required by the preceding paragraph, then the annual financial information required in such report will include a supplemental review of the financial condition and results of operations of the Issuer and its Restricted Subsidiaries (separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Issuer) based on the financial information regarding EBITDA, equipment, total assets and liabilities of the Issuer and its Restricted Subsidiaries on a consolidated basis.

(c) The Issuer shall also (i) post copies of such reports in compliance with the guidelines published by the Stock Exchange or any agency or service customarily used by entities with debt securities listed on such Stock Exchange for the dissemination of information and (ii) post such reports on the website of the Issuer.

Notwithstanding any other provisions of these Conditions, references to "**Consolidated**" or "**consolidated**" shall in these Conditions, in the context of financial statements and compliance by the Issuer with the covenants contained herein only apply to the extent that the Issuer is obliged by IFRS to produce financial statements in accordance with IFRS on a consolidated basis. Such interpretation shall not impact upon the meaning of the relevant sentence in these Conditions otherwise.

**Payment of Taxes and Other Claims**

4.11 So long as any amount remains outstanding under the Notes, the Issuer shall, and shall cause its Restricted Subsidiaries to, pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or assets of the Issuer or any Restricted Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of the Issuer or any Restricted Subsidiaries; provided, however, that none of the Issuer nor any Restricted Subsidiaries shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment or charge or any such claim (i) whose amount, applicability or validity is being contested in good faith through the appropriate channels or (ii) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed U.S.$10,000,000 and which is overdue by 10 days from the date of such final demand.

**Maintenance of Authorisations**

4.12 The Issuer shall obtain or make, and procure the continuance or maintenance of, all registrations, recordings, filings, consents, licences, approvals and authorisations, which may at any time be required to be obtained or made in Kazakhstan or any other relevant jurisdiction for the purposes of the execution, delivery or performance of the Notes, the Trust Deed, the Security Documents and for the validity and enforceability thereof.

**Maintenance of Property**

4.13 The Issuer shall and shall cause each of its Restricted Subsidiaries to, cause all property that is material in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements and improvements thereof, all as, in the judgment of the Issuer or Restricted Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times; provided, however, that nothing in this Condition 4.13 will prevent the Issuer or any Restricted Subsidiaries from discontinuing or reducing the operation or maintenance of any such property if such discontinuance or reduction is determined by the Issuer or Restricted Subsidiary having managerial responsibility for such property to be desirable in the conduct of its business or the business of the Issuer or Restricted Subsidiary.

**Claims Pari Passu**

4.14 The Issuer shall ensure at all times the claims of the Noteholders against it under the Notes , shall rank at least pari passu with claims of all other present and future unsecured creditors (other than claims preferred under any bankruptcy, insolvency, liquidation or similar laws).

**Limitation on Layering**

4.15 The Issuer will not incur Indebtedness if such Indebtedness is subordinate or junior in ranking in any respect to any Senior Indebtedness, unless such Indebtedness ranks equally with the Notes or is subordinated to the Notes. No such Indebtedness will be considered to be senior by virtue of being secured on a first or junior priority basis.

**Limitation on Sale or Issuance of Voting Stock of Restricted Subsidiaries**

4.16 The Issuer will not and will not permit its Restricted Subsidiaries to,

(a) sell, lease, transfer or otherwise dispose of any Voting Stock of any Restricted Subsidiary to any Person (other than to the Issuer or, directly or indirectly to a Wholly Owned Subsidiary), and

(b) issue any Voting Stock of any Restricted Subsidiary (other than, if necessary, shares of its Voting Stock constituting directors' or other legally required qualifying shares) to any Person (other than to the Issuer or a Wholly Owned Subsidiary),

unless

(i)

(A) immediately after giving effect to such issuance, sale or other disposition, either the Issuer or its Wholly Owned Subsidiaries own (x) more than 50 per cent. of the outstanding Voting Stock of such Restricted Subsidiary or (y) none of the outstanding Voting Stock of such Restricted Subsidiary; and

(B) such sale, lease, transfer, issuance or other disposition complies with the restrictions contained in Condition 4.5;

(ii)

(A) such issuance, sale or other disposition is made pursuant to the creation of a joint venture engaged in the Related Business; and

(B) such sale, lease, transfer, issuance or other disposition complies with the restrictions contained in Condition 4.4;

(iii) such issuance, sale or other disposition is required by law or applicable regulation; or

(iv) in case of the issuance of Voting Stock of a Restricted Subsidiary to a Restricted Subsidiary which is not a Wholly Owned Subsidiary, such Restricted Subsidiary acquires at the same time not less than its proportionate share in such issuance of Voting Stock.

## 5. INTEREST

The Notes bear interest from and including the Issue Date at the rate of 7.75 per cent. per annum, payable semi-annually in arrear on 22 April and 22 October in each year (each an "**Interest Payment Date**").

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Holder, and (b) the day which is seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant Holders under these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day–count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

Interest in respect of any Note shall be calculated per U.S.$1,000 in principal amount of the Notes (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period shall be equal to the product of 7.75 per cent., the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

## 6. REDEMPTION AND PURCHASE

**Final redemption**

6.1 Unless previously redeemed, or repurchased and cancelled, the Notes will be redeemed at their principal amount on 22 April 2018 (the "**Maturity Date**"). The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

**Redemption for tax reasons**

6.2 The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 16 (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued to the date fixed for redemption, if the Issuer satisfies the Trustee immediately prior to the giving of such notice that (i) it has or will become obliged to pay additional amounts as provided or referred to in Condition 8.1 as a result of any change in, or amendment to, the laws, treaties or regulations of any Relevant Jurisdiction, or any change in the published application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 22 April 2013 and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee (x) a certificate signed by an Authorised Signatory of the Issuer or two directors stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (ii) above, in which event it shall be conclusive and binding on the Noteholders and (y) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. All Notes in respect of which any such notice of redemption is given under and in accordance with this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.

**Redemption upon a change of control**

6.3

(a) Upon the occurrence of any Change of Control, the Holder of a Note will have the option (the "**Change of Control Put Option**") to require the Issuer to redeem all or any part (equal to U.S.$200,000 and any integral multiple of U.S.$1,000 in excess thereof and provided that any unpurchased portion of any Note surrendered is in a principal amount of at least U.S.$200,000) of such Note on the Change of Control Put Settlement Date (as defined below) at 101 per cent. of its principal amount together with accrued and unpaid interest to the Change of Control Put Settlement Date (as defined below) (subject to the right of Holders of record on the relevant Record Date (as defined in Condition 7.5) to receive interest on the relevant Interest Payment Date (as defined in Condition 5)).

(b) Promptly, and in any event within 30 calendar days, upon the Issuer becoming aware that a Change of Control has occurred, the Issuer shall give notice (a "**Change of Control Put Event Notice**") to the Trustee and the Noteholders in accordance with Condition 16, specifying the details relating to the occurrence of the Change of Control and the procedure for exercising the Change of Control Put Option.

(c) In order to exercise the Change of Control Put Option, the Holder of a Note must deliver no later than 30 days after the Change of Control Put Event Notice is given (the "**Change of Control Put Period**"), to the specified office of the Principal Paying Agent, evidence satisfactory to the Principal Paying Agent of such Holder's entitlement to such Note and a duly completed put option notice (a "**Change of Control Put Option Notice**") specifying the principal amount of the Notes in respect of which the Change of Control Put Option is exercised, in the form obtainable from the Principal Paying Agent. The Principal Paying Agent will provide such Noteholder with a non-transferable receipt. On the Business Day following the end of the Change of Control Put Period, the Principal Paying Agent shall notify in writing the Issuer of the exercise of the Change of Control Put Option specifying the aggregate principal amount of the Notes to be redeemed in accordance with the Change of Control Put Option. Provided that the Notes that are the subject of any such Change of Control Put Option Notice have been delivered to the Principal Paying Agent prior to the expiry of the Change of Control Put Period, then the Issuer shall redeem all such Notes on the date falling 30 calendar days after the expiration of the Change of Control Put Period (the "**Change of Control Put Settlement Date**"). No Change of Control Put Option Notice, once delivered in accordance with this Condition 6.3, may be withdrawn.

(d) The Issuer will not be required to issue a Change of Control Put Event Notice following a Change of Control if (i) a third party makes an offer in substantially similar terms to the provisions of this Condition 6.3 in the manner, at the times and otherwise in compliance with the requirements set forth in this Condition 6.3 and purchases all Notes validly tendered and not withdrawn thereunder unless and until there is a default in payment of the applicable redemption price or (ii) a notice of redemption has been given pursuant to the Trust Deed as described in Condition 6.4.

**Optional Redemption at Make Whole**

6.4

(a) The Issuer may at its option at any time, having given not less than 30 days' notice to the Noteholders in accordance with Condition 16 (which notice shall be irrevocable), redeem the Notes in whole or in part at the price which shall be the following:

(i) their principal amount; plus

(ii) the Make Whole Premium as defined below; plus

(iii) interest accrued to but excluding the date of redemption.

(b) Make Whole Premium means the greater of (i) 1 per cent. of the aggregate principal amount of Notes outstanding at the date the call is exercised and payment therefor is to be made (the "**Call Date**") or (ii) the excess, if any (as determined in good faith in writing to the Issuer and the Trustee by a reputable financial institution operating in the United States Treasury Securities market in New York selected at its own expenses by the Issuer and approved in writing by the Trustee (the "**Financial Adviser**") (and rounded, if necessary, to the third decimal place (0.0005 being rounded upwards)), of (A) the value at the Call Date of (1) the aggregate principal amount of the Notes outstanding at such date plus (2) all required interest payments that would otherwise be due to be paid on the Notes during the period between the Call Date and the Maturity Date, excluding accrued but unpaid interest at the Call Date, in the case of (1) and (2) above, calculated using a discount rate equal to 50 basis points above the Treasury Rate over (B) the outstanding aggregate principal amount of the Notes at the Call Date.

(c) Treasury Rate means a rate equal to the yield, as published by the most recent Federal Reserve Statistical Release H.15(519), on actively traded United States Treasury Securities with a maturity comparable to the remaining life of the Notes, as selected by the Financial Adviser. If there is no such publication of this yield during the week preceding the calculation date, the Treasury Rate will be calculated by reference to quotations from selected primary United States Treasury Securities dealers in New York selected by the Financial Adviser. The Treasury Rate will be calculated on the third day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in New York preceding the Call Date.

(d) Notices of redemption will specify the date fixed for redemption. A further notice of redemption will specify the applicable redemption price once it has been calculated. No such notices of redemption may be given by the Issuer unless it shall have delivered to the Trustee an Officers' Certificate (upon which the Trustee may rely absolutely without further enquiry and without liability to any person) that it will have the funds, without condition, required to redeem the Notes at the redemption price plus accrued interest (if any) on the date specified for redemption. Upon the expiry of any notice of redemption delivered in accordance with this Condition 6.4, the Issuer shall be bound to redeem the Notes in accordance with this Condition 6.4.

**Purchase**

6.5 The Issuer and any of its Subsidiaries may at any time purchase Notes in the open market or otherwise at any price.

**Cancellation**

6.6 All Notes redeemed or purchased pursuant to this Condition 6 shall be cancelled forthwith and may not be held or resold. Any Notes so cancelled may not be reissued.

## 7. PAYMENTS

**Principal and other amounts**

7.1 Payment of principal and interest in respect of the Notes will be made to the persons shown in the Register at the close of business on the Record Date (as defined below). Payments of all amounts other than as provided in this Condition 7.1 will be made as provided in these Conditions.

**Payments**

7.2 Each payment in respect of the Notes pursuant to Condition 7.1 will be made by transfer to a U.S. Dollar account maintained by or on behalf of the payee with a bank in New York City. Payment instructions (for value on the due date or, if that is not a business day (as defined below), for value the first following day which is a business day) will be initiated on the business day preceding the due date for payment (for value the next business day).

**Payments subject to fiscal laws**

7.3 All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction of the kind described in Condition 8.1. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

**Payments on business days**

7.4 If the due date for any payment of principal or interest under this Condition 7 is not a business day, the Holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 7 only, business day means any day on which banks are open for business in the place of the specified office of the relevant Paying Agent and, in the case of payment by transfer to a U.S. Dollar account as referred to above, on which dealings in foreign currencies may be carried on both in New York City and in such other place.

**Record date**

7.5 Record Date means the seventh business day, in the place of the specified office of the Registrar, before the due date for the relevant payment.

**Agents**

7.6 The initial Agents and their initial specified offices are listed below. The Issuer reserves the right to vary or terminate the appointment of all or any of the Agents at any time (with the written approval of the Trustee) and appoint additional or other payment or transfer agents, provided that the Issuer will at all times maintain (i) a Registrar and a Principal Paying Agent, (ii) a Paying Agent and a Transfer Agent having specified offices in at least one major European city approved by the Trustee and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Notice of any such change will be provided to Noteholders as described in Condition 16.

## 8. TAXATION

8.1 All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for, or on account for, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall increase the relevant payment so as to result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

(a) held by or on behalf of a Holder which is (i) liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its (or its beneficial owners) having some connection with Kazakhstan or (ii) able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim to the relevant taxing authority; or

(b) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Definitive Note on the last day of such period of 30 days; or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced to conform to, such Directive;

(d) by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a member state of the European Union; or

(e) to a Noteholder in respect of taxes, duties, assessments or governmental charges that are imposed or withheld by reason of the failure of the Noteholder to comply with a request of, or on behalf of, the Issuer addressed to the Noteholder to provide information concerning the nationality, residence or identity of such Noteholder or to make any declaration or similar claim or satisfy any information or reporting requirement, which is required or imposed by a statute, treaty, regulation, protocol or administrative practice as a precondition to exemption from all or part of such taxes, duties, assessments or governmental charges.

8.2 In these Conditions, Relevant Date means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in New York City by or for the account of the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders by the Issuer in accordance with Condition 16.

8.3 Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under Condition 8 or any undertaking given in addition to or in substitution for it under the Trust Deed.

8.4 If the Issuer becomes subject at any time to any taxing jurisdiction other than Kazakhstan, references in these Conditions to Kazakhstan shall be construed as references to Kazakhstan and/or such other jurisdiction.

## 9. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the Holders of not less than 25 per cent. of the principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) shall (subject in each case to its being indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer that the Notes are immediately due and repayable at their principal amount together with accrued interest if any of the following events occurs and is continuing (each an "**Event of Default**"):

(a) the Issuer fails to pay the principal of or any interest on any of the Notes when due (whether at its stated maturity, on optional redemption, on required purchase, on declaration of acceleration or otherwise) and, in the case of interest, such failure continues for a period of 10 calendar days; or

(b) the Issuer defaults in the performance or observance of its obligations pursuant to Condition 4.1 and/or Condition 4.2;

(c) the Issuer defaults in the performance or observance of its obligations pursuant to Condition 4 (except for obligations set out in Condition 4.1 and Condition 4.2) and, except where such default remains unremedied for 30 calendar days after written notice thereof, addressed to the Issuer has been delivered by or on behalf of the Trustee to the Issuer; or

(d) the Issuer defaults in the performance or observance of any of its other obligations under the Notes (except for obligations set out in Condition 4), the Trust Deed or the Security Documents and, except where such default is not in the opinion of the Trustee capable of remedy, such default in the opinion of the Trustee remains unremedied for 30 calendar days after written notice thereof, addressed to the Issuer has been delivered by or on behalf of the Trustee to the Issuer; or

(e) a default under any Indebtedness of the Issuer or any Restricted Subsidiary, if that default (i) is caused by a failure to pay principal of, or interest or premium, if any, on such Indebtedness within any originally applicable grace period; or (ii) results in the acceleration of such Indebtedness prior to its stated maturity; provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above individually or in the aggregate exceeds U.S.$10,000,000 (or its U.S. Dollar Equivalent); or

(f) the amount of unsatisfied judgments, decrees or orders of courts or dispute resolution bodies of competent jurisdiction that are not subject to further appeal for the payment of money against the Issuer or any Restricted Subsidiary in the aggregate at any given moment of time exceeds U.S.$10,000,000, or its U.S. Dollar Equivalent and there shall have been a period of 30 consecutive days during which a stay of enforcement of such judgement, decree or order, by reason of an appeal or otherwise, shall not be in effect; or

(g) (i) a proceeding shall have been instituted or a decree or order shall have been entered for the appointment of a receiver, administrator, liquidator or other similar officer in any insolvency, rehabilitation, accelerated rehabilitation, external supervision, readjustment of debt, marshalling of assets and liabilities or similar arrangements involving the Issuer or any Restricted Subsidiary or all or, in the opinion of the Trustee, substantially all of any of their respective properties and such proceeding, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 60 days or (ii) the Issuer or any Restricted Subsidiary shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be adjudicated a bankrupt or shall consent to the filing of a bankruptcy, insolvency or similar proceeding against it or shall file a petition or answer or consent seeking reorganisation under any such law or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver, administrator or liquidator or trustee or assignee in bankruptcy or liquidation of it or in respect of its property or shall make an assignment for the benefit of its creditors or shall otherwise be unable or admit its inability to pay its debts generally as they become due or is (or could be deemed by law or a court to be) insolvent or bankrupt or commences proceedings with a view to the general adjustment of its Indebtedness; or

(h) the Notes, the Trust Deed or any Security Document is held in any judicial proceeding to be unenforceable or invalid or ceases to be in full force and effect (other than in accordance with, the terms of such document) or the Issuer denies, disaffirms, repudiates (or purports to repudiate) its obligations under the Notes, the Trust Deed or any Security Document; or

(i) any expropriation, attachment, sequestration, execution, Lien or distress is levied against or becomes enforceable and is enforced against, or an encumbrancer takes possession of or sells, the whole or, in the opinion of the Trustee, any substantial part of, the property, undertaking, revenues or assets of the Issuer or any of its Restricted Subsidiaries in an amount, which individually or together with any prior expropriation, attachment, sequestration, execution, Lien or distress which remain in effect without having been lifted or which have been enforced, is equal to or greater than U.S.$20,000,000 (or its U.S. Dollar Equivalent); or

(j) it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes, the Trust Deed or any Security Document; or

(k) the Security or any Security Document (or any part of any of them) is terminated or becomes void, illegal, invalid or unenforceable or the Issuer is entitled to terminate, rescind or avoid the Security Documents or (other than as provided herein or in the Security Documents) the Security ceases to be subject to the provisions of the relevant Security Document or such Security is not of the priority contemplated by such agreements or, the relevant Security Document is not registered with the relevant public body or authority within the required period of time for such registration;

(l) any step is taken by or under state authority with a view to the seizure, compulsory acquisition, expropriation, condemnation, or nationalisation of all or a part (the book value of which being equal to or greater than 15 per cent. of the book value of the Group) of the undertaking, assets and revenues of the Issuer or any Restricted Subsidiary or the Issuer or any Restricted Subsidiary is prevented by any such person from exercising normal control over all or, in the opinion of the Trustee, any substantial part of its undertaking, assets and revenues; or

(m) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs,

provided that, in the case of paragraphs (d), (j) and (l) inclusive, the Trustee shall have certified that, in its opinion, such event is materially prejudicial to the interests of the Noteholders.

## 10. PRESCRIPTION

Claims for the payment of principal and interest in respect of any Note shall be prescribed unless made within 10 years (for claims for the payment of principal) or five years (for claims for the payment of interest) of the appropriate Relevant Date (as defined above).

## 11. REPLACEMENT OF DEFINITIVE NOTES

If any Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Registrar may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

## 12. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

### Meetings of Noteholders

12.1 The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed and Security Documents. Such meetings shall be held in accordance with the provisions set out in the Trust Deed. Such a meeting shall be convened by the Issuer or the Trustee upon the request in writing of Noteholders holding not less than 10 per cent. of the aggregate principal amount of the Notes for the time being outstanding, provided the Trustee shall have been indemnified and/or secured and/or prefunded to its satisfaction. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or interest payable on, the Notes, (iii) to alter the method of calculating the amount of any payment in respect of the Notes, (iv) to change the currency of payment under the Notes, (iv) to modify the provisions in relation to the Security or cancel the Security, (vi) to modify the provisions in Schedule 3 of the Trust Deed concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, or (vii) to sanction the exchange or substitution for the Notes of, or the conversion of the Notes into, shares, Notes or other obligations or securities of the Issuer or any other entity, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent. of the aggregate principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed at any such meeting shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed). A written resolution signed by or on behalf of the Holders of not less than 90 per cent of the aggregate principal amount of Notes outstanding who are for the time being entitled to receive notice of a meeting in accordance with the Trust Deed will take effect as if it were a duly passed Extraordinary Resolution.

### Modification and Waiver

12.2 The Trustee may agree with the Issuer, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Trust Deed, the Agency Agreement, the Security Documents or the Notes which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of the provisions of the Trust Deed, the Agency Agreement, the Security Documents or the Notes, which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, shall be notified to the Noteholders as soon as practicable.

### Substitution

12.3 The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of any other company or entity in place of the Issuer or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

### Entitlement of the Trustee

12.4 In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other Person, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

## 13. ENFORCEMENT

### Enforceability of Security

13.1 The Security shall become enforceable upon the Notes becoming immediately due and payable pursuant to Condition 9 and/or if the Issuer fails to make payment of amounts due and payable under the Notes on the date on which they are subject to redemption as applicable, whichever shall be the first to occur.

**Enforcement of Security**

13.2 At any time after the Security becomes enforceable, the Trustee may take such proceedings, steps and/or other actions to enforce the provisions of the Security Documents and such action to enforce the Security as shall be:

(a) requested in writing by the holders of at least 25 per cent. in aggregate principle amount of the Notes outstanding; or

(b) directed by an Extraordinary Resolution of the Noteholders,

subject to it having been indemnified and/or secured and/or prefunded to its satisfaction, or received security to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be properly incurred by it in connection therewith.

13.3 The Issuer has irrevocably and unconditionally undertaken in the Trust Deed to pay to the Trustee the secured obligations including amounts owing under the Conditions as and when those amounts are due, so that the Trustee shall be the obligee of such covenant to pay and shall be entitled to claim performance thereof in its own name (the Parallel Debt). Such obligations of the Issuer are separate and independent from, and do not in any way limit or affect, the corresponding obligations of the Issuer, nor are the amounts in respect of the Parallel Debt to be limited or affected in any way by amounts paid under the Conditions (the Corresponding Debt); provided that the Parallel Debt shall be decreased to the extent that each of its Corresponding Debt has been irrevocably paid; the Corresponding Debt shall be decreased to the extent that each of its Parallel Debt has been irrevocably paid and the amount of the Parallel Debt shall at all times be equal to the amount of the Corresponding Debt.

## 14. INDEMNIFICATION AND REMOVAL OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit. The Trustee may rely without liability to Noteholders on any certificate or report prepared by auditors, accountants or any other expert pursuant to the Trust Deed, whether or not addressed to the Trustee and whether or not the auditors', accountants' or expert's liability in respect thereof is limited by a monetary cap or otherwise. The Trust Deed provides that the Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove the Trustee (or any successor trustee or additional trustees) provided that the removal of the Trustee or any other trustee shall not become effective unless there remains a Trustee in office after such removal.

## 15. FURTHER ISSUES

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) and so that such further issue shall be consolidated and form a single series with the outstanding Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any such other securities shall be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders for the holders of securities of other series where the Trustee so decides.

## 16. NOTICES

Notices to the Noteholders shall be valid if sent to them by first class mail (airmail if overseas) at their respective addresses on the Register or by any means designated from time to time by any clearing system on which trades in Notes settle. Any such notice shall be deemed to have been given on the fourth day after the date of mailing or on the date delivered to the relevant clearing systems, in the case of the Notes traded thereon. In addition, so long as the Notes are listed on the Stock Exchange and the rules or guidelines of that exchange so require, notices will be published in a leading newspaper having general circulation in London (which is expected to be the Financial Times) or, if in the opinion of the Trustee such publication shall not be practicable, in any English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published, mailed and/or delivered in accordance with the foregoing, more than once or on different dates, on the first date on which publication, mail or delivery is made.

## 17. CURRENCY INDEMNITY

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each recipient, on the written demand of such recipient addressed to the Issuer and delivered to the Issuer or to the specified office of the Registrar, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such recipient may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any Noteholder or any other person and will continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Trust Deed and/or the Notes or any other judgment or order.

## 18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 except and to the extent, if any, that the Notes expressly provide for such Act to apply to any of their terms.

## 19. GOVERNING LAW AND ARBITRATION

**Governing law**

19.1 The Trust Deed, the Notes and these Conditions and any non-contractual obligations arising out of or in connection therewith shall be governed by, and construed in accordance with, English law. The Security Documents, as specifically referred to in Condition 2, shall be governed by and construed in accordance with the laws of the Republic of Kazakhstan.

**Arbitration**

19.2 Any dispute, claim or difference of whatever nature arising out of or in connection with the Trust Deed, the Notes and these Conditions (including a dispute regarding the existence, validity or termination of the Trust Deed, the Notes and these Conditions and a dispute relating to non-contractual obligations arising out of or in connection with the Trust Deed, the Notes and these Conditions) (a Dispute) shall be referred to and finally resolved by arbitration under the LCIA Arbitration Rules (the Rules), which Rules are deemed incorporated by reference into these Conditions, as amended herein.

19.3 The arbitral tribunal shall consist of three arbitrators. The claimant(s), irrespective of number, shall nominate jointly one arbitrator; the respondent(s), irrespective of number, shall nominate jointly the second arbitrator; and a third arbitrator, who shall serve as Chairman, shall be nominated by agreement of the two party-nominated arbitrators within 15 days of the confirmation of the appointment of the second arbitrator, or, in default of such agreement, shall be appointed by the LCIA Court as soon as possible. For the avoidance of doubt, for the purpose of Article 8.1 of the Rules, the claimant(s), irrespective of number, and the respondent(s), irrespective of number, constitute two separate sides for the formation of the arbitral tribunal.

19.4 In the event that either the claimant(s) or the respondent(s) fail to nominate an arbitrator within 30 days of the date of the request for arbitration, such arbitrator shall be appointed by the LCIA Court as soon as possible, preferably within 15 days of such failure.

19.5 In the event that both the claimant(s) and the respondent(s) fail to nominate an arbitrator within 30 days of the date of the request for arbitration, all three arbitrators shall be appointed by the LCIA Court as soon as possible, preferably within 15 days of such failure, and such arbitrators shall then designate one amongst them as Chairman.

19.6 The seat of arbitration shall be London, England and the language of the arbitration shall be English.

19.7 If more than one arbitration is commenced under the Trust Deed, the Notes or these Conditions and any party to the proceedings contends that two or more such arbitrations raise similar issues of law or fact and that the issues should be resolved in one set of proceedings, the arbitral tribunal appointed in the first filed of such proceedings (the First Tribunal) shall have the power to determine (prior to the commencement of the oral phase in the first filed of such proceedings), whether in the interests of justice and efficiency the proceedings shall be consolidated.

