Financial Services Authority
UK Listing Authority
Document approved
Date: 5.7.12
Signed: 1. P. Hawke

ҚАЗАҚСТАН
ТЕМІР
ЖОЛЫ

KAZAKHSTAN TEMIR ZHOLY FINANCE B.V.

(a limited liability company incorporated in The Netherlands)

U.S.$800,000,000 6.950% Notes due 2042

Guaranteed by

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

(a joint stock company organised in the Republic of Kazakhstan)

JSC KAZTEMIRTRANS

(a joint stock company organised in the Republic of Kazakhstan) and

JSC LOKOMOTIV

(a joint stock company organised in the Republic of Kazakhstan)

Issue Price of the Notes: 100%

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for the U.S.$800,000,000 6.950% Notes due 2042 (the "**Notes**") of Kazakhstan Temir Zholy Finance B.V. (the "**Issuer**") 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 such Notes to be admitted to trading on the London Stock Exchange's regulated market (the "**Market**"). References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC of the European Parliament and the Council. In addition, application has been made for the Notes to be admitted to the "rated debt securities" category of the official list of the Kazakhstan Stock Exchange Inc. (the "**KASE**").

Each of JSC National Company Kazakhstan Temir Zholy (the "**Company**"), JSC Kaztemirtrans (formerly JSC Kazzheldortrans) ("**Kaztemirtrans**") and JSC Lokomotiv ("**Lokomotiv**" and together with the Company and Kaztemirtrans, the "**Guarantors**" and each a "**Guarantor**") have jointly and severally, unconditionally and irrevocably guaranteed the due and punctual payment of all amounts at any time becoming due and payable in respect of the Notes under a guarantee (the "**Guarantee**") contained in the Trust Deed (as defined below). Interest on the Notes is payable semi-annually in arrear on 10 January and 10 July in each year, except that the first payment will be made on 10 January 2013. Payments on the Notes (including payments by a Guarantor under the Guarantee or otherwise under the Trust Deed) will be made without deduction for or on account of taxes of The Netherlands or Kazakhstan, unless such withholding or deduction is required by law. In such event, the Issuer or (as the case may be) the relevant Guarantor will, subject to certain exceptions and limitations set forth below, pay additional amounts ("**Additional Amounts**") to the holder of any Note to the extent described under "*Terms and Conditions of the Notes – Taxation*". The Notes mature on 10 July 2042 but may be redeemed before then at the option of the Issuer following a Relevant Event (as defined below) at 101% of their principal amount together with accrued interest. The Issuer may redeem the Notes in whole, but not in part, if a withholding is required in The Netherlands (or following the Intended Substitution (defined below), if this occurs, in Kazakhstan) or in the event that the Guarantors are required to increase the amount that any of them are required to pay as Additional Amounts after the date hereof as set out in Condition 12 (Taxation). See "*Terms and Conditions of the Notes – Redemption, Purchase and Cancellation*".

Prior to the fourth interest payment date with respect to the Notes, the Company intends to be substituted for the Issuer as issuer of the Notes, whereupon it will assume all of the obligations of the Issuer under the Notes (the "**Intended Substitution**") and references to the "Issuer" herein will, where appropriate, refer to the Company. Pursuant to the terms of the Trust Deed (as defined below), the Intended Substitution can occur without the consent of the holders of the Notes, and the Trustee (as defined below) is not required to make any determination as to whether the Intended Substitution is materially prejudicial to such holders.

Notes which are offered and sold in reliance on Regulation S ("**Regulation S**") promulgated under the United States Securities Act of 1933, as amended (the "**Securities Act**"), will be represented by beneficial interests in a permanent global Note (the "**Unrestricted Global Note**") in registered form, without interest coupons attached, which will be registered in the name of a nominee for, and shall be deposited on or about the Closing Date (as defined below) with, a common depositary for, and in respect of interests held through, Euroclear Bank SA/NA ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). Notes which are offered and sold in reliance on Rule 144A promulgated under the Securities Act ("**Rule 144A**") will be represented by beneficial interests in a permanent global Note (the "**Restricted Global Note**" and, together with the Unrestricted Global Note, the "**Global Notes**") in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with The Bank of New York Mellon, as custodian for, and registered in the name of Cede & Co. as nominee for The Depository Trust Company ("**DTC**"). Notes sold (i) in offshore transactions in reliance on Regulation S will be issued in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof and (ii) to qualified institutional buyers in reliance on Rule 144A will be issued in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. See "*Terms and Conditions of the Notes – Form, Denomination and Title*". Interests in the Restricted Global Note will be subject to certain restrictions on transfer. See "*Form of the Notes and Transfer Restrictions*". Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates representing the Notes will not be issued in exchange for beneficial interests in the Global Notes.

NEITHER THE NOTES NOR THE GUARANTEE HAVE BEEN OR WILL BE REGISTERED UNDER THE SECURITIES ACT, OR ANY STATE SECURITIES LAW, AND THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. SEE "*FORM OF THE NOTES AND TRANSFER RESTRICTIONS*".

The Notes have been rated Baa3 by Moody's Investors Service Limited ("**Moody's**"), BBB- by Fitch Ratings Limited ("**Fitch**") and BBB- by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"). The Company's current long-term debt rating by S&P, Moody's and Fitch is BBB-, Baa3 and BBB-, respectively. Kaztemirtrans' current long-term debt rating is BBB- by S&P and Ba1 by Moody's. 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. Each of S&P, Moody's and Fitch is established in the European Union and is registered under Regulation (EC) No 1060/2009 of the European Parliament and the Council of 16 September 2009 on credit rating agencies, as amended (the "**CRA Regulation**").

Investing in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 12.

Joint Lead Managers

Barclays **HSBC**

Kazakhstan Manager

JSC Kazkommerts Securities

This Prospectus is dated 5 July 2012

This Prospectus constitutes a prospectus for the purpose of Article 5 of Directive 2003/71/EC (the **"Prospectus Directive"**) and for the purpose of giving information with regard to the Company and its consolidated subsidiaries together, including the Issuer, Kaztemirtrans and Lokomotiv (the Company and its consolidated subsidiaries together, the **"Group"**), and the Notes which, according to the particular nature of the Issuer, the Guarantors and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Guarantors and of the rights attaching to the Notes. The Issuer and the Company accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer and the Company (each 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. Each of Kaztemirtrans and Lokomotiv accepts responsibility for the information with respect to itself and the Guarantee contained in this Prospectus. To the best of the knowledge of each of Kaztemirtrans and Lokomotiv (each having taken all reasonable care to ensure that such is the case), the information with respect to itself contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

None of Barclays Bank PLC, HSBC Bank plc (together, the **"Joint Lead Managers"**) or JSC Kazkommerts Securities (the **"Kazakhstan Manager"**, and together with the Joint Lead Managers, the **"Managers"**), nor any of their respective directors, affiliates, advisers or agents has made an independent verification of the information contained in this Prospectus in connection with the issue or offering of the Notes and no representation or warranty, express or implied, is made by the Managers or any of their respective directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Prospectus is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by the Managers or any of their respective directors, affiliates, advisers or agents in any respect. The contents of this Prospectus are not to be construed as, and should not be relied on as, legal, financial, business or tax advice and each prospective investor should consult its own legal and other advisers for any such advice relevant to it.

No person is authorised to give any information or make any representation not contained in this Prospectus in connection with the issue and offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Issuer, the Guarantors, BNY Mellon Corporate Trustee Services Limited (the **"Trustee"**) or the Managers or any of their respective directors, affiliates, advisers or agents. The delivery of this Prospectus does not imply that there has been no change in the business and affairs of the Issuer or the Guarantors since the date hereof or that the information herein is correct as of any time subsequent to its date.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions is restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. Consequently, this document is being distributed only to, and is directed at persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons together being referred to as **"relevant persons"**). Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents. Persons into whose possession this Prospectus may come are required by the Issuer, the Guarantors and the Managers to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers, sales and deliveries of the Notes and the distribution of this Prospectus and other offering material relating to the Notes is set out under "*Subscription and Sale*" and "*Form of the Notes and Transfer Restrictions*".

The Notes are being offered and sold only to qualified institutional buyers in reliance on Rule 144A and to certain non-U.S. persons in transactions outside the United States in reliance on Regulation S in transactions that are not subject to the registration requirements of the Securities Act. Certain information or financial data included in or omitted from this Prospectus may not comply with Regulation S-K or Regulation S-X of the Securities Act and the United States Securities Exchange Act of 1934, as amended (the **"Exchange Act"**), or other applicable rules or regulations of the United States Securities and Exchange Commission. In particular, Regulation S-X Rule 3-10 would have required that supplemental disclosures be included in the consolidated financial statements as at 31 December 2011, 31 December 2010 (restated) and 1 January 2010 (restated) and for the years ended 31 December 2011 and 31 December 2010 (restated) included elsewhere in this Prospectus. Such disclosures would include, but not be limited to, a footnote presenting the condensed consolidated financial information for each of the Issuer, the Company, as parent guarantor, and Kaztemirtrans and Lokomotiv, as subsidiary guarantors, for the periods presented in the financial statements included in this Prospectus. The Issuer has not included such financial information in this Prospectus. As a result, a prospective purchaser of Notes may be unable to fully assess the financial position of the Guarantors of the Notes.

In connection with the issue of the Notes, HSBC Bank plc (the **"Stabilising Manager"**) (or any person acting on behalf of any Stabilising Manager) 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 behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer 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 the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or person(s) acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules. Any loss or profit sustained as a consequence of any stabilisation shall be for the account of the Stabilising Manager.

Recipients of this Prospectus are authorised to use it solely for the purpose of considering an investment in the Notes and may not reproduce or distribute this Prospectus, in whole or in part, and may not disclose any of the contents of this Prospectus or use any information herein for any purpose other than considering an investment in the Notes. In making an investment decision, prospective investors must rely upon their own examination of the Issuer, the Guarantors and the terms of this Prospectus, including the risks involved.

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:

- 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;
- 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 the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes; and
- be able to evaluate (either alone or with the help of a financial adviser) 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 legal 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 (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

None of the Issuer, the Guarantors, the Managers or the Trustee is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser.

The Managers and their respective affiliates may perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non public market financing for, and enter into derivative transactions with, the Issuer, the Guarantors or any of their respective affiliates (including the shareholder of the Company).

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

FORWARD-LOOKING STATEMENTS

Certain statements included herein may constitute ''forward-looking statements''. These statements relate to future events or the Group's future financial performance, which involve known and unknown risks, uncertainties and other factors that may cause the Group's actual results, levels of activity, performance or achievements to be materially different from those expressed or implied in any forward-looking statements. In some cases, such statements can be identified by the use of forward-looking terminology such as ''believes'', ''expects'', ''may'', ''are expected to'', ''intends'', ''will'', ''will continue'', ''should'', ''could'', ''would be'', ''seeks'', ''approximately'', ''estimates'', ''predicts'', ''projects'', ''aims'' or ''anticipates'', or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions.

Prospective investors should be aware that forward-looking statements are not guarantees of future performance and that the Group's actual results of operations, financial condition and the development of the industry in which it operates may differ significantly from those predicted or suggested by the forward-looking statements contained in this Prospectus. In addition, even if the Group's results of operations, financial condition and business and the development of the industry in which it operates are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods.

Factors that could cause actual results to differ materially from the Group's expectations are contained in cautionary statements in this Prospectus and include, among other things, the following:

- the ability of the Group to adapt to past, present and future industry and corporate restructuring initiatives;
- the approved form and timing for implementing the Development Strategy (as hereinafter defined);
- changes in tariff and tax requirements (including tax rate changes, new tax laws and revised tax law interpretations);
- the supply and pricing of locomotives and rolling stock;
- changes in freight and passenger rail traffic volumes;
- the ability of the Group to effectively invest in projects and obtain sufficient financial support to finance its projects;
- the ability of the Group to effect anticipated operating cost reductions and revenue enhancements;
- the Government's continued support and indirect control of the Company and the Group;
- changes in public policies and sector and enterprise structures in Kazakhstan generally and in the Kazakhstan railway and transportation sectors;
- the development of a competitive environment and the ability of the Group to adapt to competition and to design and develop appropriate pricing and costing systems and improve relevant personnel skills;
- overall business and government regulatory conditions;
- interest rate fluctuations and other capital market conditions, including foreign currency exchange rate and commodity price fluctuations;
- economic and political conditions in Kazakhstan and other emerging markets; and
- the timing, impact and other uncertainties of future actions.

The sections of this Prospectus entitled ''*Risk Factors*'' contains a discussion of the factors that the Issuer and the Guarantors believe are material and that could affect the Group's future performance and the industry in which it operates.

The Issuer and the Guarantors are not obliged to, and do not intend to, update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Issuer, the Guarantors or any persons acting on their behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

AVAILABLE INFORMATION

Neither the Issuer nor the Guarantors are currently required to file periodic reports under Sections 13 or 15 of the Exchange Act with the United States Securities and Exchange Commission. To permit compliance with Rule 144A in connection with resales and transfers of Notes, the Issuer and the Guarantors have agreed that, for so long as any of the Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer and the Guarantors will provide to any holder or beneficial owner of such restricted securities, or to any prospective purchaser of such restricted securities designated by a holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act, if at the time of such request any of the Issuer or the Guarantors, as the case may be, is not a reporting company under Section 13 or Section 15(d) of the Exchange Act or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act. See "*Terms and Conditions of the Notes – Provision of Certain Information*".

In this Prospectus, references to a particular **"Condition"** are references to the relevant Condition set out under "*Terms and Conditions of the Notes*".

ENFORCEMENT OF FOREIGN JUDGMENTS

The Issuer was established to raise funds in the international capital markets and to lend such funds to the Guarantors and other members of the Group. The Guarantors are joint stock companies organised under the laws of Kazakhstan and the majority of their officers and directors and certain other persons referred to in this Prospectus are residents of Kazakhstan. All or a substantial portion of the assets of the Guarantors and most of such persons are located in Kazakhstan. As a result, it may not be possible (a) to effect service of process upon any Guarantor or any such person outside Kazakhstan, (b) to enforce against any of them, in courts of jurisdictions other than Kazakhstan, judgments obtained in such courts or (c) to enforce against any of them, in Kazakhstan's courts, judgments obtained in jurisdictions other than Kazakhstan, including judgments obtained on the Trust Deed in the courts of England and judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States.

The Notes and the Trust Deed are governed by the laws of England and the Issuer and the Guarantors have agreed in the Notes and the Trust Deed that disputes arising thereunder are subject to arbitration in London, England or, at the election of the Trustee or, in certain circumstances, a Noteholder, to the jurisdiction of the English courts. 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 or the United States. However, Kazakhstan, England and the United States 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 are met.

The Law on International Commercial Arbitration (the **"Arbitration Law"**) was adopted by the Parliament of Kazakhstan on 28 December 2004. The Arbitration Law is intended to resolve uncertainty created by prior decisions of the Constitutional Council of Kazakhstan regarding enforcement of the Convention in Kazakhstan that were effective on 15 February 2002 and 12 April 2002 and were cancelled by the Constitutional Council in February 2008. The Arbitration Law provides clear statutory guidelines for the enforcement of arbitral awards under the conditions set forth in the Convention.

Additionally, the railroad track and stations owned by the Company are listed in the Register of Strategic Assets approved by the Decree of the Government dated 30 June 2008 as a "strategic asset", which is defined by the Kazakhstan Civil Code adopted in December 1994, as amended (the **"Civil Code"**), as assets that are of social and economic importance to the sustainable development of Kazakhstan and ownership and or use of which can affect the national security of Kazakhstan. The Civil Code provides, among other things, that listed assets may not be sold or pledged without Government approval and if such assets are sold, the Government has a pre-emptive right to acquire such assets. Further, if default in respect of a pledged asset occurs, the Government has a pre-emptive right to acquire the asset in connection with any foreclosure. Consequently, Noteholders that have obtained a judgment in their favour may be limited in their pursuit of the Company's assets.

INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

PURSUANT TO INTERNAL REVENUE SERVICE CIRCULAR 230, THE ISSUER AND THE GUARANTORS HEREBY INFORM YOU THAT THE DESCRIPTION SET FORTH HEREIN WITH RESPECT TO U.S. FEDERAL TAX ISSUES WAS NOT INTENDED OR WRITTEN TO BE USED, AND SUCH DESCRIPTION CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE U.S. INTERNAL REVENUE CODE. SUCH DESCRIPTION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE NOTES. TAXPAYERS SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Financial Information

The term **"Group"** is used in this Prospectus to refer collectively to the Company and its consolidated subsidiaries, including the Issuer, Kaztemirtrans and Lokomotiv. The Company is required to maintain its books of account in Tenge in accordance with Kazakhstan accounting and tax regulations. The financial information in this Prospectus is that of the Group, or the Company where described as such, and not the Issuer. There is no financial information included in this Prospectus for the Issuer because it has no employees or subsidiaries. The Issuer was established to raise funds in the international capital markets and to lend such funds to the Group.

The consolidated statements of financial position as at 31 December 2011, 31 December 2010 (restated) and 1 January 2010 (restated) and the consolidated statements of comprehensive income, cash flows and changes in equity for the years ended 31 December 2011 and 31 December 2010 (restated) (the **"Annual Financial Statements"**) have been prepared in accordance with International Financial Reporting Standards as adopted by the International Accounting Standards Board (**"IFRS"**) and were audited by the Group's independent auditors, whose report is included elsewhere in this Prospectus.

In April 2011, JSC Sovereign Wealth Fund Samruk-Kazyna, the sole shareholder of the Company, transferred its 100% ownership interest in Repair Corporation Kamkor LLP to the Group. Prior to the transfer date, Repair Corporation Kamkor LLP held a 33.4% interest in Kazakhstan Wagon Construction Company. In addition, Kaztemirtrans, a subsidiary of the Group, held a 33.3% interest in Kazakhstan Wagon Construction Company. Consequently, as a result of the transfer of control of Repair Corporation Kamkor LLP to the Group, the Group also obtained control of Kazakhstan Wagon Construction Company, which was previously accounted for by the Group under the equity method of accounting. This transaction represented a transfer under common control and as a result, the Annual Financial Statements of the Group have been prepared as if the transaction had occurred at the beginning of the earliest period presented. As a result, the related comparative data as at and for the year ended 31 December 2010 was restated and a statement of financial position was presented at the beginning of the earliest comparative period (i.e. 1 January 2010). The assets and liabilities and results of operations of Repair Corporation Kamkor LLP were recorded in the Annual Financial Statements at the carrying amounts in their financial statements with a corresponding credit to retained earnings as at 1 January 2010.

This Prospectus contains non-IFRS measures and ratios, including Group EBITDA and EBITDA, that are not required by, or presented in accordance with, IFRS or Regulation S-X under the Securities Act. The Company presents these non-IFRS measures because the Group 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"**). The Group defines Group EBITDA as EBITDA plus finance income, or profit for the year before income tax, finance costs, depreciation and amortisation (**"Group EBITDA"**). Group EBITDA is not a measure of financial performance presented in accordance with IFRS or Regulation S-X under the Securities Act. Accordingly, 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, Group EBITDA has important limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of the Group's results as reported under IFRS. The Group's calculation of Group EBITDA may be different from the calculations used by other companies and therefore comparability may be limited.

The Group uses Group EBITDA and the ratios based on this measure in assessing its performance. In addition, the Company believes that Group EBITDA and the ratios based on this measure provide useful information to investors because they are indicators of the strength and performance of the Group'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 Group's debt agreements, is a key measure in assessing compliance with its debt covenants. However, this measure of EBITDA deviates from Group EBITDA as used throughout this Prospectus as it is computed based on the specific debt agreement.

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

Third-Party Information

Market data and certain industry forecasts used throughout this Prospectus have been obtained from market research, certain publicly available information and industry publications. Generally, such data and forecasts regarding Kazakhstan and the Kazakhstan transportation market included in this Prospectus have been obtained from the National Bank of Kazakhstan (the **"NBK"**), the Agency of the Republic of Kazakhstan for Statistics (the **"NSA"**), 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. See "*Risk Factors – Risk Factors Relating to the Republic of Kazakhstan – The members of the Group cannot ensure the accuracy of official statistics and other data in this Prospectus published by Kazakhstan authorities*".

The information described above has been accurately reproduced and, as far as the Issuer and the Guarantors are aware and are 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 and the Guarantors believe 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 and the Guarantors for the purposes of this Prospectus, has not been independently verified by the Issuer, the Guarantors 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.

The Group's estimates have been based on information obtained from members of the Group, associates, customers, suppliers, trade organisations and other contacts in the markets in which the Group operates. Although the Issuer and the Guarantors believe these estimates to be accurate in all material respects as at the dates indicated, such information is necessarily based upon a number of assumptions and estimates that, while presented with numerical specificity and considered reasonable by the Company, are inherently subject to uncertainties and contingencies, some of which are beyond our control.

Certain Definitions and Terminology

See Appendix I for a glossary of frequently used defined terms that are not otherwise defined in "*Terms and Conditions of the Notes*".

In this Prospectus, **"turnover"** refers to the amount of freight or number of passengers transported, as the case may be, multiplied by the distance such freight or passengers, as the case may be, are transported. Turnover is measured in **"tonne-kilometres"**, which is equal to the weight in tonnes of material transported multiplied by the number of kilometres the material is transported, or **"passenger-kilometres"**, which is equal to the number of passengers transported multiplied by the number of kilometres the passengers are transported. References in this Prospectus to **"km"** refer to kilometres.

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 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 comprehensive income data or statement of financial position data in U.S. Dollars is recalculated from Tenge at the NBK exchange rate as at the period end (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 Annual 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	148.40	146.62
As at 20 June 2012	148.88	—

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.

TABLE OF CONTENTS

GENERAL DESCRIPTION OF THE GROUP AND THE OFFERING

This overview must be read as an introduction to, and is qualified in its entirety by the more detailed information contained elsewhere in, this Prospectus, and any decision to invest in the Notes should be based on a consideration of the Prospectus as a whole.

Information is presented in this Prospectus on the basis of certain conventions that are set forth under "Presentation of Financial and Certain Other Information".