19.8 The tribunal in such consolidated proceedings shall be selected as follows:

(a) the parties to the consolidated proceedings shall agree on the composition of the tribunal; and

(b) failing such agreement within 30 days of consolidation being ordered by the First Tribunal, the LCIA Court shall appoint all members of the tribunal within 30 days of a written request by any of the parties to the consolidated proceedings.

19.9 Any party to the consolidated proceeding shall be bound by the award rendered, even if it chooses not to participate in the consolidated proceedings.

19.10 For the avoidance of doubt, the parties to the Trust Deed and the Noteholders are intended by the parties to these Conditions to have the right under the Contracts (Rights of Third Parties) Act 1999 to enforce the terms of Condition 19.7.

19.11 No party to the proceedings may apply to the English court to determine any question of law arising in the course of the arbitration pursuant to Section 45 of the Arbitration Act 1996 or otherwise, or appeal to the English court on a question of law arising out of an award made in the arbitration pursuant to Section 69 of the Arbitration Act 1996 or otherwise.

**Process agent**

19.12 The Issuer undertakes irrevocably to appoint TMF Corporate Services Limited, 6, St Andrew Street, London EC4A 3AE, United Kingdom as agent to accept service of process in England in any proceedings arising out of or in connection with these Conditions and the Notes (the Process Agent), provided that:

(a) service upon the Process Agent shall be deemed valid service upon the Issuer whether or not the process is forwarded to or received by the Issuer;

(b) the Issuer shall inform all other parties to these Conditions, in writing, of any change in the address of the Process Agent within 28 days of such change;

(c) if the Process Agent ceases to be able to act as a process agent or to have an address in England, the Issuer irrevocably agrees to appoint a new process agent in England acceptable to the other parties to these Conditions and to deliver to the other parties to these Conditions within 14 days a copy of a written acceptance of appointment by the new process agent; and

(d) nothing in these Conditions shall affect the right to serve process in any other manner permitted by law.

**Waiver of immunity**

19.13 To the extent that the Issuer may now or hereafter be entitled, in any jurisdiction in which any proceeding may at any time be commenced pursuant to or in accordance with these Conditions, to claim for itself or any of its undertaking, properties, assets or revenues present or future any immunity (sovereign or otherwise) from (without limitation) suit, jurisdiction of any court or tribunal, attachment prior to judgment, attachment in aid of execution of a judgment, execution of a judgment or award or from set-off, banker's lien, counterclaim or any other legal process or remedy with respect to its obligations under these Conditions and/or to the extent that in any such jurisdiction there may be attributed to the Issuer any such immunity (whether or not claimed), the Issuer hereby irrevocably agrees not to claim, and hereby waive, any such immunity.

**Consent**

19.14 The Issuer irrevocably and generally consents in respect of any proceedings anywhere to the giving of any relief by way of injunction or order for specific performance or for the recovery of any property whatsoever or other provisional or protective measures and to its property (irrespective of its use or intended use) being subject to any process for the enforcement of a judgment/award or any process effected in the course or as a result of any action in rem.

## 20. DEFINITIONS

In these Conditions the following terms have the meaning given to them in this Condition 20.

**"Acquired Rolling Stock"** means, prior to the First Test Date, railcars to be purchased by and delivered to the Issuer with some of the proceeds from the Notes, from one or more sellers of railcars and, on or after the First Test Date, any such railcars purchased by and delivered to the Issuer;

**"Affiliate"** of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (ii) any other Person who is a director or officer (a) of such specified Person, (b) of any Subsidiary of such specified Person or (c) of any Person described in (i) above. For the purposes of this definition, control when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms controlling and controlled have meanings correlative to the foregoing;

**"Annual Reporting Date"** means the date on which the Issuer publishes a report setting out the information required pursuant to Condition 4.10(a)(i);

**"Asset Disposition"** means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Issuer or any Restricted Subsidiary, including any disposition by means of a merger, consolidation or similar transaction (each referred to for the purposes of this definition as a disposition), of:

(a) any Capital Stock of a Restricted Subsidiary (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Issuer or a Restricted Subsidiary);

(b) all or substantially all the assets of any division or line of business of the Issuer or any Restricted Subsidiary; or

(c) any other assets of the Issuer or any Restricted Subsidiary outside of the ordinary course of business of the Issuer or such Restricted Subsidiary,

other than, in the case of paragraphs (a), (b) and (c) above,

(i) any disposal of assets in part or full exchange for other assets usable or involved in the Related Business of equal or greater Fair Market Value, including, without limitation, shares, participations or ownership interests in persons involved in the Related Business;

(ii) any sale or disposal of accounts receivable, equipment and related assets (including, contract rights) of the type specified in the definition of "Qualified Securitisation Transaction" to a Securitisation Entity for the Fair Market Value thereof;

(iii) transfer of ownership rights by a third-party lessor of assets in the possession of the Group under finance leases and the re-transfer, as the case may be, of possession of such assets by the Group to a third-party lessor;

(iv) any sale and leaseback transaction permitted by these Conditions;

(v) the sale or discount of accounts receivable arising in the ordinary course of business in connection with the compromise or collection thereof;

(vi) a disposition by a Restricted Subsidiary to the Issuer or by the Issuer or a Restricted Subsidiary to a Restricted Subsidiary;

(vii) for the purposes of Condition 4.5 only, a disposition that constitutes a Restricted Payment (or would constitute a Restricted Payment but for the exclusions from the definition thereof) and that is not prohibited by Condition 4.3;

(viii) a disposition of assets in a single transaction or a series of related transactions with a Fair Market Value of less than U.S.$5,000,000 in any 12 month period to any Person that is not a Restricted Subsidiary;

(ix) a disposition of cash or Temporary Cash Investments;

(x) the creation of a Lien;

(xi) the licensing or sublicensing of rights to intellectual property or other intangibles in the ordinary course of business;

(xii) any disposition constituting or resulting from the enforcement of a Lien Incurred or permitted to subsist in compliance with Condition 4.7;

(xiii) the sale, lease or other disposition of obsolete, worn out, negligible, surplus or outdated equipment or machinery or inventory in the ordinary course of a Related Business;

(xiv) any sale, lease, transfer or other disposition of an investment in a joint venture to the extent required by, or made pursuant to, customary buy/sell terms between the joint venture parties set forth in joint venture arrangements;

(xv) sales or other dispositions of assets or property received by the Issuer or any Restricted Subsidiary upon the foreclosure on a Lien granted in favour of the Issuer or any Restricted Subsidiary or any other transfer of title with respect to any ordinary course secured investment in default;

(xvi) the surrender or waiver of contract rights or the settlement, release, or surrender of contract, tort or other claims, in the ordinary course of the business;

(xvii) any disposition of Capital Stock, Indebtedness or other securities of an Unrestricted Subsidiary;

(xviii) transactions carried out in compliance with Condition 4.9;

(xix) the leasing of railcars by the Issuer;

(xx) the transfer or sale of a railcar or railcars by the Issuer to any lessee pursuant to the contractual terms of a lease upon the completion of the term of the lease; or

(xxi) disposals of railcars by the Issuer in the ordinary course of business;

**"Authorised Corporate Body"** means the general meeting of participants or the Supervisory Board or any other corporate body of the Issuer authorised to make relevant decisions under the charter of the Issuer as of the date of making such decisions;

**"Authorised Signatories"** means, in relation to any entity, any Person who is duly authorised (in such manner as may be acceptable to the Trustee) and in respect of whom the Trustee has received a certificate signed by a director or another Authorised Signatory of such entity setting out the name and signature of such Person and confirming such Person's authority to act;

**"Average Life"** means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing (a) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of, or redemption or similar payment with respect to, such Indebtedness multiplied by the amount of such payment by (b) the sum of all such payments;

**"Business Day"** means, other than for the purposes of Condition 7, a day on which, if on that day a payment is to be made hereunder, commercial banks generally are open for business in Almaty, New York City and in the city where the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent is located;

**"Capital Lease Obligation"** means an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with IFRS, and the amount of Indebtedness represented by such obligation shall be the capitalised amount of such obligation determined in accordance with IFRS, provided that in no event shall an operating lease be considered a Capital Lease Obligation solely by virtue of a change in IFRS after the Issue Date; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty;

**"Capital Stock"** of any Person means any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity;

A "**Change of Control**" shall occur at any time if any of the following shall occur:

(a) prior to an initial public offering of Capital Stock of the Issuer, either (1) the Permitted Holders' joint beneficial ownership of Voting Stock of the Issuer drops below 51 per cent. of the Voting Stock of the Issuer or (2) the Permitted Holders together lose or any person or persons acting together and/or in concert other than the Permitted Holders directly or indirectly acquires the right to appoint a majority of the Supervisory Board of the Issuer; or

(b) any person or persons acting together and/or in concert directly or indirectly acquires the beneficial ownership of Capital Stock in the Issuer carrying more than 25 per cent. of the issued and outstanding Voting Stock of the Issuer; provided that the Permitted Holder's joint beneficial ownership of the issued and outstanding Voting Stock of the Issuer is in the aggregate a lesser percentage of the total voting power of the Voting Stock of the Issuer than such other person or persons and the Permitted Holders do not have the right or ability to elect or designate for election a majority of the Supervisory Board of the Issuer;

**"Collateral"** means all Rolling Stock Pledges, Pledges of Rolling Stock SPAs and the Local Account Pledge which are secured from time to time in favour of the Trustee for the benefit of itself and the Noteholders pursuant to the Security Documents;

**"Collateral Coverage Ratio"** means, at the date of determination, the ratio of (i) Collateral Fair Market Value of the Collateral to (ii) the aggregate principal amount of the Notes outstanding on such date;

**"Collateral Fair Market Value"** means:

(a) in the case of any Rolling Stock Pledges, the fair market value thereof of such pledged railcars (defined as the price that would be negotiated in an arm's length market free transaction, for cash between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion), as determined by a written opinion of a nationally recognised investment banking, appraisal, accounting or valuation firm; provided that (i) such written opinion may be based on a desktop appraisal conducted by such banking, appraisal, accounting or valuation firm for any date of determination that is not the end of the Issuer's fiscal year and (ii) the fair market value thereof determined by such written opinion may, other than in respect of Condition 4.2(d), be determined as of a date as early as 30 days prior to the end of the applicable fiscal period on which a covenant is required to be tested (the end of such period being referred to as the "**Test Date**");

(b) in the case of any Pledge of Rolling Stock SPAs, the purchase price for such railcars as set out in the relevant pledged sale and purchase agreement; and

(c) in the case of cash, held in the Local Account and subject to the Local Account Pledge, the face value of the Local Account;

**"Consolidated Coverage Ratio"** means for any Relevant Period the ratio of (x) the aggregate amount of EBITDA for that Relevant Period, as determined in good faith by a responsible financial or accounting officer of the Issuer, whose determination will be conclusive to (y) Consolidated Net Interest Cost for such Relevant Period;

**"Consolidated Indebtedness"** means at any date of determination (and without duplication) all consolidated Indebtedness of the Issuer and its consolidated Restricted Subsidiaries as calculated in accordance with the then most recently published consolidated financial statements of the Issuer prepared in accordance with IFRS;

**"Consolidated Interest Cost"** means, for any period, all finance costs incurred by the Issuer and its consolidated Restricted Subsidiaries as calculated in accordance with the then most recently published consolidated financial statements of the Group prepared in accordance with IFRS;

**"Consolidated Interest Income"** means, for any period, all finance income received by the Issuer and its consolidated Restricted Subsidiaries as calculated in accordance with the then most recently published consolidated financial statements of the Group prepared in accordance with IFRS;

**"Consolidated Leverage Ratio"** means the ratio of (x) the aggregate amount of Consolidated Net Indebtedness outstanding on the last day of the Relevant Period less the amount of Permitted Indebtedness Incurred by the Issuer and its Restricted Subsidiaries outstanding on such date to (y) EBITDA for such Relevant Period, as determined in good faith by a responsible financial or accounting Officer of the Issuer, whose determination will be conclusive (in the absence of manifest error);

**"Consolidated Net Indebtedness"** means at any date of determination, the Consolidated Indebtedness of the Issuer and its consolidated Restricted Subsidiaries at that time but deducting the aggregate amount of cash and Temporary Cash Investments held by the Issuer and any Restricted Subsidiary at that time;

**"Consolidated Net Interest Cost"** means, for any period, Consolidated Interest Cost of the Issuer and its consolidated Restricted Subsidiaries for that period but deducting Consolidated Interest Income of the Issuer and its Restricted Subsidiaries for such period;

**"Consolidated Total Assets"** means at any date of determination the total assets of the Issuer and its consolidated Restricted Subsidiaries as shown in the most recently available balance sheet of the Issuer prepared in accordance with IFRS;

**"Credit Facility"** means one or more debt facilities, commercial paper facilities, or other Indebtedness, in each case, with banks or other institutional lenders or investors providing for (i) term loans, (ii) revolving credit loans, (iii) receivables financings (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables), bank guarantees or letters of credit or (iv) other Indebtedness, in the case of (i), (ii), (iii) or (iv), as amended, restated, modified, renewed, refunded, replaced (whether upon or after termination or otherwise) or Refinanced in whole or in part from time to time with the same or different banks or other institutional lenders or investors;

**"Currency Agreement"** means any foreign exchange contract, currency swap agreement or other similar agreement with respect to currency values;

**"Default"** means an event which, with the lapse of time and/or the issue, making or giving of any notice or both, would constitute an Event of Default;

**"Disqualified Stock"** means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

(a) matures or is mandatorily redeemable (other than redeemable only for Capital Stock of such Person which is not itself Disqualified Stock) pursuant to a sinking fund obligation or otherwise;

(b) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or

(c) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part;

in each case on or prior to the first anniversary of the Stated Maturity of the Notes; provided, however, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to purchase or redeem such Capital Stock upon the occurrence of an Asset Disposition or Change of Control occurring prior to the first anniversary of the Stated Maturity of the Notes shall not constitute Disqualified Stock if:

(i) the Asset Disposition or Change of Control provisions applicable to such Capital Stock are not more favourable to the holders of such Capital Stock than the terms applicable to the Notes and described under Condition 4.5 and Condition 6.3; and

(ii) any such requirement only becomes operative after compliance with such terms applicable to the Notes, including the purchase of any Notes tendered pursuant thereto.

The amount of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which the amount of such Disqualified Stock is to be determined pursuant to these Conditions; provided, however, that if such Disqualified Stock could not be required to be redeemed, repaid or repurchased at the time of such determination, the redemption, repayment or repurchase price will be the book value of such Disqualified Stock as reflected in the most recent financial statements of such Person;

**"EBIT"** means for any period, the sum of the consolidated net profit (or loss) of the Issuer and its consolidated Restricted Subsidiaries as determined in accordance with IFRS from ordinary activities before taxation:

(a) before deducting any Finance Charges;

(b) before taking into account any accrued interest owing to the Issuer or any consolidated Restricted Subsidiaries;

(c) before taking into account any items treated as exceptional or extraordinary items;

(d) after deducting the amount of any profit of the Issuer or any consolidated Restricted Subsidiaries which is attributable to minority interests;

(e) before taking into account any realised and unrealised exchange gains including those arising on translation of currency debt; and

(f) before taking into account any gain arising from an upward revaluation of any asset;

**"EBITDA"** means EBIT before deducting any amount attributable to the amortisation of intangible assets or the depreciation of tangible assets;

**"Fair Market Value"** means, with respect to any asset or property, the price which could be negotiated in an arm's length, free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value will, in relation to any transaction or series of related transactions with an aggregate value in excess of U.S.$10,000,000, other than of any asset with a public trading market, be determined in good faith by a majority of the competent management board of the Issuer or the relevant Restricted Subsidiary disinterested with respect to such transaction (or, in the event that there is only one disinterested director, by the resolution of such disinterested director or, in the event that there are no disinterested directors, by unanimous resolution of the competent management board of the Issuer or the relevant Restricted Subsidiary, whose determination will be conclusive (evidenced by a resolution of the Authorised Corporate Body set forth in an Officers' Certificate delivered to the Trustee);

**"Finance Charges"** means, for any Relevant Period, the aggregate amount of the accrued interest, commission, fees, discounts, prepayment penalties or premiums and other finance payments in respect of Indebtedness whether paid, payable or capitalised by the Issuer in respect of that Relevant Period:

(a) including the interest element of leasing and hire purchase payments;

(b) including any accrued commission, fees, discounts and other net finance payments payable by the Issuer under any interest rate hedging arrangement; and

together with the amount of any cash dividends or distributions paid or made by the Issuer in respect of that Relevant Period;

**"Group"** means the Issuer and its consolidated Restricted Subsidiaries taken as a whole;

**"guarantee"** means any financial obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (b) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term guarantee will not include endorsements for collection or deposit in the ordinary course of business. The term guarantee used as a verb has a corresponding meaning;

**"Hedging Obligations"** of any Person means the obligations of such Person pursuant to any Interest Rate Agreement or Currency Agreement;

**"IFRS"** means International Financial Reporting Standards (IFRSs and IFRIC interpretation), consistently applied and which are in effect from time to time;

**"Incur"** means issue, assume, guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time it becomes a Restricted Subsidiary. The term "**Incurrence"** when used as a noun shall have a correlative meaning. Solely for purposes of determining compliance with Condition 4.1:

(a) the accrual of interest;

(b) amortisation of debt discount or the accretion of principal with respect to a non interest bearing or other discount security;

(c) the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Capital Stock in the form of additional Capital Stock of the same class and with the same terms;

(d) the obligation to pay a premium in respect of Indebtedness arising in connection with the issuance of a notice of redemption or the making of a mandatory offer to purchase such Indebtedness;

(e) unrealised losses or charges in respect of Hedging Obligations; and

(f) a guarantee otherwise permitted by this Agreement to be Incurred by Issuer or a Subsidiary of Issuer of Indebtedness Incurred in compliance with the terms of this Agreement by Issuer or such Subsidiary, as applicable,

will not be deemed to be the Incurrence of Indebtedness;

**“Indebtedness”** means, with respect to any Person on any date of determination (without duplication):

(a) the principal in respect of (A) indebtedness of such Person for money borrowed or raised and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable, including, in each case, any premium on such indebtedness to the extent such premium has become due and payable;

(b) all Capital Lease Obligations of such Person;

(c) all obligations of such Person issued or assumed as the deferred purchase price of property (which purchase price is due more than 6 months after such property is acquired), all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding any accounts payable or other liability to trade creditors arising in the ordinary course of business);

(d) all obligations of such Person for the reimbursement of any obligor on any letter of credit, performance bonds or surety bonds, bankers’ acceptance or similar credit transaction (other than obligations with respect to letters of credit securing obligations (other than obligations described in paragraphs (a), (b) and (c)) entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the thirtieth Business Day following receipt of a demand for reimbursement);

(e) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock of such Person (but excluding, in each case, any accrued dividends);

(f) all obligations of the type referred to in paragraphs (a) to (e) of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any guarantee;

(g) all obligations of the type referred to in paragraphs (a) to (f) of other Persons secured by any Lien on any property or asset of such Person (whether or not such obligation is assumed by such Person), the amount of such obligation being deemed to be the lesser of (i) the Fair Market Value of such property or assets and (ii) the amount of the obligation so secured; and

(h) to the extent not otherwise included in this definition, that part of the net obligations in respect of any Hedging Obligations of such Person (and, when calculating the value thereof, only the net marked to market value shall be taken into account) that are determined in good faith by a responsible financial or accounting officer of Issuer to constitute indebtedness pursuant to IFRS,

in each case if and to the extent any of the Indebtedness described in (a) to (h) in this definition would appear as a liability on a balance sheet in accordance with IFRS.

Notwithstanding the foregoing, in connection with the purchase by the Issuer or any Restricted Subsidiary of any business, the term Indebtedness will exclude post closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; provided, however, that, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid within 90 days thereafter.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above; provided, however, that (i) in the case of Indebtedness sold at a discount, the amount of such Indebtedness at any time will be the accreted value thereof at such time and (ii) that Indebtedness shall not include obligations of any Persons (x) arising from the honouring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds in the ordinary course of business; provided that such obligations are extinguished within five Business Days of their incurrence unless covered by an overdraft line, (y) resulting from the endorsement of negotiable instruments for collection in the ordinary course of business and consistent with past business practices and (z) under stand-by letters of credit or guarantees to the extent collateralised by cash or Cash Equivalents;

**"Interest Rate Agreement"** means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement with respect to exposure to interest rates;

**"Issue Date"** means 22 April 2013;

**"Issuer Approved Jurisdiction"** means any member country of the European Economic Area (whose sovereign debt securities carry an investment grade rating) or the United States, the Russian Federation, Norway, Switzerland, China, Canada or the Republic of Kazakhstan;

**"Lien"** means any mortgage, pledge, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or other security interest or adverse claim of any kind (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof);

**"Local Account"** means the U.S. Dollar account maintained by the Issuer (as at 22 April 2013, designated as No. KZ279490001022003013 and includes any replacement account or sub-division or sub-account of that account;

**"Local Account Bank"** means SB JSC HSBC Bank Kazakhstan, a bank organised and existing under the laws of Kazakhstan and having its registered address at 77/7 Al Farabi avenue, 050040, Almaty, Republic of Kazakhstan;

**"Net Available Cash"** from an Asset Disposition means cash payments received therefrom (including any cash payments received by way of deferred payment of principal pursuant to a note or instalment receivable or otherwise and proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to such properties or assets or received in any other non-cash form), in each case net of:

(a) all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all federal, state, provincial, foreign and local taxes paid or required to be accrued as a liability under IFRS, as a consequence of such Asset Disposition;

(b) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law, be repaid out of the proceeds from such Asset Disposition;

(c) all distributions and other payments required to be made to minority interest holders in Restricted Subsidiaries as a result of such Asset Disposition;

(d) the deduction of appropriate amounts provided by the seller as a reserve, in accordance with IFRS, against any liabilities associated with the property or other assets disposed in such Asset Disposition and retained by the Issuer or any Restricted Subsidiary after such Asset Disposition; and

(e) any portion of the purchase price from an Asset Disposition placed in escrow, whether as a reserve for adjustment of the purchase price, for satisfaction of indemnities in respect of such Asset Disposition or otherwise in connection with that Asset Disposition; provided, however, that upon the termination of that escrow, Net Available Cash will be increased by any portion of funds in the escrow that are released to the Issuer or any Restricted Subsidiary;

**"Net Cash Proceeds"** with respect to any issuance or sale of Capital Stock or Indebtedness, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof;

**"Net Income"** means net income (loss) determined in accordance with IFRS;

**"Non-Recourse Debt"** means Indebtedness:

(a) as to which neither the Issuer nor any Restricted Subsidiary (a) provides any guarantee or credit support of any kind (including any undertaking, guarantee, indemnity, agreement or instrument that would constitute Indebtedness) or (b) is directly or indirectly liable (as a guarantor or otherwise);

(b) no default with respect to which (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit (upon notice, lapse of time or both) any holder of any other Indebtedness of the Issuer or any Restricted Subsidiary to declare a default under such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity; and

(c) the explicit terms of which provide that there is no recourse against any of the assets of the Issuer or any of its Restricted Subsidiaries;

**"Officers' Certificate"** means, in the case of the Issuer, a certificate signed on behalf of the Issuer by two Authorised Signatories of the Issuer at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Issuer;

**"Opinion of Counsel"** means a written opinion from international legal counsel of recognised standing which is acceptable to the Trustee;

**"Permitted Holders"** means any and all of (i) the beneficial owners of the Voting Stock of the Issuer as of the Issue Date and (ii) the legal representatives of any such beneficial owner and the trustees of bona fide trusts of which any such beneficial owners are the only beneficiaries;

**"Permitted Indebtedness"** means any or all of the following Indebtedness:

(a) Indebtedness of the Issuer and the Restricted Subsidiaries pursuant to Credit Facilities; provided that the aggregate principal amount at any time outstanding does not exceed U.S.$25,000,000;

(b) Indebtedness outstanding at the Issue Date;

(c) Indebtedness represented by the Notes (which for the avoidance of doubt shall include any parallel debt in favour of the Trustee (but providing the two shall not be double counted));

(d) Indebtedness Incurred pursuant to Hedging Obligations Incurred; providing that such Hedging Obligations are entered into in the ordinary course of business and not for speculative purposes (as determined in good faith by the Supervisory Board of the Issuer);

(e) Indebtedness (including Capital Lease Obligations) Incurred by the Issuer or any of the Restricted Subsidiaries to finance the purchase, lease, improvement or modification of any railcars or other assets related to railcars and necessary for the operation thereof and whether through the direct purchase of such railcars or assets or the Capital Stock of any Person whose principal assets are railcars or such related assets (outright or through a Capital Lease Obligation) (any such purchase a "**Railcar Acquisition**"), provided that:

   (i) the amount of such Indebtedness to be Incurred does not exceed 20 per cent. of Consolidated Total Assets at any time; and

   (ii) such Indebtedness is Incurred no earlier than 150 days before the date of such Railcar Acquisition;

(f) Refinancing Indebtedness Incurred in respect of Indebtedness Incurred pursuant to Condition 4.1 or pursuant to paragraphs (b), (c), (e), (f), (q) or (r) of this definition;

(g) Indebtedness of either the Issuer or any Restricted Subsidiary consisting of guarantees of Indebtedness of either the Issuer or any Restricted Subsidiary Incurred under Condition 4.1 or any other paragraph of this definition;

(h) Indebtedness in respect of workers' compensation claims or claims arising under similar legislation, or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances or credit;

(i) Indebtedness arising from the honouring by a bank or other financial institution of a cheque, draft or similar instrument drawn against insufficient funds, overdrafts or cash pooling arrangements in the ordinary course of business; provided, however, that any such Indebtedness that arises is extinguished within six Business Days of Incurrence;

(j) guarantees by the Issuer or any Restricted Subsidiary of Indebtedness Incurred by or in relation to joint ventures which are not Restricted Subsidiaries, which may not exceed U.S.$10,000,000 in the aggregate at any one time outstanding;

(k) contingent liabilities arising with respect to customary indemnification obligations in favour of purchasers in connection with dispositions permitted under Conditions 4.5 and 4.9;

(l) any Purchase Money Indebtedness;

(m) Non-Recourse Debt (except for Standard Securitisation Undertakings) of a Securitisation Entity in a Qualified Securitisation Transaction;

(n) intercompany Indebtedness owed to, and held by, the Issuer or a Restricted Subsidiary in respect of the Issuer or a Restricted Subsidiary; provided, however, that any subsequent issuance or transfer of any Capital Stock which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent disposition, pledge or transfer of such intercompany Indebtedness (other than to the Issuer or a Restricted Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the relevant obligor in respect of such Indebtedness;

(o) obligations in respect of performance, bid and surety notes, completion guarantees, letters of credit or similar obligations provided by the Issuer or any Restricted Subsidiary in the ordinary course of business, provided that, upon demand being made under such obligations, such obligations are reimbursed or the Indebtedness thereunder repaid within 30 days following such payment or disbursement in respect of such demand;