General Description of the Group

The Company is the national railway company of Kazakhstan and owns and operates Kazakhstan's national railway system and related infrastructure. As Kazakhstan's national railway company, the Company has a natural monopoly over Kazakhstan's mainline railway network and is a dominant provider of railway freight and, through its subsidiary, JSC Passenger Transportation, passenger transportation. As at 31 December 2011, Kazakhstan's railway system had an operational length of 14,319.4 km. The Company is vested with the power to grant or deny, in accordance with Government legislation, access to Kazakhstan's mainline railway network by third parties. As a natural monopoly the Company is regulated by the Agency for Regulation of Natural Monopolies (the "**Anti-Monopoly Agency**") under the Law of the Republic of Kazakhstan on Natural Monopolies and Regulated Markets dated 9 July 1998, as amended (the "**Law on Natural Monopolies**") and as a dominant provider is regulated by the Agency on Protection of Competition (the "**Agency for Competition Protection**") under the Law of the Republic of Kazakhstan On Competition 112-IV dated 25 December 2008, as amended (the "**Law on Competition**" and, together with the Law on Natural Monopolies, the "**Competition Laws**"). Among other things, the Law on Natural Monopolies and other applicable laws impose restrictions on the amount of the Company's tariffs, including tariffs for accessing Kazakhstan's mainline railway network.

In addition to providing access to Kazakhstan's mainline railway network and other logistic and infrastructure services to third parties, the Group provides its own freight and passenger transportation services. Freight transportation plays a key role in the Group's business operations. Kazakhstan's economy is significantly dependent on the export of raw materials and the import of finished goods. Consequently, the Group's services are particularly important to the economic growth and wellbeing of Kazakhstan, which has limited access to navigable water routes and an underdeveloped road infrastructure. Overall freight turnover for the Group was 223.6 billion tonne-kilometres and 213.2 billion tonne-kilometres for the years ended 31 December 2011 and 2010, respectively. According to NSA data, the Group's freight turnover for 2011, which includes freight transported in third party wagons hauled by the Group, accounted for 49.8% of all freight turnover in Kazakhstan by all modes of transportation for that period. Freight transportation revenue was KZT 603.7 billion, or 85.9% of total revenue, and KZT 501.6 billion, or 86.1% of total revenue, for the years ended 31 December 2011 and 2010, respectively.

The Group had total revenue of KZT 702.7 billion and KZT 582.4 billion for the years ended 31 December 2011 and 2010, respectively, and profit of KZT 123.2 billion and KZT 66.5 billion for the years ended 31 December 2011 and 2010, respectively. As at 31 December 2011, the Group had total assets of KZT 1,664.2 billion and total liabilities of KZT 713.8 billion. The Group's ratio of current assets to current liabilities was 1.28 as at 31 December 2011. As at 31 December 2010, the Group had total assets of KZT 1,327.0 billion and total liabilities of KZT 561.4 billion. The Group's ratio of current assets to current liabilities was 1.15 as at 31 December 2010.

The Group has undergone and continues to undergo a number of restructuring initiatives seeking to optimise its core business operations. Pending the completion of ongoing reorganisation efforts, most of the operations of the Group are performed by the Company and most of the revenue of the Group is generated by the Company. However, the other Guarantors, Kaztemirtrans and Lokomotiv, are also important members of the Group. Kaztemirtrans owns the Group's freight railcar fleet, which is primarily contracted to the Company, and provides freight railcars and logistics services. Lokomotiv owns the Group's locomotives, provides locomotive haulage services to the Company and conducts shunting operations, which involves sorting rolling stock into trains. Kaztemirtrans and Lokomotiv are dominant providers of railcars and locomotive haulage services, respectively. As dominant entities under the Law on Competition, which are defined as entities controlling 35% or more of the market share in respect of a service, Kaztemirtrans and Lokomotiv are subject to Government oversight. See "*Business of the Group*".

General Description of the Issuer

The Issuer was incorporated under the laws of The Netherlands on 11 September 2001 as a private limited liability company and is registered with the Amsterdam Chamber of Commerce Commercial Register under number 24325568. The Issuer is indirectly owned by the Company through Kaztemirtrans, a wholly owned subsidiary of the Company holding 99.64% of the shares of the Issuer, and the remaining 0.36% of the shares of the Issuer are owned directly by the Company. The Company is currently in the process of transferring its 0.36% ownership interest in the Issuer to Kaztemirtrans. The Issuer was established to raise funds in the international capital markets and to lend such funds to the Group. See "*The Issuer*".

Sole Shareholder and Relationship with the State

The Government indirectly wholly owns the Company through JSC Sovereign Wealth Fund Samruk-Kazyna ("**Samruk-Kazyna**"). See "*Share Capital and Principal Shareholders – The Company – Samruk-Kazyna*". The Government has control over the Company and is able to determine the Company's strategy, make policy decisions in relation to the Company's business and supervise the implementation of such decisions.

Key Strengths

The Company believes that the Group benefits from the following key strengths:

- status as the national railway company of Kazakhstan and natural monopoly position over Kazakhstan's mainline railway network with respect to freight transportation;
- proximity to China provides the Group with unique opportunities to capitalise on China's economic growth;
- a nationwide system of railway service infrastructure, whose geographic reach and flexibility of services allows the Group to take advantage of evolving regional economic centres and grow and evolve simultaneously with the development of the Kazakhstan economy; and
- owner of a broad range of assets, which enables the Group to efficiently provide a range of railway transportation services.

See "*Business of the Group*".

Ongoing Restructuring

The Government has been actively reforming the railway industry since 1997. In May 2010, the Board of Directors of the Company approved the Development Strategy, which sets forth the development strategy of the Group through 2020 (the "**Development Strategy**") in light of ongoing Government reform measures, in particular the Government's railway infrastructure Development Programme for the years 2010-2014 (the "**Development Programme**"). The Development Strategy is focused primarily on improvement of effectiveness of the production and commercial activity of the Group, maintenance of its leading position in the freight transportation market, creation of an efficient portfolio and production assets and enhancement of manageability of the business. To implement the Development Strategy the Company has drawn up an action plan for the realisation of the Development Strategy by 2020, according to which the Company intends to create a more efficient holding company structure through the reorganisation, merger and liquidation of certain subsidiaries (with the Company focusing primarily on strategic development decisions in respect of the Group) and to redistribute assets, personnel and other functions into four separate business lines by 2015: mainline infrastructure; freight transportation; passenger transportation; and locomotive and rolling stock assembly and repair. The Government will supervise the restructuring through the Ministry of Transportation and Communication of the Republic of Kazakhstan (the "**Ministry of Transportation**"). See "*Business of the Group – Ongoing Restructuring*".

Credit Ratings

The Company has been assigned long-term debt ratings of BBB- by S&P, Baa3 by Moody's and BBB- by Fitch.

Kaztemirtrans has been assigned long-term debt ratings of BBB- by S&P and Ba1 by Moody's.

The Notes have been rated Baa3 by Moody's, BBB- by Fitch and BBB- by S&P. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. Each of S&P, Moody's and Fitch is established in the European Union and is registered under the CRA Regulation. See "*Risk Factors – Risk Factors Relating to the Notes and the Guarantees – Credit ratings do not reflect all risks*".

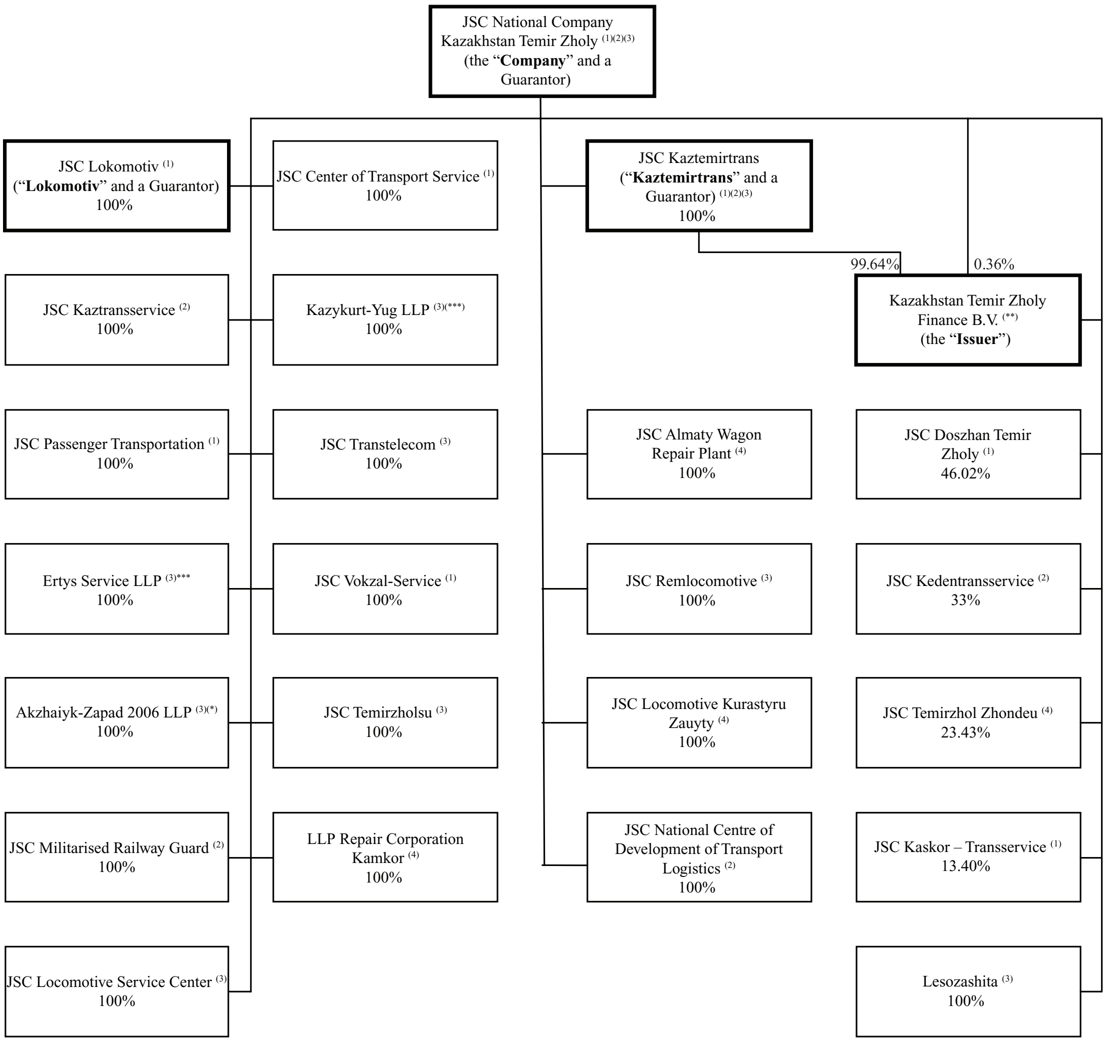
Risk Factors

For a detailed discussion of the risks and other factors to be considered when making an investment decision with respect to the Notes issued under this Prospectus, see "*Risk Factors*", "*Forward-Looking Statements*" and "*Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group – Quantitative and Qualitative Disclosures about Market Risk*".

Corporate Organisation

As described elsewhere in this Prospectus, in May 2010 the Company adopted the Development Strategy, which envisions a restructuring of the Company through the creation of a more efficient holding company structure, reallocating assets and personnel to isolate the Group's four principal business lines, and divesting non-core assets. See "*Business of the Group – Ongoing Restructuring*". Completion of the restructuring contemplated by the Development Strategy is subject to factors beyond the control of the Group, including actions taken by or approval of the Government. No assurance can be given that the restructuring contemplated by the Development Strategy will be completed in a timely manner, or at all, and no assurance can be given that such restructuring will have the desired effects. See "*Risk Factors – Risk Factors Relating to the Group – Each of the Group and the railway industry in Kazakhstan has undergone and is continuing to undergo significant restructuring that will require the Group to adapt and will likely result in a more competitive environment*".

The chart that follows presents the Company's associates and certain of its consolidated subsidiaries as at the date of this Prospectus. The chart does not give effect to the Intended Substitution or implementation of the Development Strategy. See *"Overview of the Offering – Intended Substitution."*



(*) This company is currently undergoing liquidation.

(**) The Company is currently in the process of transferring its 0.36% ownership interest in the Issuer to Kaztemirtrans.

(***) The Company's 100% share ownership of the share capital of this company has been transferred to Kaztemirtrans, pending official documentation from state authorities.

(1) Transportation and infrastructural services.

(2) Logistics and infrastructural services.

(3) Support services.

(4) Non-core services, which includes services provided by certain subsidiaries of the Group that relate to capital repairs and construction of the mainline railway network, wagon and locomotive repair, the manufacture of locomotives, the repair of networks and automated systems, and certain financing activities.

Guarantors

The Guarantees with respect to the Notes will be provided by the Company and two of its subsidiaries, Kaztemirtrans and Lokomotiv. For the year ended 31 December 2011, the aggregate combined revenue of the Guarantors as a group (excluding all intra-group items and investments) was KZT 615.8 billion, which amounted to 88% of the Group's total revenue for that period. For the year ended 31 December 2011, the aggregate combined EBITDA of the Guarantors as a group (combined EBITDA being computed, for each Guarantor, as EBITDA plus finance income, or profit for the year before income tax, finance costs, depreciation and amortisation and excluding all intra-group items and investments) was KZT 225.1 billion, which amounted to 95% of the Group EBITDA for that period. As of 31 December 2011, the aggregate combined assets of the Guarantors as a group (excluding all intra-group items and investments) were KZT 1,423.3 billion, which accounted for 86% of the Group's total assets.

Summary Consolidated Financial Information of the Company

The following summary consolidated historical financial information as at 31 December 2011, 31 December 2010 (restated), and 1 January 2010 (restated) and for the years ended 31 December 2011 and 31 December 2010 (restated) has been extracted (without material adjustment) from the Annual Financial Statements, which are included elsewhere in this Prospectus.

Prospective investors should read the following summary consolidated financial information in conjunction with the information contained in "Presentation of Financial and Certain Other Information", "Risk Factors", "Consolidated Capitalisation of the Company", "Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group", "The Issuer", "Business of the Group" and the Annual Financial Statements and the related notes thereto appearing elsewhere in this Prospectus.

Statement of Comprehensive Income Data

	For the year ended 31 December		
	2011(1)	**2011**	**2010 (restated)**
	(unaudited) (U.S.$ in thousands)	*(KZT in thousands)*	
Revenue			
Freight transportation	4,067,766	603,656,403	501,555,575
Passenger transportation	370,037	54,913,553	50,914,647
Government grants	124,356	18,454,475	15,409,258
Other revenue	173,348	25,724,911	14,501,328
Total revenue	4,735,507	702,749,342	582,380,808
Cost of sales	(3,169,004)	(470,280,262)	(397,418,883)
Gross profit	1,566,503	232,469,080	184,961,925
General and administrative expenses	(422,994)	(62,772,376)	(69,164,226)
Selling expenses	(1,078)	(159,971)	(121,788)
(Loss)/recovery of loss from impairment of property, plant and equipment	(6,085)	(903,059)	106,428
Bargain purchase gain	6,392	948,610	—
Other income and expenses	22,784	3,381,126	1,885,036
Finance income	31,295	4,644,247	3,289,691
Finance costs	(131,504)	(19,515,232)	(12,998,931)
Foreign exchange loss	(11,053)	(1,640,265)	(118,652)
Share of profit of associates and joint ventures	467	69,331	242,810
Profit before taxation	1,054,727	156,521,491	108,082,293
Income tax expense	(224,344)	(33,292,672)	(41,545,541)
Profit for the year	830,383	123,228,819	66,536,752

(1) The Group's presentation currency is the Tenge. These figures have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 31 December 2011, KZT 148.40 per U.S.$1.00. Such conversion should not be construed as a representation that the KZT amounts could have been converted into U.S.$ at this rate or any other rate.

Statement of Financial Position Data

	As at 31 December			As at 1 January
	2011[(1)]	**2011**	**2010 (restated)**	**2010 (restated)**
	(unaudited) *(U.S.$ in thousands)*	*(KZT in thousands)*		
Property, plant and equipment	8,554,373	1,269,468,987	993,529,020	845,741,549
Total non-current assets	9,061,472	1,344,722,454	1,030,647,694	862,108,659
Other financial assets	345,159	51,221,664	122,201,395	17,706,980
Cash and cash equivalents	877,439	130,211,949	97,513,097	54,706,785
Total current assets	2,152,725	319,464,451	296,324,891	156,261,408
Total assets	11,214,534	1,664,236,905	1,326,972,585	1,018,370,067
Total equity	6,404,836	950,477,715	765,543,238	672,851,430
Non-current borrowings[(2)]	2,205,651	327,318,599	206,156,546	155,726,878
Total non-current liabilities	3,123,165	463,477,624	304,743,435	214,996,269
Current borrowings[(3)]	241,174	35,790,290	103,437,557	22,326,829
Total current liabilities	1,686,533	250,281,566	256,685,912	130,522,368
Total liabilities	4,809,698	713,759,190	561,429,347	345,518,637

(1) The Group's presentation currency is the Tenge. These figures have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 31 December 2011, KZT 148.40 per U.S.$1.00. Such conversion should not be construed as a representation that the KZT amounts could have been converted into U.S.$ at this rate or any other rate.

(2) Represents the aggregation of the non-current portion of borrowings, debt securities issued and finance lease liabilities.

(3) Represents the aggregation of the current portion of borrowings, the current portion of debt securities issued and current portion of finance lease liabilities.

Statement of Cash Flows Data

	For the year ended 31 December		
	2011[(1)]	**2011**	**2010 (restated)**
	(unaudited) *(U.S.$ in thousands)*	*(KZT in thousands)*	
Net cash flows from operating activities	1,399,941	207,751,268	165,620,434
Net cash flows used in investing activities	(1,792,135)	(265,952,854)	(302,584,001)
Net cash flows from financing activities	616,864	91,542,547	179,818,642
Net increase in cash and cash equivalents	224,670	33,340,961	42,855,075
Cash and cash equivalents at the beginning of the year	657,096	97,513,097	54,706,785
Effect of foreign exchange rates on cash and cash equivalents	(4,327)	(642,109)	(48,763)
Cash and cash equivalents at the end of the year	877,439	130,211,949	97,513,097

(1) The Group's presentation currency is the Tenge. These figures have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 31 December 2011, KZT 148.40 per U.S.$1.00. Such conversion should not be construed as a representation that the KZT amounts could have been be converted into U.S.$ at this rate or any other rate.

Financial Ratios

	As at and for the year ended 31 December		
	2011[1]	**2011**	**2010 (restated)**
	(unaudited) (U.S.$ in thousands)	*(KZT in thousands, except ratios)*	
Group EBITDA[2]	1,597,099	237,009,591	173,599,577
Current ratio[3]	—	1.28	1.15
Coverage ratio[4]	—	9.02	9.31
Total debt to equity ratio[5]	—	0.38	0.40
Total debt to Group EBITDA[6]	—	1.53	1.78

(1) The Group's presentation currency is the Tenge. For convenience, these figures have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 31 December 2011, KZT 148.40 per U.S.$1.00.Such conversion should not be construed as a representation that the KZT amounts have been or could be converted into U.S.$ at this rate or any other rate.

(2) The Group defines Group EBITDA as EBITDA plus finance income, or profit for the year before income tax expense, finance costs, depreciation and amortisation. Group 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. Group EBITDA are computed as follows:

	For the year ended 31 December		
	2011[1]	**2011**	**2010 (restated)**
	(unaudited) (U.S.$ in thousands)	*(KZT in thousands)*	
Profit for the year	830,383	123,228,819	66,536,752
Income tax expense	224,344	33,292,672	41,545,541
Finance costs	131,504	19,515,232	12,998,931
Depreciation and amortisation(*)	410,868	60,972,868	52,518,353
Group EBITDA	1,597,099	237,009,591	173,599,577

(*) Includes all depreciation and amortisation recorded under cost of sales, general and administrative expenses, selling expenses and other expenses.

(3) The Group defines current ratio as current assets divided by current liabilities.

(4) The Group defines its coverage ratio as profit before taxation and finance cost divided by finance cost.

(5) 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.

(6) This ratio is computed as total debt divided by Group EBITDA.

Overview of the Offering

The following is an overview of the terms of the Notes. This overview is derived 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 "Terms and Conditions of the Notes".

Issuer:	Kazakhstan Temir Zholy Finance B.V.
Guarantors:	JSC National Company Kazakhstan Temir Zholy JSC Kaztemirtrans JSC Lokomotiv
Trustee:	BNY Mellon Corporate Trustee Services Limited
Principal Paying and Transfer Agent:	The Bank of New York Mellon
U.S. Paying and Transfer Agent:	The Bank of New York Mellon
Registrar:	The Bank of New York Mellon (Luxembourg) S.A.
The Issue:	U.S.$800,000,000 6.950% Notes due 2042
Issue Price:	100% of the principal amount of the Notes.
Issue Date:	10 July 2012
Maturity Date:	10 July 2042
Interest Rate:	The Notes will bear interest at the rate of 6.950% per annum from and including 10 July 2012 to but excluding the Maturity Date.
Yield:	6.950%
Interest Payment Dates:	Interest will be payable semi-annually in arrear on 10 January and 10 July in each year, commencing on 10 January 2013.
Withholding Taxes:	All payments by the Issuer under the Notes will be made without the imposition of any Dutch withholding taxes. See "*Taxation – The Netherlands Taxation*". **Prior to the Intended Substitution, payments of interest from the Guarantors to the Issuer to fund the Issuer's obligations to make payments under the Notes will be subject to Kazakhstan withholding tax under the Kazakhstan-Netherlands Tax Treaty at a rate of 10% Payments under the Guarantee in relation to interest on the Notes will be subject to Kazakhstan withholding tax at a rate of 15% unless reduced by an applicable double taxation treaty. See "*Taxation – Kazakhstan Taxation – Prior to the Intended Substitution*".** Following the Intended Substitution, according to the laws in effect on the date of this Prospectus, payments of interest from the Company, as the substituted issuer, to Non-Kazakhstan Holders (as hereinafter defined) will not be subject to withholding tax on interest so long as the Notes are, as at the date of accrual of interest, listed on the official list of the KASE. See "*Taxation – Kazakhstan Taxation – Following the Intended Substitution*". In the event that any taxes, duties, assessments or governmental charges are imposed, levied, collected, withheld or assessed by The Netherlands or Kazakhstan or any political subdivision or any authority thereof or therein having the power to tax on payments of principal and interest in respect of the Notes (including payments by the Guarantors under the Guarantee), the Issuer or (as the case may be) the Guarantors will, subject to certain exceptions and limitations, pay such Additional Amounts to the holder of any Note as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or