(p) any subordinated shareholder loans or equivalent financing arrangements made between the relevant shareholder or shareholders of the Issuer as lender and the Issuer as borrower;

(q) Indebtedness of the Issuer or a Restricted Subsidiary Incurred and outstanding on or prior to the date on which such Restricted Subsidiary was acquired by the Issuer or another Restricted Subsidiary (other than Indebtedness Incurred in connection with, or to provide all or any portion of the funds or credit support utilised to consummate, the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Subsidiary or was acquired by the Issuer);

(r) in addition to the items referred to in paragraphs (a) to (q), Indebtedness of the Issuer and its Restricted Subsidiaries Incurred in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this paragraph (r) and then outstanding, will not exceed U.S.$30,000,000 at any time outstanding;

**"Permitted Liens"** means:

(a) Liens under worker's compensation laws, unemployment insurance laws or similar legislation, or to secure public or statutory obligations, surety bonds, customs duties, bid bonds and the like, or for the payment of rent, in each case incurred in the ordinary course of business and not securing Indebtedness;

(b) Liens imposed by law, such as carriers', vendors', warehousemen's and mechanics' liens, in each case for sums not yet due or being contested in good faith and by appropriate proceedings; and

(c) Liens for ad valorem, income or property taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Issuer has set aside in its books of account reserves to the extent required by IFRS, as consistently applied;

**"Person"** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

**"Pledged Rolling Stock"** means the railcars which from time to time are, or are expressed to be, subject to the Security;

**"Preferred Stock",** as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over Capital Stock of any other class of such Person;

**"Purchase Money Indebtedness"** means Indebtedness (including Capital Lease Obligations) (i) consisting of the deferred purchase price of property, conditional sale obligations, obligations under any title retention agreement, other purchase money obligations and obligations in respect of similar Indebtedness, in each case where the maturity of such Indebtedness does not exceed the anticipated useful life of the asset being financed, and (ii) Incurred to finance the acquisition by the Issuer or a Restricted Subsidiary of such asset, including construction, additions and improvements, in the ordinary course of business (including the cost of design, development, construction, acquisition, transportation, installation, improvement and migration of assets); provided, however, that (A) any Lien arising in connection with any such Indebtedness shall be limited to the specific asset being financed or, in the case of real property or fixtures, including additions and improvements, the real property on which such asset is attached, (B) such Indebtedness is Incurred within 180 days after such acquisition of such assets and (C) the aggregate principal amount of Purchase Money Indebtedness at one time outstanding shall not exceed (x) the Fair Market Value of the acquired or constructed asset or improvement so financed or (y) in the case of an uncompleted constructed asset, the amount of the asset to be constructed, as determined on the date the contract for construction of such asset was entered into by the Issuer or the relevant Restricted Subsidiary (including, in each case, any reasonable related fees and expenses incurred in connection with such acquisition, construction or development);

**"Qualified Securitisation Transaction"** means any transaction or series of transactions that may be entered into by the Issuer or any Restricted Subsidiary pursuant to which the Issuer or any of its Subsidiaries may sell, convey or otherwise transfer to (i) a Securitisation Entity (in the case of a transfer by the Issuer or any of its Restricted Subsidiaries); and (ii) any other Person (in the case of a transfer by a Securitisation Entity), or may grant a security interest in any accounts receivable or equipment (whether now existing or arising or acquired in the future) of the Issuer or any of its Restricted Subsidiaries, and any assets related thereto including, without limitation, all collateral securing such accounts receivable and equipment, all contracts and contract rights and all guarantees or other obligations in respect of such accounts receivable and equipment, proceeds of such accounts receivable and equipment and other assets (including contract rights) which are customarily transferred or in respect of which security interests are customarily granted in connection with asset securitisation transactions involving accounts receivable and equipment;

**"Refinance"** means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, purchase, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. "**Refinances", "Refinanced"** and "**Refinancing"** shall have correlative meanings;

**"Refinancing Indebtedness"** means Indebtedness that Refinances any Indebtedness of the Issuer or any Restricted Subsidiary existing on the Issue Date or Incurred in compliance with these Conditions, including Indebtedness that Refinances Refinancing Indebtedness; provided, however, that:

(a) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced or earlier provided that the Stated Maturity is later than the Stated Maturity of the Notes;

(b) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced or earlier provided that the Average Life is later than the Average Life of the Notes;

(c) such Refinancing Indebtedness has an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding (plus all accrued interest and fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced; and

(d) if the Indebtedness being Refinanced is subordinated in right of payment to the Notes, such Refinancing Indebtedness is subordinated in right of payment to the Notes at least to the same extent as the Indebtedness being Refinanced,

provided further, however, that Refinancing Indebtedness shall not include Indebtedness of the Issuer that Refinances Indebtedness of an Unrestricted Subsidiary;

**"Related Business"** means any business of the type in which the Issuer or any of its Restricted Subsidiaries was engaged on the Issue Date and any business reasonably similar, ancillary or complementary or related to such business or a reasonable extension, development or expansion of such business including, for the avoidance of doubt, wagon or railcar repairs;

**"Released Rolling Stock"** means, prior to the First Test Date, railcars owned by the Issuer and released from pledge agreements or similar security arrangement related to secured indebtedness existing at 22 April 2013 where such indebtedness is repaid by the Issuer with proceeds from the issue of the Notes and, on or after the First Test Date, any railcars owned by the Issuer and released from pledge agreements or similar security arrangements relating to secured indebtedness;

**"Relevant Jurisdiction"** means:

(a) in the case of payment by the Issuer the Republic of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax; or

(b) in any case except in relation to Condition 6.2, any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal or interest on the Notes;

**"Relevant Period"** means a period of twelve months ending on 31 December in each year;

**"Restricted Payment"** with respect to any Person, means:

(a) the declaration or payment of any dividends or any other distributions of any sort in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than (i) dividends or distributions payable solely in the form of its Capital Stock (other than Disqualified Stock) or in options, warrants or other rights to acquire shares of such Capital Stock (other than Disqualified Stock), (ii) dividends or distributions payable solely to the Issuer or a Restricted Subsidiary and (iii) pro rata dividends or other distributions made by a Subsidiary that is not a Wholly Owned Subsidiary to minority stockholders (or owners of an equivalent interest in the case of a Subsidiary that is an entity other than a corporation) or such dividends or distributions on a basis that results in the Issuer or a Restricted Subsidiary receiving dividends or other distributions of greater value than would result on a pro rata basis);

(b) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of any Capital Stock of the Issuer held by any Person (other than by a Restricted Subsidiary) or of any Capital Stock of a Restricted Subsidiary held by any Affiliate of the Issuer (other than by a Restricted Subsidiary), including in connection with any merger or consolidation and including the exercise of any option, warrant or other rights to acquire any Capital Stock or to exchange any Capital Stock (other than into Capital Stock of the Issuer that is not Disqualified Stock); or

(c) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment of any Subordinated Obligations of the Issuer (other than (A) from a Restricted Subsidiary or (B) the purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal instalment or final maturity, in each case due within one year of the date of such purchase, repurchase, redemption, defeasance or other acquisition or retirement);

**"Restricted Subsidiary"** means, if the Issuer has at least a Subsidiary, any Subsidiary that is not an Unrestricted Subsidiary;

**"Rolling Stock"** means the Pledged Rolling Stock;

**"Securities Act"** means the U.S. Securities Act of 1933, as amended;

**"Securitisation Entity"** means a Wholly Owned Subsidiary (or another Person to which the Issuer or any Subsidiary of the Issuer transfers accounts receivable or equipment and related assets) which engages in no activities other than in connection with the financing of accounts receivable or equipment and which is designated by the Authorised Corporate Body of the Issuer as a Securitisation Entity (a) no portion of the Indebtedness or any other Obligations (contingent or otherwise) of which (i) is guaranteed by the Issuer or any Restricted Subsidiary (excluding guarantees of obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitisation Undertakings); (ii) is recourse to or obligates the Issuer or any Restricted Subsidiary in any way other than pursuant to Standard Securitisation Undertakings; or (iii) subjects any property or asset of the Issuer or any Restricted Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitisation Undertakings; (b) with which neither the Issuer nor any Restricted Subsidiary has any material contract, agreement, arrangement or understanding other than on terms no less favourable to the Issuer or such Restricted Subsidiary than those that might be obtained at the time from Persons that are not Affiliates, other than fees payable in the ordinary course of business in connection with servicing receivables of such entity; and (c) to which neither the Issuer nor any Restricted Subsidiary has any obligations to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results;

**"Security"** has the meaning ascribed to it in Condition 2;

**"Security Documents"** has the meaning ascribed to it in Condition 2;

**"Semi-annual Reporting Date"** means the date on which the Issuer publishes a report setting out the information required pursuant to Condition 4.10(a)(iii);

**"Senior Indebtedness"** means, with respect to any Person:

(a) Indebtedness of such Person, whether outstanding on the Issue Date or thereafter Incurred; and

(b) all other obligations of such Person (including interest accruing on or after the filing of any petition in bankruptcy or for reorganisation relating to such Person whether or not post filing interest is allowed in such proceeding) in respect of Indebtedness described in clause (a) above,

unless, in the case of paragraphs (a) and (b), in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such Indebtedness or other obligations are subordinate in right of payment to the Notes; provided, however, that Senior Indebtedness shall not include:

(i) any obligation of such Person to the Issuer or any Subsidiary of the Issuer;

(ii) any liability for federal, state, local or other taxes owed or owing by such Person;

(iii) accounts payable or other liability to trade creditors arising in the ordinary course of business;

(iv) any Indebtedness or other obligation of such Person which is subordinate or junior in any respect to any other Indebtedness or other obligation of such Person; or

(v) that portion of any Indebtedness which at the time of Incurrence is Incurred in violation of these Conditions;

**"Standard Securitisation Undertaking"** means representations, warranties, covenants and indemnities entered into by the Issuer or any Restricted Subsidiary which are reasonably customary in securitisations of railcars and railcar leases;

**"Stated Maturity"** means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred);

**"Stock Exchange"** means the London Stock Exchange plc and the Kazakhstan Stock Exchange;

**"Subordinated Obligation"** means, with respect to a Person, any Indebtedness of such Person (whether outstanding on the Issue Date or thereafter Incurred) which is subordinate or junior in right of payment to the Notes of such Person, as the case may be, pursuant to a written agreement to that effect;

"**Subsidiary"** of any specified Person, if any such Specified Person has at least a Subsidiary, means any corporation, partnership, joint venture, association or other business or entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which more than 50 per cent. of the total voting power of the Voting Stock is held by such first-named person and/or any of its Subsidiaries and such first-named person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business or entity, with respect to which such first-named person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise if (in each case) in accordance with IFRS, as consistently applied, such entity would be consolidated with the first-named person for financial statement purposes;

"**Supervisory Board"** means the Supervisory Board of the Issuer or any committee thereof as provided in the Issuer's charter, duly authorised to act on behalf of such Board;

"**Temporary Cash Investments"** means any of the following:

(a) any investment in direct obligations of a member of the European Union (whose sovereign debt securities carry an investment grade rating), the United States, the Russian Federation, Norway, Switzerland, China, Canada, Kazakhstan or any agency thereof or obligations guaranteed by a member of the European Union (whose sovereign debt securities carry an investment grade rating), the United States, the Russian Federation, Norway, Switzerland, China, Canada, Kazakhstan or any agency thereof;

(b) investments in demand and time deposit accounts, certificates of deposit and money market deposits with a maturity of one year or less from the date of acquisition thereof issued by a bank or trust company which is organised under the laws of Kazakhstan or a member of the European Union or the United States and which bank or trust company has capital, surplus and undivided profits aggregating in excess of U.S.$500,000,000 (or the foreign currency equivalent thereof) and has outstanding debt which is rated "BBB-" or "Baa3" (or such similar equivalent rating) or higher by at least one nationally recognised statistical rating organisation;

(c) repurchase obligations with a term of not more than seven days for underlying securities of the types described in paragraph (a) entered into with a bank meeting the qualifications described in paragraph (b);

(d) investments in commercial paper with a maturity of one year or less from the date of acquisition, issued by a corporation (other than an Affiliate of the Issuer) organised and in existence under the laws of a member of the European Union, the United States or Kazakhstan or the Russian Federation with a rating at the time as of which any investment therein is made of "P1" (or higher) according to Moody's Investors Service, Inc. or "A1" (or higher) according to Standard & Poor's Ratings Group;

(e) investments in securities with maturities of six months or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of a member of the European Union, the United States or Kazakhstan or the Russian Federation or by any political subdivision or taxing authority thereof, and rated at least "BBB-" by Standard & Poor's Ratings Group or "Baa3" by Moody's Investors Service, Inc.; and

(f) investments in money market funds that invest at least 95 per cent. of their assets in securities of the types described in paragraphs (a) to (e);

"**Top-up Period**" means the period ending 180 days after the date upon which the Collateral Coverage Ratio is determined to be less than 130 per cent.;

"**Unrestricted Subsidiary**" means if, the Issuer has at least one Subsidiary:

(a) any Subsidiary of the Issuer that at the time of determination shall be designated an Unrestricted Subsidiary by the Supervisory Board in the manner provided below; and

(b) any Subsidiary of an Unrestricted Subsidiary.

The Supervisory Board of the Issuer may designate any Subsidiary of the Issuer (including any newly acquired or newly formed Subsidiary) to be an Unrestricted Subsidiary only if:

(i) such Subsidiary or any of its Subsidiaries does not own any Capital Stock or Indebtedness of or have any investment in, or own or hold any Lien on any property of, the Issuer or any other Subsidiary of the Issuer or any Restricted Subsidiary that, in each case, is not a Subsidiary of the Subsidiary to be so designated;

(ii) all the Indebtedness of such Subsidiary and its Subsidiaries shall, at the date of designation, and will at all times thereafter, consist of Non-Recourse Debt;

(iii) such Subsidiary, either alone or in the aggregate with all other Unrestricted Subsidiaries, does not operate, directly or indirectly, all or substantially all of the business of the Issuer and its Subsidiaries;

(iv) such Subsidiary is a Person with respect to which neither the Issuer nor any of its Restricted Subsidiaries has any direct or indirect obligation (i) to subscribe for additional Capital Stock of such Person; or (ii) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results;

(v) on the date such Subsidiary is designated an Unrestricted Subsidiary, such Subsidiary is not a party to any agreement, contract, arrangement or understanding with the Issuer or any Restricted Subsidiary unless such agreement complies with Condition 4.6; and

(vi) the designation would not cause a Default or Event of Default.

Any designation of a Subsidiary of the Issuer as an Unrestricted Subsidiary will be evidenced to the Trustee by filing with the Trustee a certified copy of a resolution of the Authorised Corporate Body of the Issuer giving effect to such designation and an Officers' Certificate certifying that such designation complied with the preceding conditions, as determined by the Issuer. If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of these Conditions and any Indebtedness of such Subsidiary will be deemed to be Incurred by a Restricted Subsidiary as of such date and, if such Indebtedness is not permitted to be Incurred as of such date under Condition 4.1, the Issuer will be in Default or Event of Default under Condition 4.1;

"**U.S. Dollar Equivalent"** means with respect to any monetary amount in a currency other than U.S. Dollars, at any time for determination thereof, the amount of U.S. Dollars obtained by converting such foreign currency involved in such computation into U.S. Dollars at the spot rate for the purchase of U.S. Dollars with the applicable foreign currency as published in The Wall Street Journal in the "Exchange Rates" column under the heading "Currency Trading" on the date two Business Days prior to such determination;

"**Voting Stock of a Person"** means all classes of Capital Stock of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of the board of directors, managers or trustees (or Persons performing similar functions) thereof; and

"**Wholly Owned Subsidiary"** means a Restricted Subsidiary all the Capital Stock of which (other than directors' qualifying shares or shares of Restricted Subsidiaries required to be owned by third parties under applicable law) is owned by the Issuer or one or more other Wholly Owned Subsidiaries.

## OVERVIEW OF PROVISIONS OF THE NOTES WHILE IN GLOBAL FORM

### Exchange

The Notes will be represented by a Global Note Certificate which will registered in the name of Bank of America GSS Nominees Limited as nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg.

The Global Note Certificate will become exchangeable in whole, but not in part, for Individual Note Certificates if (i) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (ii) any of the circumstances described in Condition 9 ("*Terms and Conditions of the Notes – Events of Default*").

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Note Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

### Payments

Payments of principal and interest in respect of Notes represented by the Global Note Certificate will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Note, surrender of the Global Note Certificate to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Note Certificate, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 7.6 ("*Terms and Conditions of the Notes – Payments – Agents*") will apply to the Individual Note Certificates only. For the purpose of any payments made in respect of a Global Note Certificate, Condition 7.4 ("*Terms and Conditions of the Notes - Payments - Payments on Business Days*") shall not apply, and all such payments shall be made on a day on which commercial banks and foreign exchange markets are open in the financial centre of the currency of the Notes.

### Payment Record Date

Each payment in respect of the Global Note Certificate will be made to the person shown as the holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date and for such payment (the "**Record Date**") where "Clearing System Business Day" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

### Notices

So long as the Note are represented by the Global Note Certificate and the Global Note Certificate is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions.

### Prescription

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by the Global Note Certificate will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8 ("*Terms and Conditions of the Notes – Taxation*").

### Meetings

The holder of the Notes represented by the Global Note Certificate shall (unless the Global Note Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and, at any such meeting, as having one vote in respect of each U.S.$1,000 in principal amount of Notes.

**Purchase and Cancellation**

Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Global Note Certificate.

**Trustee's Powers**

In considering the interests of Noteholders while the Global Note Certificate is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Note Certificate and may consider such interests as if such accountholders were the holder of the Global Note Certificate.

**Put Option**

The Noteholders' put option in Condition 6.3 ("*Terms and Conditions of the Notes – Redemption and Purchase – Redemption upon a Change of Control*") may be exercised by the holder of the Global Note Certificate, giving notice to the Principal Paying Agent of the principal amount of Notes in respect of which the option is exercised and presenting the Global Note Certificate for endorsement of exercise within the time limits specified in Condition 6.3 ("*Terms and Conditions of the Notes - Redemption and Purchase - Redemption upon a Change of Control*"). Any such notice will be irrevocable and may not be withdrawn.

## TAX CONSIDERATIONS

*The following is a general description of certain tax considerations relating to the Notes and does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of the Notes should consult their tax advisors as to the consequences of a purchase, ownership and disposition of any the Notes in light of their particular circumstances, including, but not limited to, the consequences of receipt of interest and of sale or redemption of the Notes. This summary is based upon the laws as in effect on the date of this document and is subject to any change in law that may take effect after such date.*

### Republic of Kazakhstan Taxation

*The following is a general summary of Kazakhstan tax consequences as at the date hereof in relation to payments of interest made under the Notes and in relation to the sale or transfer of the Notes. It is not exhaustive and purchasers are urged to consult their professional advisers as to the tax consequences to them of holding or transferring Notes.*

*Interest*

Under the Kazakhstan tax code which became effective on 1 January 2009 (the "**Tax Code**"), payments of interest on the Notes to an individual who is not a resident of Kazakhstan for tax purposes or to a legal entity that is neither established under Kazakhstan law, nor has its actual governing body (place of actual management), nor maintains a permanent establishment in Kazakhstan or otherwise has no legal taxable presence in Kazakhstan (together, ''**Non-Kazakhstan Holders**'') will be subject to withholding tax at a rate of 15 per cent. unless reduced by an applicable double taxation treaty. Payments of interest on the Notes to Non-Kazakhstan Holders registered in countries with a favourable tax regime and which appear in a list published from time to time by the Government (these countries currently include Cyprus, Liechtenstein, Luxembourg, Nigeria, Malta, Monaco, Belize and others) will be subject to withholding of Kazakhstan tax at a rate of 20 per cent. unless reduced by an applicable double taxation treaty.

Payment of interest on the Notes to residents of Kazakhstan or to non-residents who either have a registered branch or representative office in Kazakhstan or maintain a permanent establishment in Kazakhstan (together, ''**Kazakhstan Holders**''), other than to individuals (who are exempt) and Kazakhstan investment funds and certain other entities, will be subject to Kazakhstan withholding tax at a rate of 15 per cent.

The withholding tax on interest mentioned above would not apply if the Notes are included, as at the date of accrual of interest, in the official list of a stock exchange operating in Kazakhstan (such as the KASE).

*Gains*

Gains realised by Non-Kazakhstan Holders as a result of disposal, sale, exchange or transfer of the Notes will be subject to withholding tax at a rate of 15 per cent. If the transferor is registered in a country with a favourable tax regime, as referred to above, gains realised from such a disposal are subject to withholding tax in Kazakhstan at the rate of 20 per cent. Pursuant to amendments to the Tax Code made in July 2011, with effect from 1 January 2012, a foreign legal entity purchasing securities (including debt securities) from a Non-Kazakhstan Holder may be considered as a tax agent for withholding tax purposes and certain procedures for the registration of a tax agent in such cases have been established.

Withholding tax on the gains realised by a Non-Kazakhstan Holder may be reduced or eliminated under an applicable double taxation treaty.

Any gains realised by Non-Kazakhstan Holders in relation to the Notes which are included, as of the date of sale, in the official list of a stock exchange operating in the territory of Kazakhstan or a foreign stock exchange and sold through open trades on such stock exchanges are not subject to withholding tax.

Any gains realised by Kazakhstan Holders in relation to the Notes which are included, as at the date of sale, in the official list of a stock exchange operating in the territory of Kazakhstan and sold through open trades on such stock exchange are not subject to Kazakhstan income tax.

### EU Directive on the Taxation of Savings Income

The Savings Directive requires Member States of the European Union to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person within its jurisdiction to (or for the benefit of) an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Austria and Luxembourg are instead required to operate a withholding system (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures to the Savings Directive (a withholding system in the case of Switzerland) and certain dependent or associated territories of certain Member States have adopted the same measures.

The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented amend or broaden the scope of the requirements described above.

## SUBSCRIPTION AND SALE

BNP Paribas and HSBC Bank plc (together, the "**Joint Lead Managers**") and JSC Kazkommerts Securities (the "**Kazakhstan Manager**", and together with the Joint Lead Managers, the "**Managers**" have, pursuant to a Subscription Agreement dated on or about 18 April 2013, jointly and severally agreed to subscribe for the Notes at their issue price of 98.986 per cent. of their principal amount less a combined management and underwriting commission. The Issuer and the Managers have agreed that commissions may be payable to certain third party intermediaries in connection with the initial sale and distribution of the Notes. The Issuer has also agreed to reimburse the Managers for certain of their expenses incurred in connection with the management of the issue of the Notes. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

### United Kingdom

Each of the Managers has represented and agreed in the Subscription Agreement that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### United States of America

The Notes have not been and will not be registered under the Securities Act and the Notes are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons. Each Manager has represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver any Notes within the United States or to U.S. persons, except as permitted by the Subscription Agreement.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

### Republic of Kazakhstan

Each Manager has represented and agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in the Republic of Kazakhstan except in compliance with the laws of the Republic of Kazakhstan.

### Russian Federation

Each Manager has acknowledged in the Subscription Agreement that (i) no Russian prospectus has been produced and registered or is intended to be produced and registered with respect to the Notes and the Notes have not been and are not intended to be registered in the Russian Federation; and (ii) the Notes are not admitted to placing and public circulation in the Russian Federation (in terms of the applicable Russian securities laws). Consequently, each of the Managers has represented and agreed in the Subscription Agreement that it and its affiliates have not offered or sold or otherwise transferred, and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter, any Notes to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation, or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

### Switzerland

The Notes will not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or any other exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland, and neither this Prospectus nor any other marketing material relating to the Notes will be publicly distributed or otherwise made publicly available in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the offering, nor the Issuer nor the Notes have been or will be filed with or approved by any Swiss regulatory authority.

**General**

Neither the Issuer nor any Manager has made any representation that any action will be taken in any jurisdiction by the Issuer or any Manager that would permit a public offering of the Notes, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Notes (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Manager has agreed that it will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Notes or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense.

Each Manager has undertaken that it has, to the best of its knowledge and belief, complied and will comply in all material respects with applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or distributes this Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes or the Issuer.

Certain of the Managers have, directly or indirectly through affiliates, provided investment and commercial banking, financial advisory and other services to the Issuer and its affiliates from time to time, for which they have received monetary compensation. Certain of the Managers may from time to time also enter into swap and other derivatives transactions with the Issuer and its affiliates. In addition, certain of the Managers and their affiliates may in the future engage in investment banking, commercial banking, financial or other advisory transaction with the Issuer or its affiliates.

Persons into whose hands this Prospectus comes are required by the Issuer and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

## GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The common code of the Notes is 091829215 and the ISIN is XS0918292151. The Classification of Financial Instruments Code is DBFXFR.

   The address of Euroclear is 1 Boulevard du Roi Albert H, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg.

2. It is expected that the listing of the Notes on the Official List of the UK Listing Authority and the admission of the Notes to trading on the Regulated Market of the London Stock Exchange for listed securities will take place on or about 23 April 2013, subject to the issuance of the Global Note Certificate. Transactions will normally be effected for delivery on the third business day after the transaction.

   Application has been made for the consent of the KASE for the admission of the Notes to the "rated debt securities" category of the official list of the KASE. On 15 March 2013, the KASE granted its consent for the admission of the Notes to the "rated debt securities" category of the official list of the KASE. It is expected that the admission of the Notes to the "rated debt securities" category of the official list of the KASE will become effective on 23 April 2013. Prior to the official listing and admission to trading, however, dealings will be permitted by the KASE in accordance with its rules.

3. For so long as any of the Notes are listed on the London Stock Exchange and admitted to trading on the Regulated Market for listed securities of the London Stock Exchange, copies (and English translation where the documents in question are not in English) of the following documents may be inspected at and are available free of charge in physical form at the registered office of the Issuer and the specified office of the Principal Paying Agent in London during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

   - the certificate of state re-registration of the Issuer and the charter of the Issuer;
   - the Agency Agreement;
   - the Trust Deed, including the forms of the Global Note Certificate;
   - the Security Documents;
   - the Prospectus;
   - the Issuer's Audited Financial Statements; and
   - the authorisations listed below.

   This Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at http://www.londonstockexchcmge.com/exchange/prices-and-news/news/market-news/market-news/home.html.

4. The issuance of the Notes have been authorised by a decision of the general meeting of participants of the Issuer, dated 5 March 2013.

5. The Issuer's 2012 Audited Financial Statements included in this Prospectus have been audited by Ernst & Young LLP, independent auditors (acting as auditors under licence No. 0000003, dated 15 July 2005 issued by the Ministry of Finance of the Republic of Kazakhstan and regulated by the Ministry of Finance of the Republic of Kazakhstan), as stated in their report appearing therein. The business address of Ernst & Young LLP is Essentai Tower Building, Al-Farabi Ave., 77/7, Almaty, 050060, Republic of Kazakhstan. The Issuer's 2011 Audited Financial Statements included in this Prospectus have been audited by Deloitte LLP, independent auditors (acting as auditors under licence No. 0000015, dated 13 September 2006 issued by the Ministry of Finance of the Republic of Kazakhstan and regulated by the Ministry of Finance of the Republic of Kazakhstan), as stated in their report appearing therein. The business address of Deloitte LLP is 36, Al-Farabi Ave., Almaty Financial District, Building "B", 050059, Republic of Kazakhstan.