	deduction on account of any such taxes been required. See "*Terms and Conditions of the Notes – Taxation*".
Ranking:	The Notes constitute direct, unconditional, unsubordinated and (subject to "*Terms and Conditions of the Notes – Negative Pledge*") unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves and (subject to "*Terms and Conditions of the Notes – Negative Pledge*") at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding, save only for such obligations as may be preferred by mandatory provisions of applicable law. The obligations of each Guarantor under the Guarantee constitute joint and several, direct, general, unconditional, unsubordinated and (subject to "*Terms and Conditions of the Notes – Negative Pledge*" unsecured obligations of each Guarantor, which rank and will rank at least *pari passu* in right of payment with all other present and future unsubordinated and (subject to "*Terms and Conditions of the Notes – Negative Pledge*") unsecured obligations of each Guarantor from time to time outstanding, save only for such obligations as may be preferred by mandatory provisions of applicable law.
The Guarantee:	Pursuant to the Guarantee, each Guarantor has unconditionally and irrevocably guaranteed (or, in the case of a Person becoming a Guarantor pursuant to the provisions of "*Terms and Conditions of the Notes – Limitations on Changes in Business and Disposals of Assets*", will unconditionally and irrevocably guarantee) on a joint and several basis, the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes and the Trust Deed. Each Guarantor has undertaken (or, in the case of such a Person becoming a Guarantor, will undertake) in the Trust Deed that, so long as any of the Notes remain outstanding (as defined in the Trust Deed), it will not take any action for the liquidation or winding-up of the Issuer and will ensure that sufficient funds are at all times made available to the Issuer to enable it to meet its liabilities as and when they fall due.
Negative Pledge:	The Issuer and the Guarantors will each agree not to create, incur, assume or suffer to exist any Security Interest upon their assets or revenues or those of Material Subsidiaries (other than Permitted Security Interests). See *"Terms and Conditions of the Notes – Negative Pledge"*.
Covenants:	Each Guarantor will agree to certain covenants, including, without limitation, covenants with respect to "*Terms and Conditions of the Notes – Limitations on Changes in Business and Disposals of Assets*" and "*Terms and Conditions of the Notes – Limitations on Merger or Consolidation*".
Optional Redemption:	Following the occurrence of a Relevant Event, the Issuer, failing which the Company, will give notice in accordance with "*Terms and Conditions of the Notes – Notices*" within 30 days of such Relevant Event, with a copy to the Trustee, and at the option of the holder of any Note, redeem such Note on the Put Settlement Date at 101% of its principal amount together with interest accrued to the Put Settlement Date. See "*Terms and Conditions of the Notes – Redemption, Purchase and Cancellation – Redemption at the option of the Noteholders*".
Tax Redemption:	The Notes may be redeemed at the option of the Issuer in whole, at their principal amount, together with interest accrued to the date

	fixed for redemption, in the event of certain changes in taxation in The Netherlands or Kazakhstan. See "*Terms and Conditions of the Notes – Redemption, Purchase and Cancellation – Redemption for Tax Reasons*".
Intended Substitution:	Prior to the fourth interest payment date with respect to the Notes, the Company intends to, pursuant to Clause 13.2 (*Substitution*) of the Trust Deed, be substituted for the Issuer as issuer of the Notes, whereupon it will assume all of the obligations of the Issuer under the Notes and references to the "Issuer" herein will refer to the Company. However, as at the date of this Prospectus, there is no certainty when the Intended Substitution will occur or whether it will occur at all. The provisions in this Prospectus concerning the Intended Substitution are included solely to describe the changes which would occur should the Company, in its discretion, elect to substitute itself for the Issuer as the issuer of the Notes at some point in the future. Pursuant to the terms of the Trust Deed, the Intended Substitution, if it takes place before the fourth interest payment date, can occur without the consent of the holders of the Notes and the Trustee is not required to make any determination as to whether the Intended Substitution is materially prejudicial to such holders. A substitution taking place thereafter will be treated as an "Other Substitution" referred to below. See "*Terms and Conditions of the Notes – Meetings of Noteholders, Amendment, Modification and Waiver – Substitution*".
Other Substitutions:	Clause 13.2 (*Substitution*) of the Trust Deed also permits the Trustee to agree, without the consent of the Noteholders, to the substitution of certain other entities in place of the Issuer, including the Company as the substituted issuer in the Intended Substitution, as principal obligor under the Trust Deed and the Notes. See "*Terms and Conditions of the Notes – Meetings of Noteholders, Amendment, Modification and Waiver – Substitution*".
Use of Proceeds:	The net proceeds from the issue of the Notes is expected to amount to approximately U.S.$796,210,000 after deduction of fees and expenses related to the offering. Approximately U.S.$ 220 million of the net proceeds from the offering will be used by the Issuer to repay a bridge facility dated 22 May 2012 as amended by the Amendment Agreement dated 8 June 2012 entered into by the Issuer, the Guarantors, Barclays Bank PLC and HSBC Bank plc. The remainder of the net proceeds will be lent by the Issuer to Kaztemirtrans, which will use the net proceeds in the amount of approximately U.S.$576,210,000 to acquire rolling stock.
Form of the Notes:	Notes which are offered and sold in reliance on Regulation S will be represented by beneficial interests in the Unrestricted Global Note in registered form, without interest coupons attached, which will be registered in the name of a nominee for, and shall be deposited on or about the Closing Date with a common depositary for, and in respect of interests held through, Euroclear and Clearstream, Luxembourg. Notes which are offered and sold in reliance on Rule 144A will be represented by beneficial interests in the Restricted Global Note in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with The Bank of New York Mellon, as custodian for, and registered in the name of Cede & Co. as nominee for DTC. Notes sold (i) in offshore transactions in reliance on Regulation S under the Securities Act will be issued in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof and (ii) to QIBs in reliance on Rule 144A will be issued in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess

	thereof. See "*Terms and Conditions of the Notes – Form, Denomination and Title*". Interests in the Global Note will be subject to certain restrictions on transfer. See "*Form of the Notes and Transfer Restrictions*". Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.
Listing and Clearing:	Application has been made to list the Notes on the Official List and to trading on the Market. It is expected that admission to listing will become effective and dealings are expected to commence on or about the Issue Date. Application has also been made for the Notes to be admitted to the "rated debt securities" category of the official list of the KASE. The Notes have been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg with the following ISIN, Common Code and CUSIP: ISIN Code (Unrestricted Notes): XS0799658637 ISIN Code (Restricted Notes): US48667DAD66 Common Code (Unrestricted Notes) 079965863 Common Code (Restricted Notes): 080019866 Restricted Notes CUSIP number: 48667DAD6
Governing Law:	The Notes and the Trust Deed (including the Guarantee) and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and construed in accordance with, English law.
Selling Restrictions:	The offering and sale of Notes is subject to applicable laws and regulations including, without limitation, those of the United States, the United Kingdom, The Netherlands and Kazakhstan. See "*Subscription and Sale*".
Ratings:	The Notes have been rated Baa3 by Moody's, BBB- by Fitch and BBB- by S&P. The Company's current long-term debt ratings by S&P, Moody's and Fitch are BBB-, Baa3 and BBB-, respectively. Kaztermirtrans' current long-term debt ratings are BBB- by S&P and Ba1 by Moody's. ***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.*** Each of S&P, Moody's and Fitch is established in the European Union and is registered under the CRA Regulation.
Risk Factors:	Investing in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 12.

RISK FACTORS

Each of the Issuer and the Guarantors believes that the following factors may affect its ability to fulfil its obligations under the Notes and the Guarantees, as applicable. Some of these factors are contingencies which may or may not occur and the Issuer and Guarantors are not in a position to express a view on the likelihood of any such contingency occurring or not occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes and the Guarantees are also described below. If any of the risks described below actually materialises, each of the Issuer's and/or Guarantors' business, prospects, financial condition, cash flows or results of operations could be materially adversely affected. If this were to happen, the trading price of the Notes could decline or the Issuer could be unable to pay interest, principal or other amounts on or in connection with any Notes and the Guarantors could be unable to fulfil their respective obligations under the Guarantees.

Each of the Issuer and the Guarantors believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer or the Guarantors to pay interest, principal or other amounts on or in connection with any Notes, or otherwise perform their respective obligations under the Notes or the Guarantees, as applicable, may occur for other reasons that may not be considered significant risks by the Issuer or the Guarantors based on information currently available to them or for reasons which they may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making an investment decision.

The Issuer's ability to fulfil its obligations under Notes is entirely dependent on the Group

The Issuer was established to raise funds in the international capital markets and lend such funds within the Group. The Issuer has no other significant operations. Therefore, the Issuer's ability to fulfil its obligations under the Notes is entirely dependent on the performance of the Group, in particular the Guarantors. As a result, in considering the risks that may affect the Issuer's ability to fulfil such obligations, prospective investors should focus on the risk factor analysis set out below in respect of the Group, in particular the Guarantors' ability to fulfil their obligations under the Guarantees, as well as the Issuer's ability to fulfil its obligations under the Notes. If a prospective investor purchases Notes, it is relying on the creditworthiness of the Guarantors and no other person. In addition, an investment in the Notes involves the risk that subsequent changes in the actual or perceived creditworthiness of the Guarantors may adversely affect the market value of Notes.

Risk Factors Relating to the Group

Each of the Group and the railway industry in Kazakhstan has undergone and is continuing to undergo significant restructuring that will require the Group to adapt and will likely result in a more competitive environment

The Government has been actively reforming the railway industry in Kazakhstan since 1997. In May 2010, the Board of Directors of the Company adopted the Development Strategy, which sets forth the development strategy of the Group through 2020 in light of the ongoing Government reform measures, in particular the Government's railway infrastructure Development Programme. The aim of the Development Strategy is to build a more efficient organisational structure to enhance the commercial and operational performance of the Group, so that it is able to compete effectively in the more competitive environment being fostered by the Government as part of the overall reform of the Kazakhstan railway.

Reforms of the railway industry in Kazakhstan, together with implementation of the Development Strategy, will require further significant changes to the structure of the Group. These changes are expected to include:

- the development of a comprehensive process for rationalising operations among members of the Group which will result in the Company becoming a holding company;
- the transfer or contribution of assets among members of the Group in furtherance of the reorganisation of operations and functional responsibilities, and privatisation of certain business lines or operations;
- the development of appropriate management and reporting structures within the Group; and
- the reassignment of executive and operational personnel among members of the Group.

In addition, it is possible that the Group may find it necessary to adopt changes to the services that it offers in response to developments that come about as a result of the significant changes that will take place within Kazakhstan's railway industry.

The success of the Development Strategy will depend on the Group's ability to effectively restructure its businesses and adapt its management structure and managerial personnel to reflect the significant changes in the Group's operational structure. There is no assurance that the Group's management will be able to manage and to compete effectively or retain the desired level of market share or revenues from the Group's operations once the Group is required to compete in the areas of the railway industry where the Government is fostering competition as part of the Development Programme. See "*Business of the Group – Ongoing Restructuring and Initiatives*". In addition, if the Group is not able to implement these restructuring measures or adapt to new circumstances that result from the reforms, or changes in the reforms, in the railway industry or the implementation of the Development Strategy, it may result in disruptions, difficulties and discrepancies in the Group's operations, which could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

In addition, the timing of the implementation of the Development Strategy as well as the Group's ability to implement the Development Strategy successfully are subject to a number of other factors beyond the control of the Group, including the Group's ability to take actions that require the involvement or approval of the Government or the consent of certain of the Group's creditors. Failure to obtain any such approvals or consents could delay or otherwise hinder the Group's ability to restructure its business and, consequentially, its ability to run its business and compete effectively. The Group's current operations and its newly restructured operations will also be subject to the Customs Union or Single Economic Space ("**SES**") formed by Kazakhstan, Belarus and Russia in January 2010. The SES established rules that regulate tariffs for rail transportation services in those countries starting on 1 January 2012 and provides for the unification of export, import and domestic freight tariffs among those countries by 1 January 2013. Failure by the Group to adapt its operations to these new rules could also make it difficult for the Group to compete effectively once the Development Strategy is implemented. If the Group is unable to compete effectively as a result of these or other factors, it could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group has experienced liquidity problems and had in the past a working capital deficit

Liquidity is a measure of the Group's ability to generate adequate amounts of cash to meet both current and future obligations as they mature and to provide for planned capital expenditures. In order to have a complete picture of the Group's liquidity, its statement of financial position, sources and uses of cash flow and external factors should be reviewed.

The Group's cash requirements for operations and capital expenditures are significant and the Group's sources of cash include revenue primarily from freight and passenger transportation and Government grants. In 2009, primarily as a result of deteriorating financial economic conditions, the Group experienced liquidity problems and curtailed capital expenditures and discontinued or delayed certain development projects. As at 31 December 2011, the Group's consolidated current assets were KZT 319.5 billion and its consolidated current liabilities were KZT 250.3 billion, resulting in a liquidity ratio of 1.28 of current assets to current liabilities. However, if the economy were to contract in the future and revenue of the Group were to decrease, the Group may be unable to meet its working capital requirements, which could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations. The occurrence of such circumstances could also adversely impact the ability of the Guarantors to meet their obligations under the Guarantee.

Continuation of current adverse global conditions in financial and economic markets may adversely impact the Group's operations

The global economy and financial markets, both globally and in Kazakhstan, have experienced significant volatility and market participants have faced significant liquidity constraints since the onset of the global financial crisis, which began to unfold in the summer of 2007 and worsened after August 2008. The global financial crisis significantly affected Kazakhstan's economy, causing a decrease of Kazakhstan's GDP, a collapse in the real estate market, failures and restructurings of banks, significant declines in debt and equity prices and a substantial outflow of capital. More recently, the 2011-2012 European debt crisis has contributed to the tightening of the credit environment and general market instability in most major credit markets. A side effect of these events has been an increased concern about the general stability of the financial markets and the strength of counterparties, and many lenders and institutional investors have reduced, and in certain cases ceased, funding to borrowers, which has significantly reduced the liquidity in the global financial system. In response to the global economic downturn affecting the global banking sector and financial markets and threats to the ability of investment banks and other financial institutions to continue as going concerns, governments in the United States, in many of the largest countries in Europe and elsewhere have announced, and in many cases have implemented, significant rescue packages, which include, among other things, the recapitalisation of banks through state purchases of common and preferred equity securities, the state guarantee of certain forms of bank debt, the state purchase of distressed assets from banks and other financial institutions and the provision of state guarantees of distressed assets held by banks and other financial institutions. Despite these proposals and actions, the volatility and market disruption in the global banking sector has continued to a degree unprecedented in recent history. It is difficult to estimate when the proposals made by various governments will be fully implemented and, if and when implemented, what impact they will have on the financial markets, or whether further measures will be required in addition to those already implemented or announced. There can be no assurance that such measures will succeed in returning stability to the global banking sector and financial markets in the short term or longer term, and the continued instability in global credit markets could have a material adverse effect on the Group's access to capital and more generally, its business, prospects, financial condition, cash flows or results of operations.

The Group's results of operations and financial condition are significantly influenced by general economic conditions in Kazakhstan

The Group's results of operations are significantly influenced by the general economic conditions in Kazakhstan, which, in turn, are significantly influenced by global economic conditions. Specifically, railway freight transportation volumes in Kazakhstan are strongly correlated with Kazakhstan's GDP, industrial production and trade, in particular due to the volumes of commodities that are transported by rail. Prior to mid-2008, Kazakhstan's GDP had 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. As the largest provider of railway transportation services in Kazakhstan, the Group was significantly affected by these declines, which impacted the Group's customers and caused a significant decline in demand for railway freight transportation services. Although 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 resulted in the Group's freight transportation turnover increasing by 4.9% to 223.6 billion tonne-kilometres in 2011 from 213.2 billion tonne-kilometres in 2010, there can be no assurance that Kazakhstan's economy and, in turn, the Group's freight transportation turnover will continue to grow in the future. If the Kazakhstan economy ceases to grow or experiences another downturn and, as a result, demand for railway freight transportation services decreases, the Group's revenues could be adversely affected, which would have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Maintenance and modernisation of the Group's railway infrastructure requires significant ongoing investment, and there can be no assurance that the Group will receive the funding necessary to make such investments

The Group's railway infrastructure and related assets have generally not been sufficiently developed, maintained or modernised since the break up of the Soviet Union in the early 1990s. For example, the average age of the Group's locomotives and rolling stock is 24 and 22 years old, respectively, the Group lacks adequate storage capacities at cargo terminals and warehouses at certain key rail cities in Kazakhstan, and the Group has insufficient capacity to efficiently transfer the high volume of freight crossing into and from China at the Dostyk station, where freight must be transferred between railcars equipped to travel on Kazakhstan's railroads and railcars equipped to travel on China's railroads, which are not the same gauge, or width, as railroads in Kazakhstan. Additionally, the Group has in the past experienced delays in transporting coal to Russia as a result of having too few freight wagons available and has had to transfer freight wagons from other parts of Kazakhstan. Provided the Group receives the necessary funding from its sole shareholder or through long-term borrowings, the Group intends to invest a significant amount over the next several years to maintain, develop and modernise its railway infrastructure. However, no assurance can be given that the Group will be able to obtain such funding. Implementation of the necessary maintenance and modernisation projects involves many potential risks and uncertainties, including interruptions resulting from the unavailability of locomotives, rolling stock and parts, inclement weather, unforeseen engineering difficulties, environmental and geological problems and unanticipated cost increases and claims, any of which could give rise to delays or cost overruns.

In addition, modernisation and expansion projects are capital-intensive and may be possible only in favourable market conditions and/or with the support of the Government. During the recent economic downturn, the Group was required to substantially reduce its capital expenditures in 2009, which it could no longer fully fund from operating cash flow or other sources, and implemented other cost reduction measures. Since that time, due to Government support and the Group's financial and economic policy, the amount of investments into renewal and modernisation of infrastructure has been significantly increased. For the year ended 31 December 2010 the amount of capital expenditure of the Group was equal to KZT 209.4 billion and for the year ended 31 December 2011 the amount of capital expenditure of the Group was equal to KZT 353.2 billion, resulting from the upgrade of infrastructure and rolling stock. However, there can be no assurance that market conditions will be favourable or that the Group will be able to continue to obtain, from the Government or other sources, financial support sufficient to continue its maintenance and modernisation projects. If the Group is unable to obtain such financial support and conduct the necessary maintenance, development and modernisation of the railway system and related infrastructure, its operations may be adversely affected by equipment failures and accidents attributable to poor conditions of the railway system and related infrastructure. Moreover, such accidents may significantly increase expenditures relating to upkeep and repair of the railway system and related infrastructure, which may materially and adversely affect the performance of the Group, and may cause the Group's revenues to decrease and the Group to incur unexpected expenditures or to experience disruptions of its business operations, all of which could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Insufficient supply of, or increases in the price of, locomotives or rolling stock may limit the Group's investment in its infrastructure

A significant part of the Group's locomotives and rolling stock are approaching the end of their useful life and require replacement. Although the Group has purchased rolling stock in recent years in an effort to upgrade its rolling stock, the Company expects that a large portion of the Group's capital expenditures over the next several years will continue to be for these purposes. There is still a relatively limited number of quality rolling stock manufacturers in Kazakhstan and the CIS, and their output is limited. In addition, the adaptability of these manufacturers' production facilities from one type of rolling stock to another is limited. The Company has entered into, and plans to continue to enter into, joint ventures with foreign railway operators and companies which have expertise in locomotive and rolling stock assembly and repair with an aim, in part, to provide the Group with a sufficient quantity of locomotives and rolling stock. However, there can be no assurance that the Group will be able to source sufficient supplies of new locomotives or rolling stock for its fleet on commercially acceptable terms, or at all, and there can be no assurance that the Group will be successful in continuing to enter into, or will realise the benefits from entering into, joint ventures and other agreements in order to address these supply shortfalls. If the Group is unable to procure the requisite amount of new locomotives or rolling stock on commercially acceptable terms, whether from third party manufacturers or its anticipated joint ventures, or experiences delays or failures in delivery of locomotives or rolling stock, it could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group has historically received and continues to rely on support from the Government, which indirectly controls the Company and may cause it to engage in business practices that conflict with the Company's commercial interests and the interests of the Noteholders

The Company is the national railway company of Kazakhstan. The Government, through Samruk-Kazyna, wholly owns and controls the Company and, indirectly, the other members of the Group. As the Government's national management holding company, with the goal of supporting and diversifying Kazakhstan's economy, the interests of Samruk-Kazyna may differ significantly from the interests of the Noteholders, which may cause the Group to engage or expand in business areas that may materially and adversely affect the Group's ability to operate on a commercial basis or may cause the Group to operate in a way that is inconsistent with the best interests of the Noteholders. For example, the Group is required to provide certain passenger transportation services, which are not profitable, and may in the future be required to provide other services that the Group does not consider to be in its best commercial interests but are for the public good. In addition, the Group could be forced by the Government to engage in activities outside its core businesses and/or acquire assets for its business in transactions that are not on an arm's length basis, such as a teleradio complex in Astana that the Government directed the Group to construct and transfer to Samruk-Kazyna for no consideration in which (as at 31 March 2012) the Group has invested KZT 50.8 billion with plans to spend an additional KZT 6.7 billion during later periods. The Government may also impose on the Group other social duties, such as requiring it to construct social and recreational infrastructure, engage in charitable activities and implement community development programmes. Furthermore, the Government imposes obligations and restrictions on the Group that limit the Group's operations. Government interference in the operations of the Group could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group has historically received and continues to rely on capital contributions from Samruk-Kazyna to finance its operations and fund capital expenditures. For example, the Group received a KZT 139.4 billion contribution for 2009 through 2011 for the purpose of funding the construction of a railway line between Uzen and the Turkmenistan state border and a railway line between Khorgas and Zhetygen. In addition, in 2010 and 2011, the Company received financial support from the Government in the form of below-market loans aggregating in the amount of KZT 49 billion. Samruk-Kazyna is also currently expected to make a capital contribution in the amount of KZT 10.1 billion as additional funding for these lines in the third quarter of 2013 and a capital contribution in the amount of KZT 4.0 billion in the third quarter of 2012 for the purpose of funding the construction of a railway line between Zhezkazgan and Beyneu and a railway line between Arkalyk and Shubarkol. The Group also receives Government grants as compensation for certain passenger transportation tariffs that are set at levels that are either low or not profitable. The Government has no obligation to provide financial support to the Group, whether in the form of capital contributions, loans or otherwise, and no assurance can be given that the Group will continue to receive the same level of such support, or at all, that it has received to date. If the Government reduces or discontinues its financial support of the Group, whether through a reduction or discontinuation of capital contributions, loans or Government grants, it would have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Although the Issuer and the Guarantors are indirectly controlled by the Government, the Issuer, the Company and the other guarantors are each legal entities separate from the Government and agencies of the Government. Furthermore, the board of directors of each of the Guarantors includes independent directors. The Notes, and interest due or to become due in respect of the Notes, constitute obligations only of the Issuer and the Guarantees constitute obligations only of the Guarantors. The Notes and the Guarantees do not constitute obligations of, nor are they guaranteed by, the Government or any agency thereof.