6. No consents, approvals, authorisations or orders of any regulatory authorities are required by the Issuer under the laws of the United Kingdom or the Republic of Kazakhstan for issuing the Notes, except the FMSC

Permission and the compliance by the Issuer with the "notification regime" under the Kazakhstan's currency control legislation (which includes notification of the NBK in connection with the issue of the Notes and subsequent submission by the Issuer of quarterly reports to the NBK).

7. There has been no material adverse change in the prospects of the Issuer since 31 December 2012.

8. There has been no significant change in the financial or trading position of the Issuer since 31 December 2012.

9. There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), during a period covering at least the previous 12 months, which may have, or have had in the recent past, significant effects on the Issuer's financial position or profitability.

10. The Issuer does not intend to provide post-issuance transaction information regarding the Notes.

11. The expenses in relation to the admission to trading of the Notes are expected to be approximately GBP 4,200.

12. The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

13. Any reference to websites in this Prospectus is for information purposes only and such websites shall not form part of this document.

# INDEX TO AUDITED FINANCIAL STATEMENTS

*The following pages have been extracted from the publicly available Audited Financial Statements of the Issuer as at and for the financial years ended 31 December 2012 and 2011.*

**Eastcomtrans LLP**

Financial Statements

*Year ended 31 December 2012*
*with Independent Auditors' Report*

Ernst & Young

ERNST & YOUNG

# CONTENTS

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Здание «Есентай Тауэр»

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Факс: +7 (727) 258 5961

## Independent auditors' report

To the Partners of Eastcomtrans LLP

We have audited the accompanying financial statements of Eastcomtrans LLP ("the Company"), which comprise the statement of financial position as at 31 December 2012 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Ernst & Young

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

| | |
|---|---|
| Aisulu Narbayeva<br>Auditor | Evgeny Zhemaletdinov<br>General Director<br>Ernst & Young LLP |
| Auditor Qualification Certificate No. 0000137 dated 21 October 1994 | State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005 |

4 March 2013

## STATEMENT OF FINANCIAL POSITION

**As at 31 December 2012**

| *In thousands of Tenge* | Notes | 31 December 2012 | 31 December 2011 (as restated*) | 1 January 2011 (as restated*) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 6 | **94,005,283** | 75,659,512 | 49,515,217 |
| Intangible assets | | **51,527** | 53,192 | 10,883 |
| Loans due from employees | | **21,087** | 22,464 | 19,281 |
| Other non-current assets | 7 | – | 4,043,120 | 1,626,112 |
| Non-current due from DAMU | 12 | 293,022 | – | – |
| | | **94,370,919** | 79,778,288 | 51,171,493 |
| **Current assets** | | | | |
| Inventories | | **68,478** | 62,278 | 40,866 |
| Trade accounts receivable | 8 | **3,488,662** | 2,166,373 | 1,366,790 |
| Other current assets | 9 | **665,342** | 682,602 | 1,170,141 |
| Current due from DAMU | 12 | **233,369** | – | – |
| Prepaid income tax | | **15,279** | 7,045 | – |
| Loans due from employees | | **18,422** | 19,290 | 10,427 |
| Bank deposits, short-term | | – | 627,832 | 236,000 |
| Cash and cash equivalents | 10 | 1,050,814 | 1,424,635 | 2,935,423 |
| | | **5,540,366** | 4,990,055 | 5,759,647 |
| **TOTAL ASSETS** | | 99,911,285 | 84,768,343 | 56,931,140 |
| | | | | |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Charter capital | 11 | **840,000** | 840,000 | 840,000 |
| Revaluation reserve | | **14,166,827** | 14,955,611 | 15,801,863 |
| Retained earnings | | 19,451,800 | 13,584,322 | 8,761,111 |
| **TOTAL EQUITY** | | **34,458,627** | 29,379,933 | 25,402,974 |
| | | | | |
| **Non-current liabilities** | | | | |
| Borrowings | 12 | **37,968,151** | 30,472,681 | 14,424,458 |
| Finance lease liabilities | 13 | **5,240,289** | 6,906,230 | 3,640,552 |
| Deferred tax liability | 20 | **7,830,051** | 6,751,301 | 5,972,022 |
| | | **51,038,491** | 44,130,212 | 24,037,032 |
| | | | | |
| **Current liabilities** | | | | |
| Borrowings | 12 | **10,562,554** | 8,124,208 | 5,416,590 |
| Current portion of finance lease liabilities | 13 | **1,688,400** | 1,624,192 | 883,705 |
| Trade accounts payable | 14 | **962,012** | 700,447 | 800,941 |
| Advances received | | **358,284** | 309,933 | 104,846 |
| Income tax payable | | – | – | 15,974 |
| Other current liabilities | 15 | 842,917 | 499,418 | 269,078 |
| | | **14,414,167** | 11,258,198 | 7,491,134 |
| **TOTAL LIABILITIES** | | **65,452,658** | 55,388,410 | 31,528,166 |
| **TOTAL EQUITY AND LIABILITIES** | | 99,911,285 | 84,768,343 | 56,931,140 |

*Certain numbers presented herein do not correspond to the 2011 financial statements and reflect adjustments detailed in *Note 5.*

General Director — V.A. Malakhov

Chief Financial Officer — A. Kozhabergenov

Chief accountant — Zh.A. Koishibekova

Қазақстан Республикасы Алматы қаласы Жауапкершілігі шектеулі серіктестігі
Товарищество с ограниченной ответственностью Республика Казахстан г. Алматы
ИСТКОМТРАНС

*The accompanying notes on pages 6-29 are an integral part of these financial statements.*

## STATEMENT OF COMPREHENSIVE INCOME

**For the year ended 31 December 2012**

| *In thousands of Tenge* | Notes | 2012 | 2011 (as restated*) |
|---|---|---|---|
| Revenue | 16 | 22,476,151 | 17,050,667 |
| Cost of sales | 17 | (8,766,962) | (5,703,716) |
| **Gross profit** | | 13,709,189 | 11,346,951 |
| General and administrative expenses | 18 | (1,127,215) | (979,913) |
| Other operating income | | 47,831 | 16,794 |
| Other operating expenses | | (90,641) | (31,682) |
| Net (loss) / gain from disposal of property, plant and equipment | 6 | (219,222) | 1,214 |
| **Operating profit** | | 12,319,942 | 10,353,364 |
| Finance income | 19 | 611,116 | 101,468 |
| Finance costs | 19 | (4,620,723) | (4,210,737) |
| Foreign exchange loss, net | | (759,654) | (437,833) |
| **Profit before income tax** | | 7,550,681 | 5,806,262 |
| Income tax expense | 20 | (1,546,482) | (1,178,736) |
| **Net profit for the year** | | 6,004,199 | 4,627,526 |
| Other comprehensive income | | – | – |
| **Total comprehensive income for the year, net of tax** | | 6,004,199 | 4,627,526 |

*Certain numbers presented herein do not correspond to the 2011 financial statements and reflect adjustments detailed in *Note 5.*

General Director Y.A. Malakhov

Chief Financial Officer A. Kozhabergenov

Chief Accountant Zh.A. Koishibekova

Республика Казахстан г.Алматы Товарищество с ограниченной ответственностью ИСТКОМТРАНС Қазақстан Республикасы Алматы қаласы Жауапкершілігі шектеулі серіктестігі

*The accompanying notes on pages 6-29 are an integral part of these financial statements.*

## STATEMENT OF CHANGES IN EQUITY

**For the year ended 31 December 2012**

| *In thousands of Tenge* | Charter capital | Revaluation reserve | Retained earnings | Total |
|---|---|---|---|---|
| **At 1 January 2011** | **840,000** | **15,801,863** | **8,761,111** | **25,402,974** |
| Profit for the year | – | – | 4,627,526 | 4,627,526 |
| Total comprehensive income for the year | – | – | 4,627,526 | 4,627,526 |
| Amortization of revaluation reserve | – | (846,252) | 846,252 | – |
| Dividends (*Note 11*) | – | – | (650,567) | (650,567) |
| **At 31 December 2011** | **840,000** | **14,955,611** | 13,584,322 | **29,379,933** |
| Profit for the year | – | – | 6,004,199 | 6,004,199 |
| Total comprehensive income for the year | – | – | 6,004,199 | 6,004,199 |
| Amortization of revaluation reserve | – | (788,784) | 788,784 | – |
| Dividends (*Note 11*) | – | – | (925,505) | (925,505) |
| **At 31 December 2012** | **840,000** | **14,166,827** | 19,451,800 | **34,458,627** |

General Director — V.A. Malakhov

Chief Financial Officer — A.A. Kozhabergenov

Chief Accountant — Zh.A. Koishibekova

## STATEMENT OF CASH FLOWS

**For the year ended 31 December 2012**

| *In thousands of Tenge* | Notes | 2012 | 2011* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | 7,550,681 | 5,806,262 |
| Adjustments for: | | | |
| Depreciation and amortization | 17, 18 | 4,821,567 | 2,654,366 |
| Finance income | 19 | (611,116) | (101,468) |
| Finance costs | 19 | 4,620,723 | 4,210,737 |
| Net loss / (gain) from disposal of property, plant and equipment | 6 | 219,222 | (1,214) |
| Provision for doubtful debts | 18 | 42,551 | – |
| Unrealized foreign exchange loss | | 704,614 | 439,359 |
| **Working capital adjustments** | | | |
| (Increase) / decrease in operating assets: | | | |
| Inventories | | (6,200) | (21,412) |
| Trade accounts receivable | | (1,359,331) | (799,583) |
| Other current assets | | 89,181 | (22,177) |
| Increase / (decrease) in operating liabilities: | | | |
| Trade accounts payable | | 261,565 | 5,206,648 |
| Advances received | | 48,351 | 205,087 |
| Other current liabilities | | 172,419 | 214,366 |
| **Cash generated from operating activity** | | 16,554,227 | 17,790,971 |
| Income tax paid | | (475,966) | (423,991) |
| Interest paid on finance lease liability | | (850,438) | (1,051,085) |
| Interest paid on borrowings | | (3,601,986) | (2,802,004) |
| **Net cash flows from operating activities** | | 11,625,837 | 13,513,891 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (19,540,751) | (31,223,073) |
| Purchase of intangible assets | | (566) | (44,610) |
| Proceeds from sale of property, plant and equipment | 6 | 158,930 | 594,732 |
| Deposits withdrawn / (placed) | | 627,832 | (393,078) |
| Repayment of loans due from employees | | 46,965 | 31,564 |
| Loans provided to employees | | (44,065) | (24,300) |
| **Net cash flows used in investing activities** | | (18,751,655) | (31,058,765) |

## STATEMENT OF CASH FLOWS (continued)

| *In thousands of Tenge* | Notes | 2012 | 2011* |
|---|---|---|---|
| Cash **flows from financing** activities | | | |
| Proceeds from borrowings | | **19,440,455** | 28,644,977 |
| Repayment of borrowings, including loan origination fees | | **(10,413,809)** | (10,709,222) |
| Repayment of finance lease liabilities | | **(1,596,235)** | (1,270,126) |
| Dividends paid | | **(713,813)** | (650,567) |
| **Net cash flows from financing activities** | | 6,716,598 | 16,015,062 |
| **Net decrease in cash and cash equivalents** | | **(409,220)** | (1,529,812) |
| Effect of foreign exchange difference on cash and cash equivalents | | **35,399** | 19,024 |
| Cash and cash equivalents at 1 January | 10 | **1,424,635** | 2,935,423 |
| **Cash and cash equivalents at 31 December** | 10 | **1,050,814** | 1,424,635 |

*Certain numbers presented herein do not correspond to the 2011 financial statements and reflect adjustments detailed in *Note 5*.

### NON-CASH TRANSACTIONS – SUPPLEMENTAL DISCLOSURE:

Non-cash transactions, including the following, have been excluded from the statement of cash flows:

During 2012, the Company set off the receivables due from Steinhardt Holding N.V for sale of construction in progress against dividends payable for the total amount of 40,612 thousand Tenge.

General Director — V.A. Malakhov

Chief Financial Officer — A.A. Kozhabergenov

Chief Accountant — Zh.A. Koishibekova

*The accompanying notes on pages 6-29 are an integral part of these financial statements.*

## 1. CORPORATE INFORMATION

Eastcomtrans LLP (the "Company") is a limited liability partnership established under the laws of the Republic of Kazakhstan on 4 October 2002.

The Company is incorporated, domiciled and operates in the Republic of Kazakhstan. The registered office of the Company is located at office 11, 250, Dostyk Ave., Almaty, 050020, Republic of Kazakhstan.

The Company is owned by Mr. M. Zh. Sarsenov (60%) – a citizen of Republic of Kazakhstan and Steinhardt Holding N.V (40%) – established under the laws of the Netherlands. The ultimate controlling party of the Company is Mr. M. Zh. Sarsenov.

The principal activities of the Company are provision of rolling stock and cargo forwarding services within the Republic of Kazakhstan for oil and gas transportation purposes.

On September 2012, Fitch Ratings upgraded the Company's long-term foreign and local currency Issuer Default Ratings (IDR) to 'B' from 'B-', and National Long-term Rating to 'BB(kaz)' from 'B+(kaz)'. The Outlook on the ratings is Stable.

The financial statements of the Company as at 31 December 2012 and for the year then ended were authorized for issue by management of the Company on 15 February 2013.

## 2. BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these financial statements.

The financial statements are presented in Kazakhstan Tenge (Tenge) and all values are rounded to the nearest thousands Tenge, except when otherwise indicated.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2012:

- IAS 12 *Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*
- IFRS 1 *First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*
- IFRS 7 *Financial Instruments : Disclosures – Enhanced Derecognition Disclosure Requirements*

The adoption of the standards or interpretations is described below:

IAS 12 *Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*

The amendment clarifies the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and had no effect on the Company's financial position, performance or its disclosures.

IFRS 1 *First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact on the Company's financial position, performance or its disclosures.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 7 *Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the users of the Company's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Company does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

**Standards issued but not yet effective**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IAS 1 *Presentation of Items of Other Comprehensive Income* – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and will have no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Company's first annual report after becoming effective.

IAS 19 *Employee Benefits* (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013 will have no impact on the Company's financial position and performance.

IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)

As a consequence of the new IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates*, has been renamed to IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact on the Company's financial position, performance or its disclosures.

IAS 32 *Offsetting Financial Assets and Financial Liabilities* — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 1 *Government Loans* – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment will have no impact on the Company's financial position, performance or its disclosures.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Standards issued but not yet effective (continued)**

IFRS 7 *Disclosures — Offsetting Financial Assets and Financial Liabilities* — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 *Consolidated Financial Statements,* IAS 27 *Separate Financial Statements*

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation — Special Purpose Entities.*

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013, and will have no impact on the Company's financial position, performance or its disclosures.

IFRS 11 *Joint Arrangements*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers.* IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard will have no impact on the Company's financial position, performance or its disclosures.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013 will have no impact on the Company's financial position, performance or its disclosures.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Company's financial position, performance or its disclosures.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Standards issued but not yet effective (continued)**

*Annual Improvements May 2012*

These improvements will not have an impact on the Company, but include:

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 *Presentation of Financial Statements*

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 *Property Plant and Equipment*

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 *Financial Instruments, Presentation*

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 *Interim Financial Reporting*

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

**Foreign currency translation**

The financial statements are presented in Tenge, which is the Company's functional and presentation currency.

Transactions in foreign currencies are initially recorded at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Any exchange gains and losses arising from assets and liabilities denominated in foreign currencies subsequent to the date of the underlying transaction are credited or charged to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange ("KASE") are used as artificial currency exchange rates in the Republic of Kazakhstan.

The currency exchange rate of KASE as at 31 December 2012 was 150.74 Tenge to 1 US Dollar, 4.96 Tenge to 1 Russian Ruble and 199.22 Tenge to 1 Euro. These rates were used to translate monetary assets and liabilities denominated in US Dollars ("US$"), Russian Rubles and Euro as at 31 December 2012 (2011: 148.40 Tenge to 1 US Dollar, 4.61 Tenge to 1 Russian Ruble and 191.72 Tenge to 1 Euro, respectively).

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Property, plant and equipment**

Property, plant and equipment are initially recorded at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Subsequent to initial recognition, machinery and equipment are measured at revalued amounts, being their fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. As at the revaluation date the gross carrying amount of the asset is restated so that the resulting net carrying value equals to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

| | Years |
|---|---|
| Buildings and premises | 40-50 |
| Machinery and equipment | 15-40 |
| Other | 3–15 |

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

**Impairment of non-financial assets**

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for a property previously revalued when the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of non-financial assets (continued)**

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

**Financial assets**

*Initial recognition and measurement*

Financial assets within the scope of IAS 39 are classified as loans and receivables or held-to-maturity investments, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and short-term deposits, trade and other receivables and loans receivable.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as described below:

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs. The Group did not have any held-to-maturity investments during the years ended 31 December 2012, except deposits placed in banks.

*Cash and cash equivalents*

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of financial assets**

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

**Financial liabilities**

*Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, and other financial liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, finance lease liabilities and borrowings.

*Subsequent measurement*

The measurement of financial liabilities depends on their classification as described below:

*Loans and borrowings*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of comprehensive income.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial liabilities (continued)**

*Trade and other payables*

Liabilities for trade and other amounts payable are recognized at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

**Derecognition of financial assets and liabilities**

*Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

*Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the asset and settle the liability simultaneously.

**Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same
- A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in *Note 25*.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Inventories**

Inventories are valued at the lower of cost or net realisable value. Costs include charges incurred in bringing inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. The same cost formula is used for all inventories having a similar nature and use. All inventories are valued on the weighted-average cost basis.

**Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

*Company as a lessee – finance lease*

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Company, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

*Company as a lessee – operating lease*

Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term.

*Company as a lessor – operating lease*

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

**Provisions**

*General*

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**Employee benefits**

The Company does not have any pension arrangements separate from the state pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The Company has no post-retirement benefits or other compensated benefits requiring accrual. The Company pays social tax according to the current statutory requirements of the Republic of Kazakhstan. Social tax is expensed as incurred.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Dividends**

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are approved before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

**Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

*Rental income*

Rental income arising from operating leases of rolling stock is accounted for on a straight line basis over the lease term and is included in revenue line in the statement of comprehensive income.

*Rendering of services*

In respect of services revenue is recognized by reference to the stage of completion at the reporting date provided that the stage of completion and the amount of revenue can be measured reliably.

**Expense recognition**

Expenses are accounted for at the time the actual flow of the related goods or services occur, regardless of when cash or its equivalent is paid, and are reported in the financial statements in the period to which they relate.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Income tax**

*Current income tax*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*Deferred income tax*

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Income tax (continued)**

*Deferred income tax (continued)*

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances changed. The adjustment is either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it incurred during the measurement period or recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

**Revaluation of property, plant and equipment**

The Company assesses at each reporting date whether the carrying amount of its machinery and equipment does not differ materially from that, which would be determined using estimated fair value at the balance sheet date. For the Company's business environment, a period of "sufficient regularity" is usually assumed to be three years. The last revaluation of machinery and equipment was performed by the Company as of 31 December 2010. On 31 December 2012 the management of the Company re-visited its assessments with respect to the fair value of its machinery and equipment. As a result, management concluded that there were no significant changes in the fair value of the Company's machinery and equipment as of 31 December 2012 from the date of last revaluation on 31 December 2010. As a result, the fair value of the Company's machinery and equipment approximated their carrying amount.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

**Impairment of property, plant and equipment**

The Company assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the assets' recoverable amount. An asset's recoverable amount is higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. In 2012 and 2011 the Company did not recognize any impairment losses.

**Operating lease commitments – Company as a lessor**

The Company has entered into an agreement as a lessor to lease rolling stock. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

**Useful lives of items of property, plant and equipment**

The Company assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amounts of the carrying values of property, plant and equipment and intangible assets and on depreciation and amortization expenses recognized in profit or loss. In January 2012, the Company performed the detailed analysis of the useful lives of items of machinery and equipment, mainly represented by rail carriages. As a result, the Company concluded that additional two components of carriages should be identified as distinct ones and accounted for separately as these components had different useful lives. Prior to 2012, the carriages were split into the body and 4 wheel sets, which were accounted for and depreciated separately. As a result of the analysis performed, the Company concluded that there are 2 more major distinct components in the carriage structure - solebar and truck bolster - which should be accounted for separately as they have useful lives shorter than the useful lives of the body and wheel sets. The Company recalculated depreciation of machinery and equipment for 2012 prospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. As a result, depreciation of machinery and equipment for the year ended 31 December 2012 increased by 1,717,004 thousand Tenge.

**Covenants compliance**

According to the facility agreements concluded between the Company and its creditors, the Company is required to comply with certain financial and non-financial covenants. Violation of these covenants may lead to penalties or requests by the banks for early repayment of financial obligations. For the purpose of mitigating these risks the Company monitors its compliance with these financial and non-financial covenants. As at 31 December 2012 and 2011 the Company complied with all financial and non-financial covenants.

**Fair value of financial instruments**

At 31 December 2012 and 2011 the carrying values of the Company's monetary assets and liabilities approximated their estimated fair values.

The carrying amount of cash and cash equivalents, trade accounts receivable, trade accounts payable and other current monetary assets and liabilities approximates their fair value due to the short-term maturity of these financial instruments. Interest-bearing loans and borrowings are stated at amortized costs which approximate their fair values.

The fair value of long-term financial assets is estimated using discounted cash flow based on deposit rates currently available to the Company with similar terms and average maturities. The fair value of long-term financial assets is considered to be equal to their carrying values.

**Taxation**

In assessing tax risks, management considers to be probable obligations the known areas of tax positions which the Company would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, the determination of expected outcomes from pending tax proceedings and the outcome of ongoing compliance audits by tax authorities. Further uncertainties related to taxation are detailed in *Note 22*.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The Company did not have unrecognised deferred tax assets at 31 December 2012 (2011: nil). Further details are contained in *Note 22*.

### Allowances

The Company makes allowances for doubtful trade and other accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the financial statements. As of 31 December 2012, allowances for doubtful accounts have been created in the amount of 37,042 thousand Tenge (2011: 82,878 thousand Tenge) *(Note 8)*.

## 5. RECLASSIFICATIONS

Certain amounts in the statement of financial position and statement of comprehensive income for the previous periods were reclassified in accordance with the format of presentation adopted in the reporting year.

| | | Statement of financial position as at 31 December 2011 | | | Statement of financial position as at 31 December 2010 | | |
|---|---|---|---|---|---|---|---|
| *In thousands of Tenge* | | As previously reported | Reclassification | Reclassified | As previously reported | Reclassification | Reclassified |
| **Non-current assets** | | | | | | | |
| Other non-current assets | [1] | 4,096,312 | (53,192) | **4,043,120** | 1,636,995 | (10,883) | **1,626,112** |
| Intangible assets | [1] | – | 53,192 | **53,192** | – | 10,883 | **10,883** |
| **Current assets** | | | | | | | |
| Accounts receivable | [2] | 2,856,020 | (2,856,020) | – | 2,031,584 | (2,031,584) | – |
| Trade accounts receivable | [2] | – | 2,166,373 | **2,166,373** | – | 1,366,790 | **1,366,790** |
| Other current assets | [2] | – | 682,602 | **682,602** | 505,347 | 664,794 | **1,170,141** |
| Prepaid income tax | [2] | – | 7,045 | **7,045** | – | – | – |
| **Non-current liabilities** | | | | | | | |
| Borrowings | [3] | 37,378,911 | (6,906,230) | **30,472,681** | 18,065,010 | (3,640,552) | **14,424,458** |
| Finance lease liabilities | [3] | – | 6,906,230 | **6,906,230** | – | 3,640,552 | **3,640,552** |
| **Current liabilities** | | | | | | | |
| Borrowings | [3] | 9,748,400 | (1,624,192) | **8,124,208** | 6,300,295 | (883,705) | **5,416,590** |
| Current portion of finance lease liabilities | [3] | – | 1,624,192 | **1,624,192** | – | 883,705 | **883,705** |
| Accounts payable | [4] | 1,509,798 | (1,509,798) | – | 1,190,839 | (1,190,839) | – |
| Trade accounts payable | [4] | – | 700,447 | **700,447** | – | 800,941 | **800,941** |
| Income tax payable | [4] | – | – | – | – | 15,974 | **15,974** |
| Advances received | [4] | – | 309,933 | **309,933** | – | 104,846 | **104,846** |
| Other current liabilities | [4] | – | 499,418 | **499,418** | | 269,078 | **269,078** |

| | | Statement of comprehensive income for the year ended 31 December 2011 | | |
|---|---|---|---|---|
| | | As previously reported | Reclassification | Reclassified |
| Other operating income | [5] | 18,008 | (1,214) | **16,794** |
| Net gain from disposal of property, plant and equipment | [5] | – | 1,214 | **1,214** |
| Finance costs | [6] | (4,648,570) | 437,833 | **(4,210,737)** |
| Foreign exchange loss, net | [6] | – | (437,833) | **(437,833)** |

## 5. RECLASSIFICATIONS (continued)

[1] Reclassification of intangible assets from other non-current assets.

[2] Reclassification of trade accounts receivable, other current assets and prepaid income tax from accounts receivable.

[3] Reclassification of finance lease liabilities from borrowings.

[4] Reclassification of trade accounts payable, advances received, income tax payable and other current liabilities from accounts payable.

[5] Reclassification of net gain from disposal of property, plant and equipment from other operating income.

[6] Reclassification of foreign exchange loss, net from finance costs.

These reclassifications had no any effect on net income, comprehensive income or equity of the Company.