The position of the Company as a monopoly and a dominant entity and the position of the other Guarantors as dominant entities may result in adverse regulatory interference in the Group's operations

As Kazakhstan's national railway company, the Company has a monopoly over Kazakhstan's mainline railway network and is the dominant provider of railway freight transportation and as such is regulated by the Anti-Monopoly Agency and the Agency for Competition Protection. The Anti-Monopoly Agency regulates activities of the Group by establishing tariffs for domestic, import and export freight transportation on the mainline railway network and tariffs for interregional, intercity and suburban passenger transportation. In determining tariffs, the Anti-Monopoly Agency considers a number of factors, including the income and investment needs of the Group. However, the Government, through the Anti-Monopoly Agency, can use tariff setting as a means of supporting public policy initiatives in other sectors of the economy or otherwise to further Government policy without regard to its impact on the Group. For example, the provision of passenger rail services in Kazakhstan is considered a social responsibility of the rail operator and, accordingly, tariffs are kept artificially low to ensure affordable passenger rail services to all members of the public. As a result, the revenue generated from passenger operations services has historically been insufficient to meet the operational costs of these services. The Group is also required to engage in certain freight transportation deemed to be in the public interest even if the provision of such services cannot be done profitably. If the Anti-Monopoly Agency establishes tariffs on one or more of the Group's services that are insufficient to cover the costs of the Group's provision of such services, or if tariff rates established by the Anti-Monopoly Agency are at levels which do not meet the Group's budget, the Group could experience a reduction in liquidity and, as a result, may be unable to meet its current and future obligations as they mature or provide for planned capital expenditures, including implementing its Development Strategy. Moreover, other circumstances may arise in the future in which it would be in the commercial interests of the Group to discontinue an unprofitable service and the Group may not be permitted to do so by the Government, which would mean that the Group would have to continue to provide the service at a loss to the Group, which could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

In addition, Kaztemirtrans and Lokomotiv, each of which are wholly owned subsidiaries of the Company and Guarantors of the Notes, are dominant providers of railcars and locomotive haulage services, respectively. As dominant entities under the Law on Competition, which are defined as entities controlling 35% or more of the market share in respect of a service, Kaztemirtrans and Lokomotiv are subject to Government oversight. As part of its oversight, the Government may interfere with their respective operations, which could result in a material adverse effect on their respective businesses, prospects, financial conditions, cash flows or results of operations.

Railway transportation may be subject to increasing competition from other modes of freight transportation, and the Group 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. In 2011, total freight turnover in Kazakhstan by type of transportation amounted to 223.6 billion tonne-kilometres (49.8%) by railway, 100.7 billion tonne-kilometres (22.4%) by pipeline and 121.1 billion tonne-kilometres (27%) by road, 3.3 billion tonne-kilometres (0.7%) by water and 92.6 million tonne-kilometres (0.02%) by air, according to the NSA.

The Group 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. The freight turnover by pipeline increased by 15% in 2011 compared to 2010. The Government is also developing Kazakhstan's highway infrastructure to foster short- and medium-distance truck transportation. The freight turnover by road increased by 51% 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. Additionally, although private companies must pay the Group for access to Kazakhstan's mainline railway network, these private companies are able to compete with the Group by contracting their railcars and containers for freight transportation. Many of these private companies are affiliated with the Group's existing customers and could, over time, provided there is open access to the mainline railway network, reduce such customers' reliance on the Group's railcars. If other modes of transportation become more competitive with rail transportation or if private companies increase their share of the freight transportation market, it could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group relies heavily on information technology systems to operate its business and any failure of these systems could harm its business

The Group relies heavily on its telecommunications network and computer systems for coordination of scheduling, dispatching and other aspects of its railway operations, as well as accounting, ticket sales for passenger trains, tracking freight deliveries and numerous other functions. Like the Group's railway infrastructure, the Group's telecommunications network and computer systems also require development and modernisation. The hardware and software that is used by the Group may be damaged by human error, natural disasters, power loss, sabotage, computer viruses and other events. The Group's operations may also be vulnerable to system failures of other companies with whom such operations are closely linked, such as utility providers, telecommunication service providers and financial institutions. Problems that may occur as a result of system failures include, but are not limited to:

- incorrect recognition of train schedule or route control data, which could disrupt railway operations and lead to railway accidents;
- system failures in ticketing, reservations and sales functions, which could cause significant confusion, inconvenience to passengers and loss of revenue; and
- difficulties in repairing systems over a very large network that includes many remote areas, which could delay the re-establishment of operations and cause a further loss of revenue.

System failures could also reduce the attractiveness of the Group's services and could cause its customers to choose alternative means of transportation. Such system-related problems could lead to increased expenses and decreased revenues and have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Moreover, the Group intends to increase further the use of advanced technologies in its operations. Specifically, the Company plans to create a single information space for the railway industry in Kazakhstan, which is integrated with neighbouring countries, other types of transportation and additional services such as customs and forwarding agents, among other things. Certain interrelated projects such as an automated management system for contract and commercial work, an information system of the settlement for freight transportation, a complex automated system of passenger transportation management, an automated system of management over energy efficiency of hauling facilities and an integrated system of adjustments of train movements (KTCS – Kazakhstan Train Control Systems) with the usage of a high speed digital radio standard of data transmission, are currently in a pre-design or implementation stage. There can be no assurance that the Group will be able to successfully implement any such advanced technologies or upgrade its computer systems, and failure to do so may have a material adverse effect on the Group's business, operating results, financial position, prospects and the value of the Notes.

The Group faces numerous operating risks that may result in loss and additional expenditures, which may not be fully covered by insurance

The Group is the owner and operator of the national railway system as well as the largest operator of passenger and freight rolling stock and locomotives in Kazakhstan. As a result, the Group's infrastructure and transportation operations may be adversely affected by many factors, including the breakdown or failure of equipment or processes, natural disasters, terrorist attacks or sabotage of the Group's extensive infrastructure and related assets. An accident, derailment or other incident involving the Group's railway operations could result in damage to or loss of the Group's track network, locomotives and railcar fleet and also disrupt the Group's services and give rise to potential claims by freight shippers, injured passengers and others. In addition, it could have a material adverse effect on the attractiveness of the Group's services in the future. A negative change in the perception of the Group's safety record could result in, among other things, customers switching to other means or providers of transportation. As a carrier and operator of rolling stock, members of the Group may also be responsible for spillage or leakage from railcars transporting environmentally sensitive materials where such spillage or leakage is the fault of the Group.

Except for holding the required statutory insurance coverage, including with respect to automobile insurance, employer liability insurance, environmental insurance and passenger insurance for personal injury, death and loss or damage to passenger property, the Group does not maintain any insurance. The Group is responsible for damage or loss of freight during its transportation if such damage or loss was the Group's fault. If a significant uninsured event was to occur, it would cause the Group to incur additional expenditures for which it would not be compensated, which could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group is subject to commodity price risk and foreign currency exchange rate risk, each of which the Group has a limited ability to manage

In 2011 and 2010, fuel and lubricants accounted for 16.6% and 16.2%, respectively, of the Group's cost of sales. Diesel fuel comprises a significant majority of the Group's costs for fuel and lubricants, accounting for 89.5% and 89.3% in 2011 and 2010, respectively. Diesel fuel prices can be subject to dramatic fluctuations, and significant price increases could have a material adverse effect on the Group's transportation and locomotive haulage services. The Group includes the cost of fuel in the tariff calculations it submits to the Anti-Monopoly Agency for approval, which include all of the Group's freight tariffs, except for transit tariffs. However, any increases or changes in these tariffs are subject to regulatory approval and applied after approval has been received, while the cost of fuel may change more frequently. Because of this timing difference between the changes in fuel prices and the approval by the Anti-Monopoly Agency to increase rates, the Group may be generally unable to pass along the increased fuel costs to its customers. International, political, and economic circumstances and a number of other circumstances affect fuel prices and supplies. If a fuel supply shortage were to arise, higher fuel prices could result.

The Group is also exposed to foreign currency exchange rate risk on selected receivables, payables and borrowings that are denominated in currencies other than the Tenge. The currencies in which these transactions are denominated are primarily the U.S. Dollar, Euro, Russian Rouble, Swiss Franc and Japanese Yen. The Group's principal exchange rate risk involves changes in the value of the U.S. Dollar relative to the Tenge and to a lesser extent relative to the Swiss Franc and other currencies. Significant devaluations of the Tenge have occurred in the past. Specifically, on 4 February 2009, the NBK devalued the Tenge by 18% against the U.S. Dollar, 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) and to enhance the competitiveness of Kazakhstan exports. After the devaluation of the Tenge, the NBK returned to a managed-float exchange-rate regime and maintained an exchange rate within a specific range. This range was subsequently broadened in 2010. In February 2011, the NBK established a new method for managing the floating exchange rate that generally allows the NBK to intervene when necessary to support the Tenge, without any reference to a formal fluctuation range or specific parameters. However, there can be no assurance that a significant devaluation of the Tenge will not happen in the future and, because most of the Group's consolidated total borrowings are denominated in U.S. Dollars, a devaluation of the Tenge would have a net negative impact on the Group's financial condition and results of operations. The Group does maintain a portion of its cash in U.S. Dollars in order to partially offset foreign currency gain or loss on its borrowings. However, these reserves may be insufficient to fully offset foreign currency loss.