## 6. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the years ended 31 December 2012 and 2011 was as follows:

| *In thousands of Tenge* | Land | Buildings | Machinery and equipment | Other | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| At 1 January 2011 | 28,013 | 103,048 | 58,785,885 | 78,633 | 16,185 | 59,011,764 |
| Additions | – | – | 28,696,438 | 66,828 | 42,800 | 28,806,066 |
| Disposals | – | – | (119,228) | (14,024) | – | (133,252) |
| Transfers | – | – | 3,962 | – | (3,962) | – |
| At 31 December 2011 | 28,013 | 103,048 | 87,367,057 | 131,437 | 55,023 | 87,684,578 |
| Additions | **14,311** | **–** | **23,327,267** | **242,293** | **–** | **23,583,871** |
| Disposals | **(42,324)** | **(103,048)** | **(260,807)** | **(29,756)** | **(55,023)** | **(490,958)** |
| **At 31 December 2012** | – | – | 110,433,517 | 343,974 | – | 110,777,491 |
| **Accumulated depreciation and impairment:** | | | | | | |
| 1 January 2011 | – | (3,600) | (9,465,310) | (27,637) | – | (9,496,547) |
| Depreciation charge | – | (2,161) | (2,634,300) | (15,605) | – | (2,652,066) |
| Disposals | – | – | 119,228 | 4,319 | – | 123,547 |
| At 31 December 2011 | – | (5,761) | (11,980,382) | (38,923) | – | (12,025,066) |
| Depreciation charge | – | **(1,620)** | **(4,781,497)** | **(36,219)** | – | **(4,819,336)** |
| Disposals | – | 7,381 | 47,665 | **17,148** | – | **72,194** |
| **At 31 December 2012** | – | – | (16,714,214) | (57,994) | – | **(16,772,208)** |
| **Net book value:** | | | | | | |
| At 1 January 2011 | 28,013 | 99,448 | 49,320,575 | 50,996 | 16,185 | 49,515,217 |
| At 31 December 2011 | 28,013 | 97,287 | 75,386,675 | 92,514 | 55,023 | 75,659,512 |
| **At 31 December 2012** | – | – | 93,719,303 | 285,980 | – | 94,005,283 |

The latest revaluation of the Company's machinery and equipment was performed as at 31 December 2010 by an independent appraiser, American Appraiser LLP. The fair value was determined based on the analysis of the CIS secondary market, which was classified as an active secondary market by the appraiser.

As at 31 December 2012, the carrying value of machinery and equipment would have been 76,010,769 thousand Tenge (2011: 56,480,595 thousand Tenge) if machinery and equipment were recorded at cost less accumulated depreciation and impairment.

Machinery and equipment represent mainly railway carriages and semi-wagons. Machinery and equipment includes carriages acquired under finance lease agreements with banks with the carrying value of 14,051,086 thousand Tenge (2011: 14,817,433 thousand Tenge), which are pledged as collateral under the respective lease agreements.

As at 31 December 2012, machinery and equipment with total carrying value of 69,722,331 thousand Tenge (2011: 60,361,396 thousand Tenge) were pledged as collateral for borrowings obtained by the Company (*Note 12*). In addition, as at 31 December 2012, machinery and equipment with total carrying value of 3,107,736 thousand Tenge (2011: nil) were pledged as collateral for borrowings obtained by LLP "Center for wagon service – Eskene", an entity under common control of the Company's ultimate controlling party (*Note 21*).

## 6. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year ended 31 December 2012 the Company disposed of property, plant and equipment with a net carrying value of 418,764 thousand Tenge (2011: 9,705 thousand Tenge) and received a consideration in the amount of 199,859 thousand Tenge (2011: 10,919 thousand Tenge). As a result, net loss on disposal of 219,222 thousand Tenge (2011: net gain of 1,214 thousand Tenge) was recognized. Disposals during the year ended 31 December 2012 include sale of construction in progress with net carrying value of 40,612 thousand Tenge to its partner Steinhardt Holding N.V. for consideration of 40,612 thousand Tenge (*Note 21*). In addition, disposals include sales of land and construction in progress with the net carrying value of 46,181 thousand Tenge to LLP "Center for wagon service – Eskene", an entity under common control of the Company's ultimate controlling party, for consideration of 46,219 thousand Tenge (*Note 21*).

As at 31 December 2012 property, plant and equipment include fully depreciated assets with the gross book value of 10,889 thousand Tenge (2011: 8,602 thousand Tenge).

## 7. OTHER NON-CURRENT ASSETS

Other non-current assets as of 31 December 2011 represent advances paid to CJSC Trade House AzovObsheMash, a third party, for purchase of carriages, which were delivered to the Company in 2012. As of 31 December 2010 other non-current assets represent advances paid for purchase of carriages to CJSC Trade House AzovObsheMash in the amount of 886,276 thousand Tenge, which were delivered to the Company in 2011, and advances under finance lease agreements with JSC BRK Leasing and Raiffeisen Leasing Kazakhstan LLP in the amount of 467,182 thousand Tenge and 272,654 thousand Tenge, respectively.

## 8. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following at 31 December:

| *In thousands of Tenge* | **2012** | 2011 | 2010 |
|---|---|---|---|
| Trade receivables | **3,525,704** | 2,249,251 | 1,449,668 |
| Less: Allowance for doubtful debts | **(37,042)** | (82,878) | (82,878) |
| | **3,488,662** | 2,166,373 | 1,366,790 |

As at 31 December 2012 trade accounts receivable from the main customer, Tengizshevroil LLP, comprised 58% of total trade receivables (2011: 77%).

The movements in the allowance for doubtful debts were as follows for the years ended 31 December:

| *In thousands of Tenge* | **2012** | 2011 | 2010 |
|---|---|---|---|
| Allowance for doubtful debts at the beginning of the year | **(82,878)** | (82,878) | □ |
| Provision for the year | **(37,042)** | □ | (82,878) |
| Write-offs | 82,878 | □ | □ |
| Allowance for doubtful debts at the end of the year | **(37,042)** | (82,878) | (82,878) |

As at 31 December 2012 trade accounts receivable in the amount of 3,488,662 thousand Tenge were neither past due nor impaired (2011: 2,166,373 thousand Tenge).

At 31 December the Company's trade accounts receivable were denominated in various currencies as follows:

| *In thousands of Tenge* | **2012** | 2011 | 2010 |
|---|---|---|---|
| US Dollars | **2,319,365** | 1,815,016 | 810,576 |
| Tenge | **826,807** | 324,160 | 496,633 |
| Russian Rubles | **342,490** | 27,197 | 59,581 |
| | **3,488,662** | 2,166,373 | 1,366,790 |

## 9. OTHER CURRENT ASSETS

Other current assets comprised the following at 31 December:

| *In thousands of Tenge* | **2012** | 2011 | 2010 |
|---|---|---|---|
| Advances paid | **525,473** | 622,818 | 247,507 |
| Prepaid interest on guarantees received from ultimate controlling party (*Note 21*) | **123,223** | 59,725 | □ |
| Prepaid interest expense | **13,919** | □ | □ |
| Receivable from disposal of property, plant and equipment | □ | □ | 505,347 |
| Other | **2,727** | 59 | 417,287 |
| | **665,342** | 682,602 | 1,170,141 |

At 31 December 2012 and 2011 other current assets were primarily denominated in Tenge.

### 9. OTHER CURRENT ASSETS (continued)

At 31 December 2010, receivable from disposal of property, plant and equipment was represented by receivable from disposal of an office building from Emerald Capital LLP, which was repaid in 2011.

Advances paid for goods and services comprised the following at 31 December:

| *In thousands of Tenge* | 2012 | 2011 | 2010 |
|---|---|---|---|
| Advances paid for goods and services | **530,982** | 622,818 | 257,016 |
| Less: Impairment allowance | (5,509) | □ | (9,509) |
| | 525,473 | 622,818 | 247,507 |

The movements in the impairment allowance for were as follows for the years ended 31 December:

| *In thousands of Tenge* | 2012 | 2011 | 2010 |
|---|---|---|---|
| Impairment allowance at the beginning of the year | □ | (9,509) | (9,509) |
| Charge for the year | **(5,509)** | □ | □ |
| Write-offs | □ | 9,509 | □ |
| Impairment allowance at the end of the year | (5,509) | □ | (9,509) |

### 10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following at 31 December:

| *In thousands of Tenge* | 2012 | 2011 | 2010 |
|---|---|---|---|
| Cash in bank – US Dollars | **1,026,357** | 1,200,276 | 1,941,719 |
| Cash in bank – Tenge | **23,939** | 178,808 | 357,519 |
| Cash in bank – Russian Rubles | **280** | 21,309 | 89 |
| Cash in bank –Euro | □ | □ | 514 |
| Cash on hand – Tenge | **238** | 24,242 | 635,582 |
| | 1,050,814 | 1,424,635 | 2,935,423 |

Bank BNP Paribas (Suisse) SA and JSC AFT Bank are entitled to place restrictions on cash held with these banks if the Company delays payment of principal or interest on borrowings in accordance with the payment schedules. As at 31 December 2012, the total amount of cash held at Bank BNP Paribas (Suisse) SA and JSC AFT Bank amounted to 689,079 thousand Tenge (2011: 656,579 thousand Tenge) (*Note 12*).

### 11. CHARTER CAPITAL

| *In thousands of Tenge* | 2012 | | 2011 | |
|---|---|---|---|---|
| | Value | % | Value | % |
| Mr. M. Zh. Sarsenov | **504,000** | **60%** | 504,000 | 60% |
| Steinhardt Holding N.V. | 336,000 | **40%** | 336,000 | 40% |
| | 840,000 | **100%** | 840,000 | 100% |

In 2012 dividends in the amount of 925,505 thousand Tenge have been declared to the partners proportionate to their ownership interest (2011: 650,567 thousand Tenge).

At 31 December 2012 100% of the Company's shares have been pledged by partners as a security for the Company's borrowings (2011: 100%) (*Note 12*).

On 28 December 2012 the Company signed a contribution agreement with International Finance Corporation (IFC), in accordance to which IFC may consider making capital contribution to the Company in the amount of 3,005,400 thousand Tenge. As of 31 December 2012 the Company did not receive funds from IFC under the contribution agreement.

## 12. BORROWINGS

Borrowings comprised the following at 31 December:

*In thousands of Tenge*

| Creditor | Currency | Effective interest rate | Maturity | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| BNP Paribas | US Dollars | 7.57% - 8.03% | 2017 | **15,523,560** | – | – |
| BNP Paribas | US Dollars | 7.43% | 2016 | **10,987,639** | 13,289,901 | – |
| ATF bank | US Dollars | 8.55% | 2017 | **9,870,458** | 9,429,778 | 11,133,369 |
| ATF bank | US Dollars | 7.2% | 2016 | **3,293,556** | 4,048,869 | – |
| HSBC | US Dollars | 8.28-8.29% | 2016 | **6,825,142** | 7,995,269 | – |
| HSBC | US Dollars | 10.79% | 2014 | **1,073,158** | 1,754,598 | 2,429,713 |
| HSBC | US Dollars | 8.73 | 2013 | **75,857** | – | – |
| HSBC | US Dollars | 8.43-8.82% | 2012 | – | 178,163 | – |
| Al Hilal | US Dollars | 11.4%-11.5% | 2016 | **620,768** | 770,109 | 883,622 |
| Al Hilal | US Dollars | 8% | 2012 | – | 56,432 | – |
| Al Hilal | US Dollars | 8% | 2013 | **73,326** | – | – |
| Annmar Management Limited | US Dollars | 5% | 2013 | **187,241** | 1,055,252 | 1,177,036 |
| Mr Sarsenov | Tenge | 5% | 2015 | – | 18,518 | 44,814 |
| HSBC | US Dollars | 8.28% | 2011 | – | – | 297,737 |
| JSC BTA bank | US Dollars | 8.68-16% | 2011 | – | – | 3,677,015 |
| Al Hilal | US Dollars | 8% | 2011 | – | – | 197,742 |
| | | | | **48,530,705** | 38,596,889 | 19,841,048 |
| Less: amounts due for settlement within 12 months | | | | **(10,562,554)** | (8,124,208) | (5,416,590) |
| **Amounts due for settlement after 12 months** | | | | **37,968,151** | 30,472,681 | 14,424,458 |

As at 31 December 2012, machinery and equipment with the carrying value of 69,722,331 thousand Tenge (2011: 60,361,396 thousand Tenge) were pledged as collateral for the Company's borrowings (*Note 6*).

At 31 December 2012 100% of the Company's shares have been pledged by partners as security for the Company's borrowings (2011: 100%) (*Note 11*).

At 31 December 2011, the Company's borrowings of 826,541 thousand Tenge were guaranteed by Mr. Sarsenov (2012: nil thousand Tenge) (*Note 19*).

On 14 August 2012 the Company, ATF bank and DAMU (Entrepreneurship Development Fund) signed a trilateral subsidy agreement. According to the agreement, DAMU will reimburse to the Company 7% interest out of total interest payable by the Company under the loan agreement between the Company and ATF bank at the rate of 8.94% per annum for the period from August 2012 to November 2012, at the rate of 7.85% per annum for the period from November 2012 to December 2012 and at the rate of 3M Libor + 7.5% per annum further. Future interest payments on the loan at a rate of 7% per annum, paid by DAMU, discounted at the market rate of interest of 7.85% per annum, were recognised by the Company as income on government subsidies on the date of conclusion of the agreement on subsidies with DAMU in the amount of 603,335 thousand Tenge (*Note 19*).

Bank BNP Paribas (Suisse) SA and JSC AFT Bank are entitled to place restrictions on cash held with these banks if the Company delays payment of principal or interest on borrowings in accordance with the payment schedules. As at 31 December 2012, the total amount of cash held at Bank BNP Paribas (Suisse) SA and JSC AFT Bank amounted to 689,079 thousand Tenge (2011: 656,579 thousand Tenge) *(Note 10)*.

On 28 December 2012 the Company signed a loan agreement with International Finance Corporation (IFC), a member of the World Bank, on provision of the borrowings in the amount of 30,000 thousand US Dollars to the Company to expand its rail car fleet, finance development of freight forwarding and logistics services and commercial and industrial infrastructure of the Company. As of 31 December 2012 the Company did not receive funds from IFC under the loan agreement.

## 13. LEASES

The Company entered into agreements to acquire machinery and equipment, primarily railway carriages and semi-wagons under deferred payment schedule. These agreements transfer the ownership over the leased assets to the Company upon the end of the lease term.

Finance lease liabilities comprised the following at 31 December:

*In thousands of Tenge*

| Creditor | Currency | Interest rate | Maturity | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| BRK-Leasing JSC | Tenge | 10.1% - 14% | 2016-2018 | **5,035,594** | 6,003,102 | 2,539,096 |
| Raiffeisen Leasing Kazakhstan LLP | Tenge | 3m Euribor+8.75%<br>1m Euribor+8.75%<br>1m Libor+8.5% | 2014-2017 | 1,893,095 | 2,527,320 | 1,985,161 |
| | | | | 6,928,689 | 8,530,422 | 4,524,257 |
| Less: amounts due for settlement within 12 months | | | | (1,688,400) | (1,624,192) | (883,705) |
| **Amounts due for settlement after 12 months** | | | | **5,240,289** | 6,906,230 | 3,640,552 |

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments comprised the following:

| *In thousands of Tenge* | 2012 Minimum lease payments | 2012 Present value of minimum lease payments | 2011 Minimum lease payments | 2011 Present value of minimum lease payments |
|---|---|---|---|---|
| Within one year | **2,336,486** | **1,688,400** | 2,475,282 | 1,624,192 |
| After one year but not more than five years | **6,383,099** | **5,240,289** | 6,359,723 | 5,667,834 |
| After five years | □ | □ | 2,359,862 | 1,238,396 |
| Less: amounts representing interest charges | (1,790,896) | □ | (2,664,445) | □ |
| **Present value of minimum lease payments** | **6,928,689** | **6,928,689** | 8,530,422 | 8,530,422 |
| Less: amounts due for settlement within 12 months | | **(1,688,400)** | | (1,624,192) |
| **Amounts due for settlement after 12 months** | | **5,240,289** | | 6,906,230 |

The amounts representing interest charges are based on effective interest rates varying from 9% to 14% per annum.

As at December 31 2012 and 2011, the Company's finance lease liabilities of 1,502,669 thousand Tenge and 1,873,042 thousand Tenge were guaranteed by Mr. Sarsenov (*Note 19*).

## 14. TRADE ACCOUNTS PAYABLE

Trade accounts payable comprised the following at 31 December:

| *In thousands of Tenge* | 2012 | 2011 | 2010 |
|---|---|---|---|
| Accounts payable for services | **888,260** | 516,705 | 731,776 |
| Accounts payable for rolling stock repairs | **61,370** | 103,955 | 33,772 |
| Accounts payable for inventory | **12,382** | 5,715 | 10,755 |
| Accounts payable for rolling stock lease | □ | 74,072 | 24,638 |
| | **962,012** | 700,447 | 800,941 |

At 31 December 2012 and 2011 trade accounts payable were not interest bearing.

## 14. TRADE ACCOUNTS PAYABLE (continued)

At 31 December the Company's trade accounts payable were denominated in various currencies as follows:

| *In thousands of Tenge* | 2012 | 2011 | 2010 |
|---|---|---|---|
| US Dollars | **489,207** | 377,678 | 172,372 |
| Russian Rubles | **333,394** | 9,260 | 13,462 |
| Tenge | **139,394** | 313,364 | 615,107 |
| EURO | **17** | 145 | □ |
| | **962,012** | 700,447 | 800,941 |

## 15. OTHER CURRENT LIABILITIES

Other current liabilities comprised the following at 31 December:

| *In thousands of Tenge* | 2012 | 2011 | 2010 |
|---|---|---|---|
| Other taxes payable | **633,708** | 476,831 | 252,391 |
| Dividends payable (*Note 21*) | **171,080** | □ | □ |
| Accruals for unused vacation | **37,993** | 22,471 | 9,458 |
| Other | **136** | 116 | 7,229 |
| | **842,917** | 499,418 | 269,078 |

As at 31 December 2012 dividends payable represent dividends declared, but not paid to Steinhardt Holding N.V. denominated in US Dollars.

Other taxes payable comprised the following at 31 December:

| *In thousands of Tenge* | 2012 | 2011 | 2010 |
|---|---|---|---|
| Value added tax | **588,556** | 424,632 | 211,302 |
| Withholding income tax | **31,549** | 42,725 | 33,259 |
| Other | **13,603** | 9,474 | 7,830 |
| | **633,708** | 476,831 | 252,391 |

## 16. REVENUE

Revenue for the years ended 31 December comprised the following:

| *In thousands of Tenge* | 2012 | 2011 |
|---|---|---|
| Rental income from lease of rolling stock | **18,155,789** | 14,523,658 |
| Operating services | **2,763,710** | 826,375 |
| Cargo forwarding services | **773,309** | 635,730 |
| Consignor and consignee services | **721,170** | 1,053,737 |
| Other | **62,173** | 11,167 |
| | **22,476,151** | 17,050,667 |

In 2012 approximately 65% of total revenue was derived from services rendered to one customer, Tengizshevroil LLP (2011: 76%). The contracts on rolling stock operating lease expire in 2016.

## 17. COST OF SALES

Cost of sales for the years ended 31 December comprised the following:

| *In thousands of Tenge* | 2012 | 2011 |
|---|---|---|
| Depreciation | **4,782,054** | 2,634,609 |
| Insurance of wagons | **1,363,848** | 568,508 |
| Repairs and maintenance of wagons | **1,258,002** | 1,275,402 |
| Usage of railways | **560,590** | 340,771 |
| Rent of wagons | **245,259** | 455,786 |
| Payroll and related expenses | **244,901** | 187,516 |
| Wagon servicing | **121,367** | 94,667 |
| Spare parts and other materials | **31,597** | 64,992 |
| Other | **159,344** | 81,465 |
| | **8,766,962** | 5,703,716 |

## 18. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December comprised the following:

| *In thousands of Tenge* | 2012 | 2011 |
|---|---|---|
| Payroll and related expenses | 462,116 | 384,394 |
| Bank commission | 110,114 | 123,204 |
| Office rent | 105,194 | 49,904 |
| Information, consulting and other professional services | 64,740 | 76,014 |
| Repairs and maintenance | 51,116 | 27,450 |
| Business trips | 45,003 | 42,109 |
| Taxes other than income tax | 43,673 | 104,582 |
| Provision for doubtful debts *(Notes 8,9)* | 42,551 | □ |
| Depreciation and amortisation | 39,513 | 19,757 |
| Utilities | 23,726 | 17,535 |
| Materials | 19,584 | 23,174 |
| Telecommunication services | 17,439 | 12,440 |
| Sponsorship | 10,100 | □ |
| Transportation | 5,081 | 5,610 |
| Other | 87,265 | 93,740 |
| | 1,127,215 | 979,913 |

## 19. FINANCE INCOME / (COSTS)

Finance income and finance costs for the years ended 31 December comprised the following:

| *In thousands of Tenge* | 2012 | 2011 |
|---|---|---|
| ***Finance income*** | | |
| Income on subsidies *(Note 12)* | 603,335 | □ |
| Amortization of discount on long-term loans given to employees | 4,338 | 84,577 |
| Interest income | 3,443 | 16,891 |
| | 611,116 | 101,468 |
| | | |
| ***Finance costs*** | | |
| Interest expense on bank loans | (3,646,073) | (2,894,187) |
| Interest expense on finance lease | (845,300) | (1,038,253) |
| Interest expense on guarantee agreements (*Note 21*) | (125,668) | (271,574) |
| Discounting of long-term loans given to employees | (3,682) | (6,723) |
| | (4,620,723) | (4,210,737) |

At 31 December 2012 and 2011, the Company's borrowings and finance lease liabilities of 1,502,669 thousand Tenge and 2,699,583 thousand Tenge, respectively, were guaranteed by Mr. Sarsenov (*Note 12, 13*). Under the guarantee agreements, the Company paid interest to Mr. Sarsenov in the amount of 195,117 thousand Tenge for the year ended 31 December 2012 (2011: 325,655 thousand Tenge).

## 20. INCOME TAX EXPENSE

Income tax expense comprised the following for the years ended 31 December:

| *In thousands of Tenge* | 2012 | 2011 |
|---|---|---|
| Current income tax expense | 467,732 | 399,457 |
| Deferred tax expense | 1,078,750 | 779,279 |
| | 1,546,482 | 1,178,736 |

A reconciliation of income tax expense applicable to profit before income tax at the statutory income tax rate of 20% (2011: 20%) to current income tax expense was as follows for the years ended 31 December:

| *In thousands of Tenge* | 2012 | 2011 |
|---|---|---|
| Profit before income tax | 7,550,681 | 5,806,262 |
| Statutory tax rate | 20% | 20% |
| **Profit before income tax at statutory tax rate** | 1,510,136 | 1,161,252 |
| Non-deductible expenses | 36,346 | 17,484 |
| | 1,546,482 | 1,178,736 |

### 20. INCOME TAX EXPENSE (continued)

As at 31 December components of deferred income tax assets and liabilities are as follows:

| | Statement of financial position | | | Statement of comprehensive income | |
|---|---|---|---|---|---|
| *In thousands of Tenge* | **2012** | 2011 | 2010 | **2012** | 2011 |
| **Deferred tax assets** | | | | | |
| Bad debt allowance | **8,510** | 16,575 | 1,892 | **(8,065)** | 14,683 |
| Accruals for unused vacation | **8,131** | 4,568 | 15,693 | 3,563 | (11,125) |
| | **16,641** | 21,143 | 17,585 | (4,502) | 3,558 |
| **Deferred tax liabilities** | | | | | |
| Property, plant and equipment | **(7,741,414)** | (6,772,444) | (5,989,607) | **(968,970)** | (782,837) |
| Borrowings | **(105,278)** | □ | □ | (105,278) | □ |
| | **(7,846,692)** | (6,772,444) | (5,989,607) | **(1,074,248)** | (782,837) |
| **Net deferred income tax liability** | **(7,830,051)** | (6,751,301) | (5,972,022) | | |
| **Deferred tax expense** | – | – | – | **(1,078,750)** | (779,279) |

### 21. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties include owners, entities controlled by the ultimate controlling party and key management personnel of the Company.

Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates. Outstanding balances at the year-end are unsecured, short-term and settlement occurs in cash.

For the years ended 31 December 2012 and 2011, the Company has not recorded any impairment of trade accounts receivables relating to amounts owned by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Sales and purchases with related parties during the years ended 31 December 2012 and 2011 and the balances with related parties at 31 December 2012 and 2011 were as follows:

| *In thousands of Tenge* | **2012** | 2011 |
|---|---|---|
| **Ultimate controlling party – Mr. M. Zh. Sarsenov** | | |
| Interest expense on guarantee agreements (*Note 19*) | **125,668** | 271,574 |
| **Owner –Steinhardt Holding N.V** | | |
| Sale of construction in progress (*Note 6*) | **40,612** | □ |
| **Company under common control of the ultimate controlling party – LLP "Center of wagon servicing – Eskene"** | | |
| Sale of land and construction in progress (*Note 6*) | 46,219 | □ |
| **Ultimate controlling party – Mr. M. Zh. Sarsenov** | | |
| Prepaid interest on guarantees received (*Note 9*) | **123,223** | 59,725 |
| **Owner – Steinhardt Holding N.V** | | |
| Dividends payable (*Note 15*) | **171,080** | □ |
| **Company under common control of the ultimate controlling party – LLP "Center of wagon servicing – Eskene"** | | |
| Trade account receivable | **9,826** | □ |

On 17 July 2012 the Company provided property, plant and equipment with the total carrying value of 3,107,736 thousand Tenge to Eurasian Development Bank as a security under a loan agreement concluded between Eurasian Development Bank and LLP "Center for wagon service – Eskene", an entity under common control of the Company's ultimate controlling party. In addition, under a trilateral project support agreement concluded between the Company, LLP "Center for wagon service – Eskene" and Eurasian Development Bank on 16 July 2012 the Company committed to provide technical and personnel support to the project carried out by LLP "Center for wagon service – Eskene" related to construction of wagon servicing center in Atyrau Oblast.

## 21. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

### Compensation to key management personnel

Key management personnel in 2012 totalled 2 persons (2011: 3 persons). In 2012, total compensation to key management personnel consisted of salaries and other short-term benefits for the amount of 67,745 thousand Tenge (2011: 102,505 thousand Tenge) was included in general and administrative expenses in the statement of comprehensive income.

## 22. COMMITMENTS AND CONTINGENCIES

### Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2012.

As at 31 December 2012 management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax and currency positions will be sustained.

### Operating lease commitments - Company as lessee

In January 2012 the Company entered into lease of an office space. This lease has a life of five years with a renewal option included in the contract. There are no restrictions placed upon the Company by entering into this lease.

Future minimum rentals payable under non-cancellable operating lease are as follows:

| *In thousands of Tenge* | **2012** |
|---|---|
| Within one year | **98,160** |
| After one year but not more than five years | **392,640** |
| | **490,800** |

### Loans covenants

According to the facility agreements concluded between the Company and its creditors the Company is required to comply with certain financial and non-financial covenants. Violation of these covenants may lead to penalties or requests by the banks for early repayment of financial obligations. For the purpose of mitigating these risks the Company monitors its compliance with these financial and non-financial covenants.

As at 31 December 2012 and 2011 the Company complied with all financial and non-financial covenants.

### Performance guarantee

Under a trilateral project support agreement concluded between the Company, LLP "Center for wagon service – Eskene" and Eurasian Development Bank on 16 July 2012 the Company committed to provide technical and personnel support to the project carried out by LLP "Center for wagon service – Eskene" related to construction of wagon servicing center in Atyrau Oblast.

## 23. FINANCIAL RISK AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments consist of bank borrowings, lease liabilities, cash and short-term deposits as well as accounts receivable and accounts payable. The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk and credit risk. The Company further monitors the market risk and liquidity risk arising from all financial instruments.

### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term borrowings with floating interest rates.

### 23. FINANCIAL RISK AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Interest rate risk (continued)**

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before income tax (through the impact on floating rate borrowings). There is no impact on the Company's equity.

| *In thousands of Tenge* | Increase / decrease in interest rate | Effect on profit before tax |
|---|---|---|
| **2012** | | |
| LIBOR | **+0.05%** | **(19,185)** |
| | **-0.05%** | **19,185** |
| EURIBOR | **+0.16%** | **(2,552)** |
| | **-0.16%** | **2,552** |
| 2011 | | |
| LIBOR | +0.15% | (44,527) |
| | -0.15% | 44,527 |
| EURIBOR | +0.15% | (2,979) |
| | -0.15% | 2,979 |

**Foreign currency risk**

As a result of significant borrowings, lease liabilities and accounts payable, cash and cash equivalents and accounts receivable denominated in the US Dollars the Company's statement of financial position can be affected significantly by movement in the US Dollar / Tenge exchange rates.

The following table demonstrates the sensitivity to a reasonably possible changes in the US Dollar exchange rates, with all the variables held constant, of the Company's profit before income tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Company's equity.

| | | Effect on profit before income tax | |
|---|---|---|---|
| | Increase/ decrease in the US Dollar rate | Increase | Decrease |
| **2012** | **+1.57%** | □ | **(719,603)** |
| | **-1.57%** | **719,603** | □ |
| 2011 | +2.5% | □ | (882,826) |
| | -2.5% | 882,826 | □ |

**Credit risk**

The Company trades only with recognised, creditworthy parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in *Note 8*.

As at 31 December 2012 trade accounts receivable included trade receivables from the main customer totaling 58% of trade receivables (2010: 77%).

With respect to credit risk arising from other financial assets of the Company, which comprise cash and cash equivalents and cash on deposits, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

As of 31 December 2012 the Company's current liabilities exceeded its current assets by 8,873,801 thousand Tenge (2011: the Company's current liabilities exceeded its current assets by 6,268,143 thousand Tenge).

Management is addressing the Company's liquidity needs by implementing the following measures:

- Making long-term arrangements with customers to ensure sufficient cash flows from operating activities.
- Making arrangements with financial institutions.

## 23. FINANCIAL RISK AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Liquidity risk (continued)**

The tables below summarise the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted payments.

**Year ended 31 December 2012**

| *In thousands of Tenge* | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Bank loans | □ | 3,846,850 | 10,179,714 | 44,098,886 | 82,719 | 58,208,169 |
| Finance lease liabilities | □ | 612,663 | 1,746,053 | 5,393,633 | □ | 7,752,349 |
| Trade accounts payable | □ | 962,012 | □ | □ | □ | 962,012 |
| | | 5,421,525 | 11,925,767 | 49,492,519 | 82,719 | 66,922,530 |

**Year ended 31 December 2011**

| *In thousands of Tenge* | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Bank loans | □ | 2,860,826 | 8,180,169 | 36,892,293 | 590,303 | 48,523,591 |
| Finance lease liabilities | □ | 625,243 | 1,850,039 | 6,359,723 | 2,359,862 | 11,194,867 |
| Trade accounts payable | □ | 700,447 | □ | □ | □ | 700,447 |
| | □ | 4,186,516 | 10,030,208 | 43,252,016 | 2,950,165 | 60,418,905 |

**Fair values of financial instruments**

At 31 December 2012 and 2011 the carrying values of the Company's monetary assets and liabilities approximated their estimated fair values.

The carrying amount of cash and cash equivalents, trade accounts receivable, trade accounts payable and other current monetary assets and liabilities approximates their fair value due to the short-term maturity of these financial instruments. Interest-bearing loans and borrowings are stated at amortized costs which approximate their fair values.

The fair value of long-term financial assets is estimated using discounted cash flow based on deposit rates currently available to the Company with similar terms and average maturities. The fair value of long-term financial assets is considered to be equal to their carrying values.

## 24. SEGMENT DISCLOSURE

The management of the Company considers the Company as a single segment, which provides wagons for rent and provides operating services and services on forwarding of cargo. All revenues of the Company are generated in Kazakhstan. The Company's management analyzes segment performance based on IFRS profit and loss.

## 25. SUBSEQUENT EVENTS

On 14 January 2013 the Company paid dividends to Steinhardt Holding N.V in the amount of 1,151 thousand US Dollars (equivalent to 173,662 thousand Tenge).

On 16 January 2013 the Company repaid the final installment of outstanding balance of borrowings due to Annmar Management Limited in the amount of 1,152 thousand US Dollars (equivalent to 173,734 thousand Tenge).

On 22 January 2013 the Company signed an amendment to the pledge agreement with BNP Paribass (Suisse) SA, in accordance to which additional machinery and equipment with the carrying value of 1,215,946 thousand Tenge were pledged as collateral for the Company's borrowing obtained from BNP Paribass (Suisse) SA.

\Translation from the original in Russian



# EASTCOMTRANS LLP

**Financial statements**
for the year ended 31 December 2011

Translation from the original in Russian

# EASTCOMTRANS LLP

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## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011.

Management is responsible for the preparation of the financial statements that present fairly the financial position of Eastcomtrans LLP (the "Company") as at 31 December 2011, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- making an assessment of the Company's ability to continue as a going concern

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with the legislation of Kazakhstan and IFRS;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Preventing and detecting fraud and other irregularities.

The financial statements of the Company for the year ended 31 December 2011 were approved and authorized by management on 20 April 2012.

**On behalf of Management:**

| | | |
|---|---|---|
| **Malakhov V.A.**<br>**General Director** | **Kozhabergenov A.A.**<br>**Financial Director** | **Koishibekova Zh.A.**<br>**Chief accountant** |

20 April 2012
Almaty, Republic of Kazakhstan

Deloitte.

Deloitte, LLP
"AFD", Building "B"
36/2, Al Farabi ave.
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Republic of Kazakhstan

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## INDEPENDENT AUDITORS' REPORT

To the Owner of Eastcomtrans LLP:

We have audited the accompanying financial statements of Eastcomtrans LLP, which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Translation from the original in Russian**

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Eastcomtrans LLP as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Olga Belonogova
Engagement Partner
Qualified Auditor,
State of Oregon, USA
License #10687
2 December 2003

Daulet Kuatbekov
Certified auditor
License #0000523
dated 15 February 2002
Republic of Kazakhstan

Deloitte, LLP

Deloitte, LLP
Audit license for Republic of Kazakhstan #0000015,
type MFU - 2, issued by the Ministry of Finance of the
Republic of Kazakhstan
dated 13 September 2006

Nurlan Bekenov
General Director
Deloitte, LLP

20 April 2012
Almaty, Republic of Kazakhstan

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# EASTCOMTRANS LLP

## STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2011
*(in thousands of Kazakhstani tenge)*

| | Notes | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| ASSETS | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | 75,659,512 | 49,515,217 |
| Loans receivable | 7 | 22,464 | 19,281 |
| Other non-current assets | 8 | 4,096,312 | 1,636,995 |
| **Total non-current assets** | | **79,778,288** | **51,171,493** |
| **Current assets** | | | |
| Inventories | | 62,278 | 40,866 |
| Accounts receivable | 9 | 2,856,020 | 2,031,584 |
| Loans receivable | 7 | 19,290 | 10,427 |
| Other non-current assets, current portion | 8 | - | 505,347 |
| Bank deposits | 10 | 627,832 | 236,000 |
| Cash and cash equivalents | 10 | 1,424,635 | 2,935,423 |
| **Total current assets** | | **4,990,055** | **5,759,647** |
| **TOTAL ASSETS** | | **84,768,343** | **56,931,140** |
| **EQUITY** | | | |
| Charter capital | 11 | 840,000 | 840,000 |
| Revaluation reserve on property, plant and equipment | | 14,955,611 | 15,801,863 |
| Retained earnings | | 13,584,322 | 8,761,111 |
| **Total equity** | | **29,379,933** | **25,402,974** |
| **Non-current liabilities** | | | |
| Borrowings | 12 | 37,378,911 | 18,065,010 |
| Deferred income tax liability | 21 | 6,751,301 | 5,972,022 |
| **Total non-current liabilities** | | **44,130,212** | **24,037,032** |
| **Current liabilities** | | | |
| Borrowings | 12 | 9,748,400 | 6,300,295 |
| Accounts payables | 13 | 1,509,798 | 1,190,839 |
| **Total current liabilities** | | **11,258,198** | **7,491,134** |
| **TOTAL LIABILITIES** | | **55,388,410** | **31,528,166** |
| **TOTAL EQUITY AND LIABILITIES** | | **84,768,343** | **56,931,140** |

**On behalf of management of the Company:**

| | | |
|---|---|---|
| **Malakhov V.A.** | **Kozhabergenov A.A.** | **Koishibekova Zh.A.** |
| **General Director** | **Financial Director** | **Chief accountant** |

20 April 2012
Almaty, Republic of Kazakhstan

Notes to the financial statements on pages 8-43 are integral part of these financial statements. Independent auditors' report is on pages 2 and 3.

Translation from the original in Russian

# EASTCOMTRANS LLP

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

*(in thousands of kazakhstani tenge)*

| | Notes | 2011 | 2010 |
|---|---|---|---|
| Revenue | 14 | 17,050,667 | 9,806,941 |
| Cost of sales | 15 | (5,703,716) | (2,037,302) |
| **Gross profit** | | **11,346,951** | **7,769,639** |
| Other operating income | 16 | 18,008 | 1,994 |
| General and administrative expenses | 17 | (979,913) | (831,736) |
| Other operating expenses | 18 | (31,682) | (49,443) |
| **Operating profit** | | **10,353,364** | **6,890,454** |
| Finance income | 19 | 101,468 | 879,583 |
| Finance costs | 20 | (4,648,570) | (2,003,072) |
| **Profit before income tax** | | **5,806,262** | **5,766,965** |
| Income tax expenses | 21 | (1,178,736) | (1,377,527) |
| **Profit for the year** | | **4,627,526** | **4,389,438** |
| **Other comprehensive income:** | | | |
| Revaluation of property, plant and equipment | | - | 14,772,939 |
| Income tax recorded directly in other comprehensive income | 21 | - | (3,115,422) |
| **Other comprehensive income for the year** | | **-** | **11,657,517** |
| **Total comprehensive income for the year** | | **4,627,526** | **16,046,955** |

**On behalf of management of the Company:**

| | | |
|---|---|---|
| **Malakhov V.A.** | **Kozhabergenov A.A.** | **Koishibekova Zh.A.** |
| **General Director** | **Financial Director** | **Chief accountant** |

20 April 2012
Almaty, Republic of Kazakhstan

Notes to the financial statements on pages 8-43 are integral part of these financial statements. Independent auditors' report is on pages 2 and 3.

Translation from the original in Russian

# EASTCOMTRANS LLP

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2011
*(in thousands of Kazakhstani tenge)*

| | Notes | Charter capital | Revaluation reserve on property, plant and equipment | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Balance at 1 January 2010** | | 840,000 | 4,415,488 | 5,018,040 | 10,273,528 |
| Profit for the year | | - | - | 4,389,438 | 4,389,438 |
| Other comprehensive income for the year | | - | 11,657,517 | - | 11,657,517 |
| Total comprehensive income for the year | | - | 11,657,517 | 4,389,438 | 16,046,955 |
| Dividends declared | 11 | - | - | (917,509) | (917,509) |
| Transfer of revaluation surplus on machinery and equipment to retained earnings | | - | (271,142) | 271,142 | - |
| Balance at 31 December 2010 | | 840,000 | 15,801,863 | 8,761,111 | 25,402,974 |
| Profit and total comprehensive income for the year | | - | - | 4,627,526 | 4,627,526 |
| Dividends declared | 11 | - | - | (650,567) | (650,567) |
| Transfer of revaluation surplus on machinery and equipment to retained earnings | | - | (846,252) | 846,252 | - |
| **Balance at 31 December 2011** | | **840,000** | **14,955,611** | **13,584,322** | **29,379,933** |

**On behalf of management of the Company:**

| | | |
|---|---|---|
| **Malakhov V.A.** | **Kozhabergenov A.A.** | **Koishibekova Zh.A.** |
| **General Director** | **Financial Director** | **Chief accountant** |

20 April 2012
Almaty, Republic of Kazakhstan

Notes to the financial statements on pages 8-43 are integral part of these financial statements. Independent auditors' report is on pages 2 and 3.

Translation from the original in Russian

## EASTCOMTRANS LLP

### STATEMENT OF CASH FLOW
### FOR THE YEAR ENDED 31 DECEMBER 2011
*(in thousands of Kazakhstani tenge)*

| | Notes | 2011 | 2010 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Profit before income tax | | **5,806,262** | **5,766,965** |
| Adjustments for: | | | |
| Depreciation and impairment of property, plant and equipment | 15,17 | 2,654,366 | 841,144 |
| Provision for bad debt allowance | | - | 82,878 |
| Gain on disposal of property, plant and equipment | | (1,214) | - |
| Losses on derivative financial instruments, net | 18 | - | 28,054 |
| Recovery of loss on revaluation of property, plant and equipment | 15 | - | (474,693) |
| Finance income | 19 | (101,468) | (879,583) |
| Finance costs | 20 | 4,641,847 | 1,970,764 |
| Others | | 8,249 | 656 |
| **Operating cash flows before working capital changes:** | | **13,008,042** | **7,336,185** |
| Changes in accounts receivable | | (821,760) | (851,367) |
| Changes in inventories | | (21,412) | (32,853) |
| Changes in accounts payable | | 5,626,101 | 4,744,221 |
| **Cash generated from operations** | | **17,790,971** | **11,196,186** |
| Income taxes paid | | (423,991) | (254,385) |
| Interest paid on finance lease liability | | (1,051,085) | (507,351) |
| Interest paid on borrowings | | (2,802,004) | (1,251,774) |
| **Net cash from operating activities** | | **13,513,891** | **9,182,676** |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Proceeds from sale of property, plant and equipment | | 594,732 | - |
| Purchase of property, plant and equipment | | (31,223,073) | (18,918,771) |
| Purchase of intangible assets | | (44,610) | (7,508) |
| Deposits placed | | (393,078) | (236,000) |
| Proceeds from repayment of loans receivable | | 31,564 | 7,042,148 |
| Issuance of loans receivable | | (24,300) | (1,234,530) |
| Changes in other non-current assets | | - | 198,911 |
| **Net cash used in investing activities** | | **(31,058,765)** | **(13,155,750)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Receipts of borrowings | | 28,644,977 | 11,457,667 |
| Repayment of borrowings | | (10,709,222) | (4,114,075) |
| Repayment of finance lease liability | | (1,270,126) | (571,479) |
| Dividends paid | 11 | (650,567) | (871,634) |
| **Net cash from financing activities** | | **16,015,062** | **5,900,479** |
| Net change in cash and cash equivalents | | (1,529,812) | 1,927,405 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | 19,024 | - |
| CASH AND CASH EQUIVALENTS at the beginning of the year | | 2,935,423 | 1,008,018 |
| **CASH AND CASH EQUIVALENTS at the end of the year** | 10 | **1,424,635** | **2,935,423** |

**On behalf of management of the Company:**

| | | |
|---|---|---|
| **Malakhov V.A.** | **Kozhabergenov A.A.** | **Koishibekova Zh.A.** |
| **General Director** | **Financial Director** | **Chief accountant** |

20 April 2012
Almaty, Republic of Kazakhstan

Notes to the financial statements on pages 8-43 are integral part of these financial statements. Independent auditors' report is on pages 2 and 3.

## 1. GENERAL INFORMATION

Eastcomtrans LLP ("the Company") was incorporated and domiciled in the Republic of Kazakhstan on 4 October 2002. The Company is a limited liability partnership and was established in accordance with Kazakhstani legislation.

The owners of the Company were:

| | 31 December 2011,% | 31 December 2010,% |
|---|---|---|
| Mr. M. Zh. Sarsenov | 60 | 100 |
| Steinhardt Holding N.V. | 40 | - |

Steinhardt Holding N.V. is a company established under the laws of the Netherlands and is registered in the Dutch Register of Companies under number 51823896.

On 25 November 2011, Mr. M. Zh. Sarsenov sold 40% in the charter capital of the Company to Steinhardt Holding N.V.

The ultimate owner of the Company is Mr. M. Zh. Sarsenov.

The Company's principal business activities are the rental of its carriages and forwarding activities within the Republic of Kazakhstan for oil and gas transportation purposes. The Company's operating divisions are primarily based in Almaty and Aktau.

The registered address of the Company is: office 11, 250, Dostyk Ave., Almaty, 050020, Republic of Kazakhstan.

In July 2011 the Company's credit rating was confirmed by the international rating agency Fitch Ratings at "B-/ Stable". According to the release published by Fitch Ratings the Company has shown impressive pace of development and strengthening at the market. Also, according to the press release the credit rating may be revised by Fitch towards improvement in the case of renewal of lease agreements with Tengizchevroil LLP, as well as with new partners of the Company.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Statement on compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

### Basis of preparation

The financial statements have been prepared on the historical cost basis eccept for the revaluation of machinery and equipment within property, plant and equipment and certain financial instruments. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### Functional and presentation currency

All amounts in these financial statements are presented in thousands of Kazakhstani Tenge ("Tenge"), unless otherwise stated.

Functional currency is the currency of the primary economic environment in which the Company operates. The Company's functional currency is Tenge.

**Financial instruments**

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Company may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of the certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. If changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses.

Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense are not presented separately and are included in the carrying values of related items of the statement of financial position.

**Financial assets**

The Company classifies its financial assets into loans and receivables.

*Loans and accounts receivable*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for loans and receivables with maturities greater than 12 months after the reporting date. These loans and receivables are classified as non-current assets.

Loans are recognised initially at cost which is the fair value of the funds received. In subsequent periods, loans are stated at amortised cost using the effective interest method.

Where a loan is provided at interest rates different from market rates, the loan is re-measured at origination to its fair value, being future interest payments and principal repayments discounted at market interest rates for similar loans. The difference between the fair value of the loan at origination and its cost (fair value of the contribution to the borrower, net of transaction costs) represents an origination gain or loss. The origination gain or loss is recorded in the statement of comprehensive income within finance income/costs, unless it qualifies for recognition as an asset, liability or a charge to equity in accordance with the substance of the arrangement. Subsequently, the carrying amount of the loan is adjusted for amortisation of the gains/losses on origination and the amortisation is recorded in finance income/loss using the effective interest method.

A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the loan. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in profit or loss.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 45 days, as well as observable changes in economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Derecognition of financial assets*

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Company retains control), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

**Financial liabilities**

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities comprise borrowings and trade and other liabilities and are carried at amortised cost.

Financial liabilities recognized at "fair value through profit and loss" are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the finance costs line item in the statement of comprehensive income.

*Other financial liabilities*

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

*Derivative financial instruments*

Derivative financial instruments, including foreign exchange contracts, forward exchange rate agreements and interest rate swaps are carried at their fair value. Derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year The Company does not apply hedge accounting.

*Dividends*

Dividends are recognized as liability in the period they were declared.

*Derecognition of financial liabilities*

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Property, plant and equipment**

Property, plant and equipment, except for machinery and equipment, are stated at cost less accumulated depreciation and impairment loss, where required. Machinery and equipment are stated at revalued amounts, as described below, less accumulated depreciation and impairment loss, where required.

Machinery and equipment represent railway carriages and their major components. Machinery and equipment are subject to revaluation on a regular basis. The frequency of revaluation depends upon the changes in the fair values of the assets being revalued. However, machinery and equipment are revalued, at least every two years. Any revaluation increase arising on the revaluation of such machinery and equipment is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such machinery and equipment is recognised in profit or loss to the extent that it exceeds the balance, if any, revaluation reserve on property, plant and equipment relating to a previous revaluation of that asset.

The revaluation reserve in equity is transferred directly to retained earnings when the surplus is realised either on the retirement or disposal of the asset or as the asset is used by the Company; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

The individual significant parts of an item of property, plant and equipment (components), whose useful lives are different from the useful life of the asset as a whole are depreciated individually, applying depreciation rates reflecting their anticipated useful lives. The cost of replacing major parts or components of property, plant and equipment items is capitalised and the replaced part is retired. Any gain or loss arising is recognised in the statement of comprehensive income when the asset is retired.

Costs of minor repairs and maintenance are expensed when incurred.

At each reporting date, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of comprehensive income to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Construction in progress is carried at cost. Upon completion of construction, assets are transferred to property and equipment at their carrying amount. Construction in progress received is not depreciated until the asset is available for use.

Gains and losses on disposals, determined by comparing proceeds with carrying amount, are recognised in profit or loss.

**Depreciation**

Land is not depreciated. The useful lives of the property, plant and equipment for the current and comparative periods are as follows:

| | Useful lives (years) |
|---|---|
| Buildings | 40-50 |
| Machinery and equipment | 15-40 |
| Other | 3-15 |

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of the item of property, plant and equipment is nil if the Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

**Intangible assets**

All of the Company's intangible assets have definite useful lives and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring them to use.

Intangible assets are amortised using the straight line method during their useful lives which vary from 2 to 6 years. In case of impairment the carrying value of intangible assets is written off to the higher value of its value in use and fair value less costs to sell.

**Lease**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Company as lessee*

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance costs and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

*The Company as lessor*

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

**Income tax**

Income tax expense represents the sum of the tax currently payable and deferred tax.The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

**Inventories**

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on a 'first-in first-out' basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

**Prepayments**

Prepayments are stated at actual amounts paid less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the works or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand, cash at bank and deposits held at call with banks at demand and with original maturities of three months or less.

**Value added tax**

Output value added tax ("VAT") related to sales is payable to tax authorities when goods are shipped or services are rendered. Input VAT is generally recoverable against output VAT upon receipt of a tax invoice from a supplier. The current tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases, which have not been settled at the reporting date is recognised in the statement of financial position on a net basis.

**Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transactions costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

**Capitalisation of borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Company capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Capitalised borrowing costs capitalised are calculated based on the Company's average funding cost (the weighted average interest cost is applied to the expenditure on qualifying assets). Interest and other investment income is not deducted from the amount available for capitalisation, except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

**Trade payables**

Trade payables are recognised when the counterparty performed its obligations under the contract. Trade payables, except for advances received, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**Advances received**

Advances received are stated at actual amounts received from third parties. Advances received are written off to revenue when the goods relating to the prepayments are supplied or services rendered.

**Provisions**

Provisions are recognised in statement of financial position when the Company has a present (legal or constructive) obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

(in thousands of Kazakhstani tenge)

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Foreign currency transactions**

In preparing the financial statements, transactions conducted in currencies other than the entity's functional currency (foreign currencies) are recognized at the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

As at 31 December, and for the years then ended, the following foreign exchange rates were in effect:

| | Average rate | | Rate at the year end | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| US Dollar | 146.62 | 147.35 | 148.40 | 147.40 |
| Euro | 204.11 | 195.67 | 191.72 | 195.23 |

**Revenue recognition**

Revenue from forwarding services and other services are recognised in the accounting period in which the services are rendered. Revenue from the rental of railway carriages is recognised on a straight-line basis over the rental term.

Sales are shown net of VAT and discounts. Revenues are measured at the fair value of the consideration received or receivable.

**Expenses recognition**

Expenses are charged to the profit or loss once incurred. All fines and penalties are recognized within general and administrative expenses in statement of comprehensive income.

**Employee benefits**

Wages, salaries, contributions to pension funds, paid annual leave and sick leave, bonuses, and other benefits are accrued in the year in which the associated services are rendered by the employees of the Company.

The Company does not incur any expenses in relation to provision of pensions or other post-employment benefits to its employees. In accordance with the legal requirements of the Republic of Kazakhstan, the Company withholds pension contributions from employee salaries and transfers them into state or private pension funds. Once the contributions have been paid, the Company has no further pension obligations. Upon retirement of employees, all pension payments are administered by the pension funds directly.

**Finance income and costs**

Finance income and costs comprise interest income and interest expense on borrowings, loans receivable, deposits and other financial assets and liabilities, net foreign exchange gains/(losses) related to respective financial assets and liabilities. Interest income is accrued proportionately over the period of financing using the of effective interest method.

## 3. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the financial year. Estimates and judgements are continually assessed and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management can also make certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Recognition of related party transactions**

In the normal course of business the Company enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with non-related parties and effective interest rate analyses.

**Useful lives and residual values of property, plant and equipment**

Management estimates economic useful lives of property, plant and equipment as the period over which the Company expects to receive economic benefits from the asset.

The residual value of property, plant and equipment, except carriages and wheel pairs, is nil if the Company expects to use the asset till the end of its physical life. As for carriages and wheel pairs' residual value is equal to the approximate value of scrap metal as of the purchase date. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

**Impairment of non-financial assets**

Management carries out reviews of property, plant and equipment on an annual basis to determine whether events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated as either the higher of net selling price or value in use; the resultant loss (the difference between the carrying value and recoverable amount) is recorded as a charge in profit or loss. The value in use is calculated as the present value of estimated future cash flows expected to result from the use of assets and their eventual disposal proceeds. Management believes that as at 31 December 2011 there was no evidence of impairment of non-financial assets.

### Going concern

As at 31 December 2011 current liabilities of the Company exceeded its current assets by 6,268,143 thousand tenge (31 December 2010: 1,731,487 thousand tenge). Management of the Company expects that the Company will continue as going concern. In making this judgment, management has taken into account the future expectations and the financial position of the Company.

In particular, the following factors were considered when management assessed the Company's ability to continue as going concern:

- The current market conditions (a high demand for the rental of carriages and forwarding services) indicates to the economic characteristics of the attractiveness of providing such services.
- During 2006-2011 the Company has had positive cash-flows from operating activities. Management believes that long-term contracts with major clients reduce their exposure to liquidity risk related to lack of funds.
- During 2011 a new agreement with Tengizchevroil LLP for the rental of 1,976 carriages was concluded with the ability to extend it for the next two years. In 2011 total 5,526 carriages were transferred into rental to Tengizchevroil LLP (including: 4,216 oil tanks, 800 semi-wagons and 510 wagons-tanks for transportation of natural gas). On 1 April 2012 the Company entered into long-term agreements with Tengizchevroil LLP, their main customer on the results of the tender for the rent of 5,526 carriages (from which rent agreement of 4,216 oil tanks are valid until 31 December 2015, agreements for the provision of rent of 800 semi-wagons and 510 wagons-tanks for transportation natural gas are valid until 31 December 2013 with the possibility of extension). The Company will provide its services under existing agreements from April-May 2012. The contract with ZhaiykMunai LLP was also prolonged till 2017.
- The Company is planning to increase its car fleet by 2000 carriages in 2012, from which as at the date of approval of these financial statements it has already entered into contracts to acquire 500 carriages.

## 4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

### Standards and Interpretations effective in the current period

The Company has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the IFRIC) which became effective for the Company's annual financial statement for the year ended 31 December 2011:

- IFRS 3 (2008) *Business Combinations* — amendments resulting from May 2010 Annual Improvements to IFRSs: transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS; clarification on measurement of non-controlling interests;
- IFRS 7 *Financial Instruments: Disclosures* — amendments resulting from May 2010 Annual Improvements to IFRSs: clarification of disclosures and release of requirement for disclosure regarding restructured loans;
- IAS 24 *Related Party Disclosures* — (as revised in 2010) modifies the definition of a related party and simplifies disclosures for government-related entities.

The adoption of the new or revised standards did not have any effect on the financial position or performance of the Company. All have been retrospectively applied in compliance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", unless otherwise noted below.

Amendments to IAS 24 – The disclosure exemptions introduced in IAS 24 (as revised in 2010) do not affect the Company because the Company is not a government-related entity.

**Standards and Interpretation in issue not yet adopted:**

At the date of authorization of this financial information, the following new standards and interpretations were in issue, but not yet effective, and which the Company has not early adopted:

- IFRS 7 *Financial Instruments: Disclosures* — amendments enhancing disclosures about transfers of financial assets [1];
- IFRS 9 *Financial Instruments* [6];
- IFRS 10 *Consolidated Financial Statements* [3];
- IFRS 11 *Joint Arrangements* [3];
- IFRS 12 *Disclosure of Interest in Other Entities* [3];
- IFRS 13 *Fair Value Measurement* [2];
- IAS 1 *Presentation of Financial Statements* — amendments to revise the way other comprehensive income is presented [4];
- IAS 12 *Income Taxes* — Limited scope amendment (recovery of underlying assets) [5];
- IAS 27 - reissued as IAS 27 *Separate Financial Statements* (as amended in May 2011) [3];
- IAS 28 - reissued as IAS 28 *Investments in Associates and Joint Ventures* (as amended in May 2011) [3];
- IAS 32 *Financial Instruments: Presentation* and IFRS 7 – amendments providing clarifications on application of the offsetting rules and disclosure requirements[7].

1 Effective for annual periods beginning on or after 1 July 2011, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.
3 Each of the five standards becomes effective for annual periods beginning on or after 1 January 2013, with earlier application permitted if all the other standards in the 'package of five' are also early applied (except for IFRS 12 that can be applied earlier on its own).
4 Effective for annual periods beginning on or after 1 July 2012, with early adoption permitted.
5 Effective for annual periods beginning on or after 1 January 2012, with earlier application permitted.
6 Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.
7Amendments to IAS 32 effective for annual periods beginning on or after 1 January 2014. Respective amendments to IFRS 7 regarding disclosure requirements – for annual periods beginning on or after 1 January 2013.

**Amendments to IFRS 7**

The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Retrospective application is required in accordance with IAS 8 with the exception that in the first year of application, an entity need not provide comparative information for the disclosures required by the amendments for periods beginning before 1 July 2011. The Company does not expect this amendment to have a material effect on its financial position or results of operations.

**IFRS 9**

Issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities.

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at their fair values.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

The Company management anticipates that IFRS 9 that will be adopted in the Company's financial statements for the annual period beginning 1 January 2015 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Company' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

**IFRS 12 Disclosure of Interests in Other Entities**

Requires enhanced disclosures about both consolidated and unconsolidated entities in which an entity has involvement, so that financial statement users are able to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Thus, IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11 and replaces the disclosure requirements currently found in IAS 28.

**IFRS 13**

Provides a definition of fair value and a single source of fair value measurement and disclosure requirements to use across IFRSs. The Standard:

- defines fair value;
- sets out in a single IFRS a framework for measuring fair value;
- requires disclosures about fair value measurements.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements, except for share-based payment transactions within the scope of IFRS 2 *Share-based Payment*, leasing transactions within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

The Company intends to adopt this standard as of 1 January 2013 and is currently assessing the impact of adoption.

**Amendments to IAS 1 Presentation of Financial Statements**

Revise the way other comprehensive income is presented.

The amendments to IAS 1:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income'
- Require entities to group items presented in OCI based on whether they are potentially subject tp reclassification to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified;
- Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items.

The Company does not expect this amendment to have a material effect on its financial position or results of operations.

**Amendment to IAS 12 Income Taxes**

Provides (for income tax calculation purposes) a presumption that recovery of the carrying amount of an asset measured using the fair value model will, normally, be through sale. All have been retrospectively applied in compliance with IAS 8.

**Amendments to IAS 32 Financial Instruments: Presentation**

Provide clarifications on the application of the offsetting rules, and focus on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- the application of simultaneous realisation and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

**The respective amendments to the disclosure requirements in IFRS 7 *Financial Instruments: Disclosure:***

Require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the Company's financial position.

The Company is considering the impact of these amendments on the financial statements and the timing of their application.

(in thousands of Kazakhstani tenge)

## 5. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Related parties are defined in IAS 24 *Related Party Disclosures*. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company's ultimate owner is disclosed in Note 1.

At 31 December 2011, the outstanding balances with related parties were as follows:

| | Companies under common control | Owner | Key management personnel |
|---|---|---|---|
| Accounts receivable from the owner of the Company | - | 59,725 | - |
| Accounts payable to the owner of the Company | - | 18,518 | - |

The transactions with related parties for the year ended 31 December 2011 were as follows:

| | Companies under common control | Owner | Key management personnel |
|---|---|---|---|
| Loans issued | 5,500 | 40,000 | 53,230 |
| Repayment of loans receivable | 5,503 | 40,000 | 70,130 |
| Finance costs | - | 271,574 | - |
| Repayment of accounts payable | | 325,655 | - |

Certain related parties transactions and balances disclosed above include related parties that are controlled by the owner of the Company.

At 31 December 2010, the outstanding balances with related parties were as follows:

| | Companies under common control | Owner | Key management personnel |
|---|---|---|---|
| Loans receivable (contractual interest rate: nil percent) | - | - | 14,593 |
| Borrowings from non-financial organizations | 3 | 44,811 | - |

The transactions with related parties for the year ended 31 December 2010 were as follows:

| | Companies under common control | Owner | Key management personnel |
|---|---|---|---|
| Prepayment for goods | 142,500 | - | - |
| Return of prepayment for goods | 142,500 | - | - |
| Loans received | 3 | - | - |
| Loans issued | 1,132,000 | 532,692 | 6,600 |
| Repayment of loans receivable | 1,383,591 | 783,283 | 1,432 |
| Finance income | 27,790 | 37,543 | - |
| Finance costs | 26,701 | 151,391 | - |
| Repayment of accounts payable | - | 84,388 | - |

(in thousands of Kazakhstani tenge)

### Key management personnel compensation

Key management personnel (2011: 4 people, 2010: 4 people) received the following compensation during the year including salaries expenses:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Expenses | Accrued liabilities | Expenses | Accrued liabilities |
| Salaries and bonuses | 102,505 | - | 232,663 | 7,519 |

## 6. PROPERTY, PLANT AND EQUIPMENT

| | Land | Building and construction | Machinery and equipment | Other | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **Carrying amount at 1 January 2010** | **28,013** | **101,609** | **17,632,941** | **46,326** | **10,163** | **17,819,052** |
| Additions | - | - | 17,263,064 | 23,573 | 6,022 | 17,292,659 |
| Disposals (net) | - | - | - | (7,393) | - | (7,393) |
| Depreciation | - | (2,161) | (823,062) | (11,510) | - | (836,733) |
| Revaluation | - | - | 15,247,632 | - | - | 15,247,632 |
| **Carrying amount at 31 December 2010** | **28,013** | **99,448** | **49,320,575** | **50,996** | **16,185** | **49,515,217** |
| Cost or valuation at 31 December 2010 | 28,013 | 103,048 | 58,785,885 | 78,633 | 16,185 | 59,011,764 |
| Accumulated depreciation at December 31, 2010 | - | (3,600) | (9,465,310) | (27,637) | - | (9,496,547) |
| Additions | - | - | 28,696,438 | 66,828 | 42,800 | 28,806,066 |
| Disposals (net) | - | - | - | (9,705) | - | (9,705) |
| Transfers | - | - | 3,962 | - | (3,962) | - |
| Depreciation | - | (2,161) | (2,634,300) | (15,605) | - | (2,652,066) |
| **Carrying amount at 31 December 2011** | **28,013** | **97,287** | **75,386,675** | **92,514** | **55,023** | **75,659,512** |
| Cost or valuation at 31 December 2011 | 28,013 | 103,048 | 87,367,057 | 131,437 | 55,023 | 87,684,578 |
| Accumulated depreciation at 31 December 2011 | - | (5,761) | (11,980,382) | (38,923) | - | (12,025,066) |

In accordance with the accounting policy the Company conducts regular revaluation of machinery and equipment with the involvement of independent appraisers, the last revaluation was carried out by the Company as at 31 December 2010.

Machinery and equipment represent railway carriages and semi-wagons. Machinery and equipment includes carriages received under finance leases with a carrying value of 10,229,436 thousand tenge (31 December 2010: 8,638,688 thousand tenge) (Note 12).

In 2011 according to the agreement with CJSC Trade House AzovObshcheMash #31TD dated 1 March 2011 the Company purchased 950 carriages of 10,127,398 thousand tenge (equivalent of 69.5 million US Dollar). For the purpose of the purchase of those carriages the Company obtained a loan from JSC HSBC Bank Kazakhstan of 60 million US Dollar maturing in 7 years with an annual interest rate of 8.1% per annum. In 2011 according to the agreement #37 dated 1 April 2011 CJSC Trade House AzovObshcheMash supplied 1,000 carriages of 10,901,057 thousand tenge (equivalent of 74.75 million US Dollar). For the purpose of the purchase of those carriages the Company obtained a loan from BNP Paribas (Suisse) SA of 100 million US Dollars maturing in 7 years with a floating interest rate of 6% per annum + one-month LIBOR.

(in thousands of Kazakhstani tenge)

Depreciation expense has been charged as follows:

| | 2011 | 2010 |
|---|---|---|
| Cost of sales (Note 15) | 2,634,609 | 823,062 |
| General and administrative expenses | 17,457 | 13,671 |
| | **2,652,066** | **836,733** |

As at 31 December 2011, the carrying value of machinery and equipment would have been 56,108,177 thousand tenge (31 December 2010: 29,417,021 thousand tenge), if machinery and equipment were recorded at historical cost less depreciation.

As at 31 December 2011, machinery and equipment and buildings, with total carrying value of 75,178,829 thousand tenge (2010: 24,510,240 thousand tenge) were pledged as a collateral for borrowings to third parties (Note 12).

## 7. LOANS RECEIVABLE

As at 31 December 2011, other loans receivable include short-term interest-free unsecured loans given to employees of the Company of 41,754 thousand tenge (2010: 29,708 thousand tenge). As at 31 December 2011, loans receivable were not impaired.

The Company's loans receivable mature as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Loans receivable, to be repaid: | | |
| - within 1 year | 19,290 | 10,427 |
| - between 1 and 2 years | 10,646 | - |
| - between 2 and 5 years | 9,787 | - |
| - after 5 years | 2,031 | 19,281 |
| **Total loans receivable** | **41,754** | **29,708** |

The carrying amounts and fair values of loans receivable are as follows:

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 31 December 2011 | 31 December 2010 | 31 December 2011 | 31 December 2010 |
| Other | 41,754 | 29,708 | 37,277 | 29,360 |
| **Total loans receivable** | **41,754** | **29,708** | **37,277** | **29,360** |

(in thousands of Kazakhstani tenge)

## 8. OTHER NON-CURRENT ASSETS

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Long-term accounts receivable from disposal of property, plant and equipment | - | 505,347 |
| **Total financial assets** | - | 505,347 |
| Advances given for the purchase of property, plant and equipment | 4,043,120 | 1,626,112 |
| Intangible assets | 53,192 | 10,883 |
| **Total other non-current assets** | **4,096,312** | **2,142,342** |
| Including: | | |
| Current portion of other-non-current assets | | 505,347 |
| Non-current portion of other-non-current assets | 4,096,312 | 1,636,995 |
| Total | **4,096,312** | **2,142,342** |

Advances given for the purchase of property, plant and equipment include advances paid to CJSC Trade House AzovObsheMash for the purchase of carriages in the amount of 4,043,120 thousand tenge (31 December 2010: 886,276 thousand tenge). At the date of approval of these financial statements CJSC Trade House AzovObsheMash fulfilled the obligation to deliver carriages. Under the terms of the agreement in the event of non-delivery carriages within the time specified in the agreement, CJSC Trade House AzovObsheMash not later than 10 banking days from the date of the relevant request is obliged to refund money to the Company.

In 2011 the Company received repayment of long-term receivables from disposal of an office building from Emerald Capital LLP.

## 9. TRADE RECEIVABLES

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Trade accounts receivable | 2,248,545 | 1,449,018 |
| Less: bad debt allowance | (82,878) | (92,387) |
| **Total financial assets** | **2,165,667** | **1,356,631** |
| Advances given | 622,818 | 257,016 |
| Prepaid taxes (Note 21) | 7,656 | 425 |
| Other | 59,879 | 417,512 |
| Total accounts receivable | **2,856,020** | **2,031,584** |

As at 31 December 2011, financial assets of 2,165,667 thousand tenge (2010: 1,356,631 thousand tenge) were not overdue or impaired.

As at 31 December 2011, trade accounts receivable comprised trade receivables from the main customer totaling 77% of trade receivables (31 December 2010: 59%).

As at 31 December 2011, advances given mainly included short-term prepayments for transportation services.

(in thousands of Kazakhstani tenge)

Analysis by credit quality of trade receivables is as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| *Current and not impaired* | | |
| - Large private companies | 2,090,709 | 918,618 |
| - Medium-size private companies | 61,737 | 320,676 |
| - Small private companies | 13,221 | 117,337 |
| **Total financial assets** | **2,165,667** | **1,356,631** |

Trade receivables are denominated in the following currencies:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| US Dollar | 1,815,016 | 817,185 |
| Kazakhstani tenge | 323,454 | 479,865 |
| Russian rubles | 27,197 | 59,581 |
| **Total financial assets** | **2,165,667** | **1,356,631** |

According to the terms of the contract with the main customer the Company's sales tariffs are based on US Dollars and invoices are issued in tenge using the exchange rates as of the date of the issuance of the invoice.

## 10. CASH AND CASH EQUIVALENTS AND BANK DEPOSITS

### Cash and cash equivalents

As at 31 December 2011, cash and cash equivalents were as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Cash in bank – US Dollars | 1,200,276 | 1,941,719 |
| Cash at bank – Tenge | 178,808 | 357,519 |
| Cash on hand | 24,242 | 635,582 |
| Cash at bank – Rubles | 21,309 | 89 |
| Cash at bank – Euro | - | 514 |
| **Total cash and cash equivalents** | **1,424,635** | **2,935,423** |

Bank BNP Paribas (Suisse) SA is entitled to place restrictions on cash in bank if the Company delays payment of principal or interest on borrowings in accordance with the payment schedules (Note 12). At 31 December 2011, the total balance of cash held at Bank BNP Paribas (Suisse) SA amounted to 391,573 thousand tenge (2010: nil).

According to a pledge agreement signed between the Company and JSC ATF Bank, future cash receipts under the contract with Tengizchevroil LLP in the amount not less than 32 million US Dollar, are pledged as security for the loan received from JSC ATF Bank (Note 12).

(in thousands of Kazakhstani tenge)

**Bank deposits**

As at 31 December 2011, bank deposits of the Company included deposits of 627,732 thousand tenge (31 December 2010: 236,000), denominated in US Dollar, placed according to deposit agreement with JSC ATF Bank as at 4 November 2011 with maturity date on 5 March 2012. Annual interest rate on these deposits is 3.1% per annum.

As at 31 December 2011, the deposits of the Company also include the guarantee deposits in the amount of 100 thousand tenge (31 December 2010: nil).

## 11. CHARTER CAPITAL

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Value** | **%** | **Value** | **%** |
| Mr. M. Zh. Sarsenov | 504,000 | 60 | 840,000 | 100 |
| Steinhardt Holding N.V. | 336,000 | 40 | - | |
| **Total registered charter capital** | **840,000** | **100** | **840,000** | **100** |

On 1 March 2011, the ultimate owner of the Company, Mr. M. Zh. Sarsenov approved distribution of dividends for 2010 of 650,567 thousand tenge (2010: 917,509 thousand tenge).

On 25 November 2011, Mr. M. Zh. Sarsenov sold 40% in the charter capital of the Company to Steinhardt Holding N.V. As at 31 December 2011 the charter capital was fully paid.

## 12. BORROWINGS

| | **31 December 2011** | **31 December 2010** |
|---|---|---|
| **Non-current** | | |
| Bank loans | 30,472,681 | 13,847,615 |
| Finance lease liabilities | 6,906,230 | 3,640,552 |
| Loans from non-financial companies | - | 576,843 |
| | **37,378,911** | **18,065,010** |
| **Current** | | |
| Bank loans | 7,050,438 | 4,771,583 |
| Finance lease liabilities | 1,624,192 | 883,705 |
| Loans from non-financial companies | 1,073,770 | 645,007 |
| | **9,748,400** | **6,300,295** |
| **Total borrowings** | **47,127,311** | **24,365,305** |

(in thousands of Kazakhstani tenge)

**Bank loans**

| | Currency | Effective interest rate, % | Maturity | 31 December 2011 | 31 December 2010 |
|---|---|---|---|---|---|
| BNP Paribas (Suisse) SA | US Dollars | 6.29%-6.41% | 2017 | 13,289,901 | - |
| JSC ATF Bank | US Dollars | 8% | 2017 | 9,429,778 | 11,133,369 |
| JSC HSBC Bank Kazakhstan | US Dollars | 8.1%-8.4% | 2016 | 7,995,269 | - |
| JSC ATF Bank | US Dollars | 7.2% | 2017 | 4,048,869 | - |
| JSC HSBC Bank Kazakhstan | US Dollars | 9.63% | 2014 | 1,754,598 | 2,429,713 |
| JSC Islamic Bank Al Hilal | US Dollars | 8% | 2016 | 770,109 | 883,622 |
| JSC HSBC Bank Kazakhstan | US Dollars | 8.43%-8.82% | 2012 | 178,163 | - |
| JSC Islamic Bank Al Hilal | US Dollars | 8% | 2012 | 56,432 | - |
| JSC HSBC Bank Kazakhstan | US Dollars | 8.28%-8.24% | 2011 | - | 297,737 |
| JSC BTA Bank | US Dollars | 11.76%-16% | 2011 | - | 1,770,631 |
| JSC BTA Bank | US Dollars | 8.68%-16% | 2011 | - | 1,421,959 |
| JSC BTA Bank | US Dollars | 10.75%-16% | 2011 | - | 484,425 |
| JSC Islamic Bank Al Hilal | US Dollars | 11% | 2011 | - | 197,742 |
| **Total borrowings** | | | | **37,523,119** | **18,619,198** |

On 1 April 2011, the Company entered into an agreement on the syndicated loan with BNP Paribas (Suisse) SA (hereinafter - the "Credit Line"). The credit line provides a credit limit of 100 million US Dollars, including direct loans to the early repayment of bank loan from JSC BTA Bank, and letters of credit for the purchase of carriages.

The Credit Line is secured by machinery and equipment (rail wagon-tanks and semi-wagons) (Note 6). In addition, as collateral for the credit line commitments the Company entered into an agreement with BNP Paribas (Suisse) SA (the "Bank") dated 5 April 2011, under which the Bank may impose a restriction on cash in bank accounts, if the Company will delay the repayment of principal or interest (Note 10).

The final repayment of loans to BNP Paribas (Suisse) SA is to be made by the Company in 2018. Interest payable on the same basis on which the principal amount of the loan is repaid in accordance with the notifications sent by the bank. During 2008, the Company entered into a credit agreement with JSC HSBC Bank Kazakhstan. The agreement provides for a maximum line of credit of 25 million US Dollar. The interest rate is based on 3 months-LIBOR. Interest is paid on the same basis as principal amount in accordance with the notifications sent by HSBC. The loan is secured by machinery and equipment (wagons-tanks) and office buildings (Note 6). The effective interest rate as at 31 December 2010 was 9.63 percent per annum.

On 3 March 2011 the Company signed an agreement for funding with the JSC HSBC Bank Kazakhstan in the amount of 60 million US Dollars as loans and letters of credit, maturing on 4 March 2018. Annual effective interest rate on the contract is 8.1-8.4 percent per annum, collateral is presented by rail tank-wagons and semi-wagons not less than 950 units.

(in thousands of Kazakhstani tenge)

During 2010 the Company signed a credit agreement with JSC Islamic Bank Al Hilal according to which the bank provided a loan in the amount of 6 million US Dollars maturing in October 2016. On 3 October 2011 the Company repaid the loan in the amount of 2 million US Dollars in timely manner. Murahaba return on these loans is 8 percent per annum. The loan is secured by a guarantee of Mr. Marat Zh. Sarsenov in the amount of 8 million US Dollars and 128 oil and gas wagon-tankers.

In November 2010, the Company signed a master credit agreement with JSC ATF Bank for 76 million US Dollars maturing in November 2017 for the acquisition of 1,976 carriages. The floating interest rate per loan agreement is 7.5 percent + three-month LIBOR. The annual effective interest rate was 8 percent per annum. In October 2011, the Company entered into a bank loan with JSC ATF Bank of 40 million US Dollars with a maturity up to November 2017 for the purchase of 500 carriages. The rate for this contract is a three-month LIBOR+6.5% per annum.

The loan is secured by 1,976 carriages (Note 6), future cash receipts in the amount of 32 million US Dollar (Note 10) and the guarantee of Mr. M. Zh. Sarsenov of 116 million US Dollars, which will be released after provision of 500 carriages for pledge in April 2012. After receipt of 500 carriages and semi-wagons the carriages will be transferred to the collateral for repayment of loans.

**Credits and loans from non-financial companies**

| | Interest rate | Loan given | Repayment date | 31 December 2011 | 31 December 2010 |
|---|---|---|---|---|---|
| Annmar Management Limited | 3.5-12.5% | 2003 | 2012 | 1,055,252 | 1,177,036 |
| Mr. M. Zh. Sarsenov (Note 5) | 7.8% | 2009-2010 | 2017 | 18,518 | 44,814 |
| **Total** | | | | **1,073,770** | **1,221,850** |

During 2003-2004 the Company received five loans from Annmar Management Limited (BVI) the total amount of 10,209 thousand US Dollars. Loans were given to the Company for a period of six years bearing an interest rate 3.5 percent per annum. In March 2010, additional agreements have been signed to increase of interest rates to 12.5 percent per annum. In January 2011, additional agreements were signed to change the loan repayment period to 2012. In accordance with the additional agreement #7 signed in May 2011 the loan amount can be returned early. These borrowing are unsecured.

(in thousands of Kazakhstani tenge)

**Finance lease liabilities**

| | 31 December 2011 Minimum lease payments | 31 December 2010 Minimum lease payments | 31 December 2011 Present value of minimum lease payments | 31 December 2010 Present value of minimum lease payments |
|---|---|---|---|---|
| **Finance lease payable amounts** | | | | |
| Due in a year | 2,475,282 | 1,342,132 | 1,624,192 | 883,705 |
| Due between 2 and 5 year inclusive | 6,359,723 | 4,130,502 | 5,667,834 | 3,172,995 |
| After 5 years | 2,359,862 | 506,595 | 1,238,396 | 467,557 |
| | 11,194,867 | 5,979,229 | 8,530,422 | 4,524,257 |
| Less future finance charges | (2,664,445) | (1,454,972) | | |
| Present value of minimum lease payments | **8,530,422** | **4,524,257** | **8,530,422** | **4,524,257** |
| Included in: | | | | |
| Current borrowings | | | 1,624,192 | 883,705 |
| Non-current borrowings | | | 6,906,230 | 3,640,552 |
| Total finance lease liabilities | | | 8,530,422 | 4,524,257 |

**Finance lease from Raiffeisen Leasing Kazakhstan**

On 29 October 2008, the Company signed agreement #07/08 for the sale and lease back of carriages with Raiffeisen Leasing Kazakhstan LLP (Raiffeisen Leasing Kazakhstan). According to the lease agreement the Company sold 150 carriages to Raiffeisen Leasing Kazakhstan for 1,106,769 thousand tenge, and the leaseback period is 5 years. Lease payments of the Company include the principle amount and interest payments with an interest rate of one-month LIBOR + 8.5 percent per annum.

On 10 March 2009, the Company sold another 25 semi-wagons to Raiffeisen Leasing Kazakhstan for 104,958 thousand tenge and leased them back the same day. The leaseback agreement #03/09 with Raiffeisen Leasing Kazakhstan was signed on 26 February 2009, with a lease term till March 2014 and an interest rate of one-month EURIBOR+8.75 percent per annum.

On 29 January 2010, the Company acquired 250 oil wagon-tankers from Uralskaya Bolshegruznaya Tehnika OO – Uralvagonzavod. On 8 February 2010, wagon-tankers were sold to Raiffeisen Leasing Kazakhstan for 991,237 thousand tenge and the Company leased them back on 9 February 2010. On 5 February 2010, the Company signed the lease back agreement #02/10 (FLBA) with Raiffeisen Leasing Kazakhstan with financial lease period till 2015 and interest rate of three-month EURIBOR + 8.75 percent per annum. Lease agreement is secured by the guarantee of Mr. M. Zh. Sarsenov.

On 29 January 2010, the Company signed lease agreement #09/10 (FLA) with Raiffeisen Leasing Kazakhstan, on 25 May 2010, 23 gas wagon-tankers were received by the Company for the total amount of 229,097 thousand tenge with the finance lease period till June 2015 and interest rate is three month EURIBOR + 8.75 percent per annum. This lease agreement is secured by the guarantee of Mr. M. Zh. Sarsenov.

On 29 September 2010, the Company signed lease agreement #37/10 (FLA) with Raiffeisen Leasing Kazakhstan for the purpose of acquisition of 120 gas wagon-tankers with the finance lease term of 72 months and interest rate of three-month EURIBOR + 8.75 percent per annum. In 2011 the Company received 120 gas wagon-tankers per this agreement. This lease agreement is secured by the guarantee of Mr. M. Zh. Sarsenov.

(in thousands of Kazakhstani tenge)

The Company timely paid the lease payments provided for under finance leases without incurring penalties and fines.

The lease was classified as a finance lease since as substantially all the risks and rewards incident to the ownership of the carriages were transferred to the Company.

**Finance lease from BRK Leasing**

On 17 August 2009, the Company signed lease agreement #47/FL with JSC BRK Leasing for the lease of 200 carriages. The carriages were purchased from JSC AzovObscheMash via a tripartite agreement with the Company and JSC BRK Leasing. The lease term is till November 2016. The Company lease payments include principal amount and interest payments with an interest rate of 14 percent per annum.

On 15 April 2010, the Company signed agreement #48/FL with BRK Leasing for the lease of 182 gas carriages. The wagons were purchased from JSC AzovObscheMash via a tripartite agreement with the Company and BRK-Leasing. The lease term is till April 2017. The Company lease payments include principal amount and interest payments with an interest rate of 13 percent per annum.

On 22 December 2010, the Company signed agreement #52/FL with JSC BRK Leasing (BRK-Leasing) for the lease of 150 gas wagons and 300 oil wagons with a finance lease period of 96 months. The wagons were purchased from JSC AzovObscheMash via a tripartite agreement with the Company and BRK-Leasing in the January-April 2011. The Company lease payments include principal amount and interest payments with an interest rate of 10.1 percent per annum.

The lease was classified as finance lease since substantially all the risks and rewards incident to the ownership of the wagons were transferred to the Company.

Borrowings of the Company were denominated in the following currencies:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| US Dollar | 38,578,371 | 19,796,234 |
| Kazakhstani Tenge | 8,548,940 | 4,569,071 |
| **Total borrowings** | **47,127,311** | **24,365,305** |

Outstanding balances and fair values of loans and borrowing were as follows:

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 31 December 2011 | 31 December 2010 | 31 December 2011 | 31 December 2010 |
| Bank loans | 37,523,119 | 18,619,198 | 37,523,119 | 18,619,198 |
| Loans from non-financial companies | 1,073,770 | 1,221,850 | 1,073,770 | 1,221,850 |
| Finance lease liabilities | 8,530,422 | 4,524,257 | 8,530,422 | 4,524,257 |
| **Total borrowings** | **47,127,311** | **24,365,305** | **47,127,311** | **24,365,305** |

Buildings, machinery and equipment in amount of 75,178,829 thousand tenge (2010: 24,510,240 thousand tenge) (Note 6), and future cash receipts were pledged as a security for loans and borrowings.

(in thousands of Kazakhstani tenge)

## 13. ACCOUNTS PAYABLE

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Trade accounts payable | 700,447 | 800,941 |
| **Total financial liabilities** | **700,447** | **800,941** |
| Taxes payable (Note 21) | 470,698 | 263,769 |
| Advances received | 309,933 | 104,846 |
| Salaries payable | 116 | 7,229 |
| Other | 28,604 | 14,054 |
| **Total accounts payables** | **1,509,798** | **1,190,839** |

Financial liabilities are denominated in the following currencies:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| US Dollar | 377,678 | 172,371 |
| Kazakhstani Tenge | 313,364 | 615,108 |
| Russian Ruble | 9,260 | 13,462 |
| Euro | 145 | - |
| **Total financial liabilities** | **700,447** | **800,941** |

## 14. REVENUE

| | 2011 | 2010 |
|---|---|---|
| Rent of wagon-tankers | 15,124,120 | 8,482,573 |
| Forwarding services | 1,645,419 | 1,138,787 |
| Consignor and consignee services | 269,961 | 162,572 |
| Dispatching services | - | 431 |
| Other | 11,167 | 22,578 |
| **Total revenue** | **17,050,667** | **9,806,941** |

For the year ended 31 December 2011, 76 percent of revenue of the Company was represented by revenue from Tengizchevroil LLP (2010: 81%).

(in thousands of Kazakhstani tenge)

## 15. COST OF SALES

| | 2011 | 2010 |
|---|---|---|
| Depreciation | 2,634,609 | 823,062 |
| Repairs and maintenance of wagons | 1,275,402 | 437,427 |
| Insurance of wagons | 568,508 | 22,730 |
| Rent of wagons | 455,786 | 890,490 |
| Transportation | 201,658 | 64,222 |
| Payroll and related expenses | 182,328 | 110,800 |
| Arrangement of access railway | 178,853 | 47,753 |
| Spare parts and other materials | 68,870 | 32,243 |
| Servicing of carriages | 51,988 | 30,347 |
| Recovery of loss on revaluation of property, plant and equipment, previously recognized in profit and loss | - | (474,693) |
| Other | 85,714 | 52,921 |
| **Total cost of sales** | **5,703,716** | **2,037,302** |

## 16. OTHER OPERATING INCOME

| | 2011 | 2010 |
|---|---|---|
| Gain on disposal of property, plant and equipment, net | 1,214 | - |
| Other | 16,794 | 1,994 |
| **Total other operating income** | **18,008** | **1,994** |

## 17. GENERAL AND ADMINISTRATIVE EXPENSES

| | 2011 | 2010 |
|---|---|---|
| Payroll and related expenses | 376,550 | 370,277 |
| Bank services | 123,204 | 35,349 |
| Taxes other than tax income | 104,582 | 41,155 |
| Information, consulting and other professional services | 69,102 | 79,308 |
| Rental of office | 49,904 | 2,358 |
| Business expenses | 42,109 | 22,828 |
| Repairs and maintenance | 25,313 | 4,085 |
| Depreciation and amortisation | 19,757 | 18,082 |
| Materials | 18,761 | 11,671 |
| Utilities | 17,535 | 2,008 |
| Telecommunications expenses | 12,440 | 10,795 |
| Transportation | 10,102 | 5,274 |
| Fines and penalties | 825 | 46,675 |
| Accrual of provision for bad debt allowance | - | 82,878 |
| Sponsorship | - | 2,300 |
| Other | 109,729 | 96,693 |
| **Total general and administrative expenses** | **979,913** | **831,736** |

(in thousands of Kazakhstani tenge)

## 18. OTHER OPERATING EXPENSES

| | 2011 | 2010 |
|---|---|---|
| Loss from derivative financial instruments, net | - | 28,054 |
| Loss from disposal of property, plant and equipment, net | - | 799 |
| Other | 31,682 | 20,590 |
| **Other operating expenses** | **31,682** | **49,443** |

## 19. FINANCE INCOME

| | 2011 | 2010 |
|---|---|---|
| Unwinding of discount on loans receivable | 84,577 | 515,071 |
| Interest income | 16,891 | 364,512 |
| **Total finance income** | **101,468** | **879,583** |

## 20. FINANCE COSTS

| | 2011 | 2010 |
|---|---|---|
| Interest expense on borrowings | 2,690,684 | 1,234,627 |
| Interest expense on finance lease liabilities | 1,038,253 | 526,556 |
| Foreign exchange loss/(gain) from borrowings | 437,833 | (22,534) |
| Interest expenses on guarantee agreements | 271,574 | 129,199 |
| Unwinding of discount on loans and borrowings | 203,503 | 80,382 |
| Loss on initial recognition of loans receivable | 6,609 | 53,634 |
| Other finance costs | 114 | 1,208 |
| **Total finance costs** | **4,648,570** | **2,003,072** |

## 21. TAXATION

For the years ended 31 December, income tax expenses of the Company comprises the following:

| | 2011 | 2010 |
|---|---|---|
| Current income tax expense | 399,457 | 268,505 |
| Deferred income tax expense | 779,279 | 1,109,022 |
| **Income tax expense for the year** | **1,178,736** | **1,377,527** |

(in thousands of Kazakhstani tenge)

For the year ended 31 December 2011 tax effect from changes in temporary differences was as follows

| | 1 January 2011 | Recognized in profit or loss | Recognized in other comprehensive income | 31 December 2011 |
|---|---|---|---|---|
| **Tax effect of deductible temporary differences** | | | | |
| Other accounts receivable | 1,892 | 14,683 | - | 16,575 |
| Accruals | 15,693 | (11,125) | - | 4,568 |
| **Deferred tax asset** | **17,585** | **3,558** | **-** | **21,143** |
| **Tax effect of taxable temporary differences** | | | | |
| Property, plant and equipment | (5,989,607) | (782,837) | - | (6,772,444) |
| **Deferred tax liability** | **(5,989,607)** | **(782,837)** | **-** | **(6,772,444)** |
| Less: offset with deferred tax assets | 17,585 | 3,558 | - | 21,143 |
| **Net deferred tax liability** | **(5,972,022)** | **(779,279)** | **-** | **(6,751,301)** |

For the year ended 31 December 2010 tax effect from changes in temporary differences was as follows:

| | 1 January 2010 | Recognized in profit and loss | Recognized in other comprehensive income | 31 December 2010 |
|---|---|---|---|---|
| **Tax effect of deductible temporary differences** | | | | |
| Derivatives financial instruments | 2,594 | (2,594) | - | - |
| Other accounts receivable | 2,015 | (123) | - | 1,892 |
| Accruals | 108,781 | (93,088) | - | 15,693 |
| **Deferred tax asset** | **113,390** | **(95,805)** | **-** | **17,585** |
| **Tax effect of taxable temporary differences** | | | | |
| Property, plant and equipment | (1,845,445) | (1,028,740) | (3,115,422) | (5,989,607) |
| Borrowings | (15,523) | 15,523 | - | - |
| **Deferred tax liability** | **(1,860,968)** | **(1,013,217)** | **(3,115,422)** | **(5,989,607)** |
| Less: offset with deferred tax assets | 113,390 | (95,805) | - | 17,585 |
| **Net deferred tax liability** | **(1,747,578)** | **(1,109,022)** | **(3,115,422)** | **(5,972,022)** |

On 17 November 2009 an amendment was made to the Tax Code of the Republic of Kazakhstan to extend the period of 20% corporate income tax to 31 December 2012, with further decreases in corporate income tax rate to 17.5% in 2013, and to 15% in 2014 and afterwards. In November 2010, a further amendment was made to the corporate income tax rate which fixed the rate at 20% for all future years commencing 1 January 2011.

(in thousands of Kazakhstani tenge)

In 2011 and 2010, the corporate income tax rate valid in Kazakhstan, where the Company is located, was 20%. The taxation charge for the period is different from that which would be obtained by applying the statutory income tax rate to profit before income tax. Below is a reconciliation of theoretical income tax to the actual expense recorded in the Company's statement of comprehensive income:

| | 2011 | 2010 |
|---|---|---|
| **Profit before income tax** | 5,806,262 | 5,766,965 |
| Theoretical income tax at 20% | 1,161,252 | 1,153,393 |
| Effect of change in tax rate | - | 349,519 |
| Prior period adjustment | - | (30,447) |
| Non-deductable expenses/(non-taxable income) | 17,484 | (94,938) |
| | **1,178,736** | **1,377,527** |

**Taxes payable (Note 13)**

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| VAT | 424,632 | 211,302 |
| Withholding income tax | 5,521 | 13,354 |
| Corporate income tax | - | 15,974 |
| Other | 40,545 | 23,139 |
| **Total taxes payable** | **470,698** | **263,769** |

**Prepaid taxes (Note 9)**

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Corporate income tax | 7,045 | - |
| Property tax | 375 | 375 |
| Other | 236 | 50 |
| **Total taxes prepaid** | **7,656** | **425** |

## 22. COMMITMENTS, CONTINGENCIES AND OPERATING RISKS

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Kazakhstan and the Kazakhstani economy in general.

Laws and regulations affecting businesses in Kazakhstan continue to change rapidly. Tax, currency and customs legislation within Kazakhstan are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Kazakhstan. The future economic direction of Kazakhstan is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser or no growth than in prior years. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt the Kazakhstani economy, adversely affect the Company's access to capital and cost of capital for the Company and, more generally, its business, results of operations, financial condition and prospects.

Because Kazakhstan produces and exports large volumes of oil and gas, Kazakhstan's economy is particularly sensitive to the price of oil and gas on the world market which has fluctuated significantly during 2011 and 2010.

Historically railway transportation dominated on the market of cargo transportation and logistics of Kazakhstan. Geographically position of Kazakhstan required well developed transportation infrastructure. Main types of crude oil transportation are piping, railway and marine.

According to the Program on development of transportation infrastructure for 2010-2014 the disposal of freight carriages due to end of their useful life and technical condition significantly higher than the rates of renewal of transportation park. The main problem of cargo carriages' transportation park is its high level depreciation, approaching 72%. Over 60% of cargo carriages' transportation park has been used over 20 years.

Demand on transportation services of oil by railway does not decrease, because the number of companies providing this type of services is limited. Current market conditions also demonstrate attractiveness of the companies providing these services.

Management believes that all required measures were taken to support the stability and growth of the Company's activities in current circumstances.

**Tax legislation**

Kazakhstani tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and state authorities.

Management of the Company believes that it correctly interpreted relevant regulations of legislation, and that the Company's position in relation to tax, currency and customs legislation will be successfully protected in case of any dispute.

Accordingly, at 31 December 2011 the Company did not accrue any provisions for potential tax liabilities (2010: nil). In opinion of the Company's management there will be no significant loss incurred in relation to existing or potential tax claims exceeding amounts recognized in these financial statements.

**Risks of accidents and natural disasters**

The Company tends to perform all required measures so that all financial, reputation and other losses of the Company and its clients are minimised through the preventive actions of the risk management or through the purchase of insurance policies.

**Capital commitments**

As at 31 December 2011 the Company has capital commitments of 11,715,000 US Dollars (equivalent of 1,738,506 thousand tenge) (31 December 2010: nil). These commitments include commitments for purchase of machinery and equipment.

**Loan covenants**

Some of the Company's loan agreements include the covenants whereby the Company should comply with the certain key performance indicators.

The Company's management believes that it has been in compliance with all terms of loan agreements during the year ended 31 December 2011 and as at that date.

**Potential environmental risks**

The following sources of risks result in risk factors for environment, such as: non-utilized frames and car tracks of the disposed carriages, non-utilized spare parts for the carriages, replaced in scheduled repairs, remains of lubricants and other technical liquids. In order to prevent harm to environment the Company plans its needs on replacement of spare parts and wheel pairs, in addition to utilization of spare parts and wheel pairs of cargo carriages the Company involves qualified third parties. The Company does not have carriages which approach the end of its useful life.

Exposure of dangerous substances, transported by railway, also creates the risk for environment. The Company imposes contractual restrictions for types of cargo which could be transported in the carriages of the Company.

The transporter is responsible for compliance of the transported cargo with the specifications of the carriages and for the conduction of the inspections of carriages while loading and discharge. The Company inspects details of cargo transported in the carriages of the Company in accordance with the legislation of Kazakhstan.

Acquired carriages and gondolas of the Company comply with national and European specifications in relation to impact on environment and safety, and particularly: the wagon-cisterns are equipped with drainage devices which provide for enhanced protection from leakage; carriages are equipped with composite brakes, which provide for reduced level of noise; technical maintenance of all park of carriages, including cleaning process, is performed by licensed organizations.

Subsequently the Company plans to control the compliance with the environmental legislation by its contractors, and to include similar requirements for control over technical maintenance in its rent agreements.

**Risks of loss of cargo**

Regular losses of significant number of non-dangerous cargo as a result of low quality of the frame of cargo carriages create risks of financial loss for the Company. The Company properly maintains its park of carriages to decrease such risks. Technical specialists of the Company conduct regular inspections of technical condition of carriages.

**Insurance risks**

The responsibility for insurance against the accidents with the carriages as the result of emergency, including damage to environment liquidation, is placed on consignor – the lessees of the Company's carriages. The Company plans to monitor availability of such insurance.

The responsibilities for procedures developed to prevent and response to derailment, accident and liquidation of its damage is placed on carrier. The carrier provides for the development of plan and the coordination of measures on response for such incidents, availability of appropriate equipment and special employees trainings.

In December 2011, the Company signed agreements on obligatory and voluntary insurance of its movable and immovable property with JSC Insurance company Victoria with validity period till 31 December 2012.

**Guarantees**

During 2010 the Company signed 4 agreements for provision of guarantee by Mr. M. Zh. Sarsenov for the bank loans and finance lease, received by the Company (Note 12), under these guarantee agreements the liability of the Company at 31 December 2011 amounted to 18,518 thousand tenge, classified within borrowings from non-banks (Note 12). Based on these agreements the commission for the issuance of the guarantees comprised 7.8% of total secured debt of 271,574 thousand tenge, recognized as finance costs (Note 20).

(in thousands of Kazakhstani tenge)

## 23. FINANCE RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, such as: market risk (including currency risk and interest rate risk and other price related risk), credit risk and liquidity risk. The key financial objective of the Company's management is to create value for the Company's owner, in particular, the Company's growth, profitability and operational effectiveness. The main objective of the Company in the sphere of financial risk management is to ensure the continuous economically feasible financing of the Company's operations as well as identification, assessment and control of the probability of the financial risks in close cooperation with the subdivisions. The Company achieves such objective through minimization of unfavourable effect of fluctuations of the financial markets on its profitability.

### Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures from customers, including outstanding receivables.

Cash is placed in financial institutions which have minimal risk of default at the date of placement.

Cash balances and bank deposits in main banks at the reporting date are presented as follows:

| | Rating agency | Rating | 2011 | 2010 |
|---|---|---|---|---|
| JSC ATF Bank | Fitch Rating | BBB | 892,738 | 723 |
| JSC Sberbank | Fitch Rating | BBB- | 462,732 | - |
| BNP Paribas (Suisse) S.A. | Standard&Poor's | AA- | 391,573 | - |
| JSC HSBC Bank Kazakhstan | Standard&Poor's | A- | 107,357 | 2,115,007 |
| JSC Islamic Bank Al Hilal | | AAA | 43,205 | 239,716 |
| JSC BTA Bank | Fitch Rating | RD | 2 | 180,395 |
| **Total** | | | **1,897,607** | **2,535,841** |

Company's exposure to credit risk mainly depends on the individual characteristics of each customer. Management has developed a credit policy under which the creditworthiness of each customer is analyzed individually, before he will be offered to the Company's standard terms and conditions of payment and delivery. Customers who do not meet the requirements of the Company's creditworthiness, may carry out transactions with the Company only on a prepayment basis.

If the client has independent ratings, such ratings are used. In the absence of independent ratings, management assesses the credit quality of the client, given its scale, financial condition and other factors.

The Company does not require any collateral for its trade and other receivables.

As at 31 December 2011, 97% of trade receivables of the Company were presented by the receivables from 6 debtors (2010: 8 debtors were presented by 97%).

Based on statistics of defaults over the past few years the Company believes that, for trade receivables which are not due yet there is no need to recognize and impairment provision. The company has no receivables, which expired.

### Market risk

The Company is exposed to market risks. Market risks arise from positions in (a) foreign currencies, (b) interest bearing assets and liabilities, all of which are exposed to general and specific changes in market. Management sets limits on the value of risk that can be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant changes in the market.

(in thousands of Kazakhstani tenge)

**Foreign currency risk**

The Company operates in Kazakhstan. Thus, the significant part of the Company's transactions is carried out in tenge. The Company has some financial instruments denominated in US Dollar. They include accounts receivable (Note 9), cash and bank deposits (Note 10), accounts payable (Note 13) and loans and borrowings (Note 12).

**Main sources of currency risk:**

The Company is subject to currency risks in operations related to sale, purchase and receipt of loans denominated in currencies other than Kazakhstani tenge. Currency risk mainly raises in relation to US Dollar. Carrying values of assets and liabilities denominated in foreign currencies is disclosed in Notes 9, 10, 12 and 13.

Management of the Company expects that taking into account the economical situation in the Republic of Kazakhstan, decrease in exchange rate of US Dollar to Kazakhstani Tenge by 2.5% represents realistic fluctuation. This level is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at 31 December 2011 for 2.5% and at 31 December 2010 for 2.4% change in foreign currency rates.

Sensitivity analysis of the Company for increase of exchange rate of Kazakhstani Tenge to US Dollar by 2.5% as in 2011 and by 2.4% in 2010 was presented in the table below.

| | US Dollar | |
|---|---|---|
| | **2011** | **2010** |
| **Assets** | | |
| Trade and other accounts receivable | 1,815,016 | 817,185 |
| Bank deposits | 627,732 | 236,000 |
| Cash | 1,200,276 | 1,941,719 |
| **Total** | **3,643,024** | **2,994,904** |
| **Liabilities** | | |
| Credits and borrowings | 38,578,371 | 19,796,234 |
| Trade and other accounts payable | 377,678 | 172,372 |
| **Total** | **38,956,049** | **19,968,606** |
| **Net currency position** | **(35,313,025)** | **(16,973,702)** |

Sensitivity analysis includes trade and other accounts receivable, cash and its equivalents, bank deposits, loans and borrowings, financial lease liabilities and trade accounts payable.

A positive number below indicates an increase in profit and other equity where tenge strengthens by 2.5% (2010: 2.4%) against the relevant currency. For a 2.5% weakening of tenge against the relevant currency in 2011 and 2.4% in 2010, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

| | US Dollar Influence | |
|---|---|---|
| | **2011** | **2010** |
| Profit or (loss) | 882,826 | 407,369 |

(in thousands of Kazakhstani tenge)

The Company limits the currency risk by monitoring changes in exchange rates of foreign currencies in which cash and cash equivalents, bank term deposits, accounts receivable and accounts payable are denominated.

**Interest rate risk**

Management of the Company is responsible for monitoring and management of risks related to interest rate, which affect the Company. Because of the present structure of statement of financial position, the particular attention is paid to risk management related to interest rate risks on borrowing. Interest payment on most of loans and borrowings represent the interest calculated using London interbank rate ("LIBOR").

The Company's income and operations are exposed to changes in market interest rates. Interest rate risk arises from long-term borrowings and finance lease liabilities. Borrowings and finance lease liabilities at floating rates expose the Company to cash flow interest rate risk. Borrowings received at fixed rates expose the Company to fair value interest rate risk.

During 2011 the Company did not hedge the floating interest rate, because no increase was forecasted.

Short-term bank deposits bear no significant interest rate risk due to short maturity.

The Company does not have formal policies and procedures in place for management of interest rate risks as management consider this risk as insignificant to the Company's business.

At the end of the period structure of interest financial obligations of the Company was as follows:

| | Carrying value | |
|---|---|---|
| | **31 December 2011** | **31 December 2010** |
| Financial obligations with floating rate | 36,696,578 | 17,537,834 |
| Financial obligations with fixed rate | 10,430,733 | 6,827,471 |
| | 47,127,311 | 24,365,305 |

The table below details the sensitivity of the Company by increasing or decreasing the floating rate to 1%. The analysis was applied to loans based on the assumption that the amount of outstanding obligations at the reporting date remained outstanding throughout the year.

| | **2011** | **2010** |
|---|---|---|
| Profit or (loss) | (366,966) | (175,378) |

**Liquidity risk**

The Company controls the risk of insufficient cash using operating cash flow forecasts. The Company has developed a range of internal regulations, controlling the procedures for placing temporary excess cash, recognition of invoices and their payment and regulations for development of economic and financial budgeting.

The Company's objective is to maintain the balance between continuing financing and flexibility using bank deposits and bank and non-bank borrowings.

(in thousands of Kazakhstani tenge)

According to a statement of financial position, the ratio of current assets to current liabilities was 44.3%, from an economic point of view is not maintaining the current level of liquidity of the Company. This indicator is formed at the time of preparation of the financial statements as of 31 December 2011 and this is the result of the influence of "time factor". Adhering to the principle of continuous activity, the Company's management believes that a positive level of working capital in the Company is supported by existing agreements with customers (Tengizchevroil LLP, ZhaiykMunai LLP, Sabco Corp., LITASKO LLP, etc.), the proceeds of which cover the level of costs from operating activities.

The following table presents an analysis of financial liabilities of the Company by repayment periods, based on the outstanding period from reporting date till the date of repayment. Amounts presented in the table – are contractual non-discounted cash inflows. Outstanding payables maturing within 12 months are equivalent to their carrying values, as the impact of discounting is insignificant.

| | Less than 1 year | Between 1 and 2 year | Above 5 years | Total |
|---|---|---|---|---|
| **2011** | | | | |
| Borrowings (Note 12) | 9,851,508 | 36,642,233 | 590,303 | 47,084,044 |
| Borrowings from non-financial organizations (Note 12) | 1,189,487 | 250,060 | - | 1,439,547 |
| Financial lease liabilities (Note12) | 2,475,282 | 6,359,723 | 2,359,862 | 11,194,867 |
| Trade and other payables (Note 13) | 700,447 | - | - | 700,447 |
| **Total future payments** | **14,216,724** | **43,252,016** | **2,950,165** | **60,418,905** |
| **2010** | | | | |
| Borrowings (Note 12) | 2,801,642 | 12,335,632 | 12,486,202 | 27,623,476 |
| Borrowings from non-financial organizations (Note 12) | 384,548 | 1,109,710 | - | 1,494,258 |
| Financial lease liabilities (Note 12) | 1,342,132 | 4,130,502 | 506,595 | 5,979,229 |
| Trade and other payables (Note 13) | 800,941 | - | - | 800,941 |
| **Total future payments** | **5,329,263** | **17,575,844** | **12,992,797** | **35,897,904** |

### Capital management

For the purposes of capital management, capital includes the total amount of equity recognized in the financial statements prepared in accordance with IFRS. The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to its owner through the optimisation of the debt and equity balance. In order to maintain or adjust the structure of the capital, the Company may adjust the amount of dividends paid to the owner or sell assets to reduce the debt.

## 24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of financial instruments is defined in terms of a price agreed by a willing buyer and a willing seller in an arm's length transaction, except for sales or forced liquidation. The best evidence for the fair value is quoted prices for finance instrument on an active market.

The estimated fair values of financial instruments have been determined by the Company using available market information, where available, and appropriate valuation techniques. However, judgement is necessary to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of the financial instruments.

**Financial assets carried at amortised cost**

The estimated fair value of fixed interest rate instruments is based on the estimated future cash flows expected to be received, discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The discount rates used depend on the credit risk of the counterparty. Due to the short-term nature of trade receivables, their carrying amounts approximate fair values. The estimated fair values of loans receivable are disclosed in Note 7.

**Financial liabilities carried at amortised cost**

The estimated fair value of fixed interest rate instruments with a stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with a similar credit risk and remaining maturity. The estimated fair values of borrowings are disclosed in Note 12.

## 25. SUBSEQUENT EVENTS

In January 2012 additional agreements were signed with Annmar Management Limited to reduce interest rates to 5% per annum and to revise maturity of loans under the new schedule till the end of 2012 (Note 12).

In January 2012 the decision of JSC ATF Bank was obtained on a phased release of 400 carriages from pledge with subsequent phased transfer of 500 new carriages to pledge, taking into account 130% coverage ratio.

In February 2012 the Company signed Mandate with BNP Paribas for the receipt of a new syndicated loan of up to 120 million US dollars.

In February 2012 JSC Sberbank approved the opening of the credit limit for the Company of 90 million US Dollars for a period of 8 years. The purpose is acquisition of rail carriages park for the purpose of subsequent transfer to rent.

In January-April 2012 CJSC Trade House AzovObshcheMash fulfilled its obligation to deliver 500 wagon-tanks under the agreement # 127 TD dated 2 November 2011 (Note 8).

In March 2012 the Company withdrew the deposit held under the agreement dated 4 November 2011 with JSC ATF Bank, including interest on deposit (Note 10).

In March 2012 obtained the decision of JSC HSBC Bank Kazakhstan for release of 572 carriages from pledge.

In April 2012 the owners of the Company approved the distribution of dividends for 2011 amounting to 925,505 thousand tenge.

## 26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2011 were approved by the Company's management and authorized for issue on 20 April 2012.

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