Although the Group attempts to mitigate commodity price risk by negotiating procurement tenders with some flexibility in pricing terms, the Group currently does not enter into hedging arrangements to protect against commodity price risk or foreign currency exchange rate risk and may or may not do so in the future. If fuel prices increase significantly or the Tenge were to experience a significant devaluation relative to the U.S. Dollar, it could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group may be subject to the laws of various countries imposing sanctions and other penalties for conducting business with certain embargoed countries such as Iran and certain designated or prohibited persons and Noteholders as a result may indirectly provide assistance or support to transactions with such sanctioned countries and persons

As a result of the Group's transportation activities, which include importing into, exporting from and transiting through Kazakhstan petroleum and petroleum products, construction materials and other freight, the Group may be subject to certain laws and regulations of the United States, the United Kingdom, the other member states of the EU and the United Nations imposing economic sanctions or export controls, including the United States Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, which amended the United States Iran Sanctions Act ("**Iranian Sanctions**"). Kazakhstan law, international treaties to which Kazakhstan is a party and the nature of the Group's business may prohibit or limit the Group's ability to refrain from transacting business with sanctioned countries, including Iran. Violations of the Iranian Sanctions include knowingly selling, leasing, or providing to Iran any goods, services, technology, information, or support that would allow Iran to enhance its ability to import or produce refined petroleum products, where the fair market value of such a transaction exceeds U.S.$1 million or where a number of such transactions exceed a fair market value of U.S.$5 million in a 12-month period. The applicability of the Iranian Sanctions and similar sanctions is often not clear and no assurance can be given that the scope of these sanctions or the interpretations thereof will not increase or that new sanctions will not be imposed in the future. While the Group does not operate outside of the border of Kazakhstan, and although not a material part of its operations, the Group does transport and will continue to transport freight to and from the Kazakhstan border that is destined for or that originates in Iran. The Group does not believe its operations violate the Iranian Sanctions or similar sanctions imposed by others. However, the relevant authorities in a particular jurisdiction may conclude otherwise. If, for example, the Group were to be found to have violated the Iranian Sanctions, the President of the United States is required to impose on the Group three or more of nine enumerated sanctions, which could include prohibition on any credit or payments between the Group and any U.S. financial institution and denial of U.S. bank loans exceeding U.S.$10 million in one year to the Group. If any penalties were to be imposed on the Group for violation of the Iranian Sanctions or similar sanctions, it could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group's operations may also result in contact with countries and persons that are subject to sanctions administered by the United States Treasury Department's Office of Foreign Assets Control ("**OFAC**") and equivalent sanctions or measures imposed by Her Majesty's Treasury of the United Kingdom, other member states of the EU or other countries. Kazakhstan law, international treaties to which Kazakhstan is a party, and the nature of the Group's business may require the Group members to engage in transactions with countries and persons that may be the subject of OFAC sanctions. None of the Group's members is a sanctioned entity and OFAC sanctions as presently constituted do not normally apply to the Group's members because none of them are U.S. persons. Nevertheless, in some instances, OFAC sanctions may apply to non-U.S. persons. Further, to the extent that a Group member engages in activities with a sanctioned country or person, persons investing in the Group to whom OFAC or other equivalent sanctions do apply may incur the risk of indirect contact with such sanctioned countries or persons.

The Group could incur significant costs for violations of applicable environmental laws and regulations

Like other transportation companies, the Group's operations are subject to extensive national and local laws and regulations governing emissions and the transportation of products that are hazardous to the environment. In carrying out its environmental policies, the Group seeks to adhere to international standards and best practices. Compliance with environmental regulations is an ongoing process and as such, new laws and regulations, the imposition of tougher requirements, increasingly strict enforcement or new interpretations of existing environmental laws may require the Group to modify its operations, incur substantial unbudgeted costs to comply with current or future regulations or incur fines or penalties for environmental violations that could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group's operations depend on obtaining and maintaining licences and permits necessary for the operation of its business

The Group conducts its business operations under various licences and permits which authorise it to carry out a full range of railway-related business activities, such as the transport of hazardous materials and the performance of expert works and engineering services, including planning, surveying, building and installation services. As a result, the Group's activities are dependent upon the grant, renewal or continuance in force of these licences and permits, which in certain circumstances may be valid only for a defined time period, may be subject to limitations and may provide for withdrawal in certain circumstances. There can be no assurance that such licences and permits will be granted, renewed or continue in force and, if so, on what terms. Failure to obtain necessary licences or permits or any suspension or termination thereof could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

The Group's operations may be restricted by its loan covenants

The Group is obliged to comply with various covenants and restrictions contained in its financing arrangements. In addition, its own internal policies for compliance with such covenants and restrictions can be stricter than required under such covenants and restrictions. Such covenants and restrictions require that the Company, Kaztemirtrans, Lokomotiv and other subsidiaries comply with certain affirmative and negative covenants in the operation of their respective businesses. While the specific provisions of the relevant financing arrangements vary, they generally require that the Group members subject to the agreements take or refrain from taking certain actions specified in the agreements governing such arrangements, such as obtaining the prior written consent of the lender prior to implementing any material change to the scope or nature of their respective businesses, including mergers, consolidations or reorganisations, encumbering assets and certain sales, transfers and dispositions of properties in excess of a specified value or which are essential to the conduct of its business. The Group may also be limited in incurring capital expenditures greater than amounts specified in the loan agreement and incurring additional indebtedness or guaranteeing the indebtedness of third parties 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 Group, existing loan and guarantee agreements require that the Group company subject to the agreements maintain or periodically satisfy as at particular dates certain financial tests. The most restrictive of these financial ratio tests requires maintenance of an EBIT (defined as profit for the year before income tax expense and finance cost) to finance cost ratio of 2.0 or more, total debt to equity of 2.0 or less and total debt to Group EBITDA of 3.5 or less, with compliance computed using the definitions contained in the Borrowing Policy of the Samruk-Kazyna Group dated 28 June 2011 and in the relevant agreements. As a result, the Group's operations may be restricted. As at the date of this Prospectus, the Company believes that it is in compliance with the covenants contained in the Borrowing Policy of the Samruk-Kazyna Group and in its existing loan and guarantee agreements. However, if it were to become impossible or difficult for the Group to comply with the covenants and restrictions in its financing arrangements, the Group 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 Group's business, prospects, financial condition, cash flows or results of operations.

The Group may be unable to retain key personnel or attract and retain highly qualified personnel

The Group's ability to maintain its competitive position and to implement its business strategy, including the Development Strategy, is dependent on the services of its personnel, including key engineering, managerial, financial, commercial, marketing and processing personnel, and the maintenance of good labour relations. Competition for qualified personnel, especially for managerial positions and engineering positions to oversee increasingly automated processes, is intense due to the small pool of qualified individuals and strong demand for such individuals. In addition, in 2012 the Company entered into collective bargaining agreements for 2012-2014 with the Public Association Trade Union of Railway Employees (the "**Trade Union**"). The vast majority of the Group's employees are members of the Trade Union. The collective bargaining agreements with the Trade Union provide the Trade Union with a range of methods by which it could seek to influence the activity of the Group, including the implementation of the Development Strategy. These methods include, among others, notification or coordination procedures or Trade Union approval in respect of certain employee terminations, notification or coordination procedures in respect of employee wage matters, notification of the Group's intention to eliminate structural subdivisions of the Group, including eliminations that may be necessary to implement the Development Strategy, institution of employee strikes or commencement of judicial proceedings. The loss or diminution in the services of key personnel, an inability to attract and retain additional qualified personnel or an inability to reduce or restructure its workforce (whether in connection with the Development Strategy or otherwise) without violating the terms of the collective bargaining agreements with the Trade Union could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Risk Factors Relating to the Republic of Kazakhstan

The Group's operations are almost exclusively conducted in Kazakhstan, which causes the Group to be subject to Kazakhstan specific risks, including, but not limited to, those described below. The occurrence of any of the factors described below could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

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 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 Group's business. Any such disruption could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group 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 to a market-oriented economy, and to 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. Changes to Kazakhstan's economy, including property, tax or regulatory regimes or other changes could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

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, ferro 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 SES, Belarus, Kazakhstan and Russia each enacted into law on 1 January 2012 rules that regulate tariffs 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. 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 SES. As part of the SES, these countries have agreed to cooperate with respect to compensation of economically justifiable expenses relating to international trade within the SES, 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.

Kazakhstan's currency control law may affect the Group's foreign currency dealings

In July 2009, the President of Kazakhstan signed into law various amendments to Kazakhstan's currency control legislation. The amendments empower the President, by special action and under circumstances when the economic stability of Kazakhstan is threatened, to introduce a special currency regime that would (i) require the compulsory sale of foreign currency received by Kazakhstan residents; (ii) require the placement of a certain portion of funds resulting from currency transactions into a non-interest bearing deposit in an authorised bank or the NBK; (iii) restrict the use of accounts in foreign banks; (iv) limit the volumes, amounts and currency of settlements under currency transactions; and (v) require a special permit from the NBK for conducting currency transactions. Moreover, the President may impose other requirements and restrictions on currency transactions when the economic stability of Kazakhstan is threatened.

In order for Kazakhstan to remain in compliance with its membership obligations under the Charter of the International Monetary Fund, the new currency regime cannot restrict residents from repaying foreign currency-denominated obligations. As at the date of this Prospectus, the President has not invoked the provisions of these amendments. Accordingly, it is unclear how any implementation of the new currency regime would ultimately impact the Group. However, significant restrictions on the Group's foreign currency dealings could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

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 any failure to implement them may materially and adversely affect the Group's business, prospects, financial condition, cash flows or results of operations.

Kazakhstan is heavily dependent upon export trade and commodity prices, and weak demand for its export products and low commodity prices may adversely affect Kazakhstan's economy in the future

Kazakhstan is negatively affected by low commodity prices, particularly in respect of the oil and gas sector, and economic instability elsewhere in the world. Consequently, the Government has promoted economic reform, inbound foreign investment and the diversification of the economy. Notwithstanding these efforts, weak demand in its export markets and low commodity prices, especially with respect to the oil and gas industry, may adversely affect Kazakhstan's economy in the future, which could materially adversely affect the Group's business, prospects, financial condition, cash flows or results of operations.

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**"), 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. Any substantial increase in its tax liability could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

A perception of public corruption within Kazakhstan could adversely affect the Group

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 Group is committed to doing business in accordance with all applicable laws and has recently established a partnership with the EBRD pursuant to which the EBRD is providing the Group with financing for external consultancy services to assist the Group with corporate governance and anti-corruption measures, which has resulted in the Group developing a corporate code of conduct, guidelines for revelation and prevention of fraud, policies as to protection of whistle blowers as well as a risk and control matrix and carried out the training as to perception of corruption and business etiquette awareness. However, 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, which could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The NBK currency exchange rate policy could have an adverse impact on the Group 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.

On 4 February 2009, the NBK devalued the Tenge by 18% to KZT 143.98 per U.S.$1.00. This devaluation was due in part to pressure on the balance of payments of Kazakhstan as a result of a decline in commodity prices (in particular oil and gas) in the international markets. Devaluation of the Tenge was also intended to enhance export competitiveness of Kazakhstan goods. As at 31 December 2009 and 2010, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 148.36 per U.S.$1.00 and KZT 147.40 per U.S.$1.00, respectively. As at 31 December 2011, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 148.40 per U.S.$1.00. Since 31 December 2009, the Tenge has depreciated against the U.S. Dollar by approximately 0.03%.

Because a significant majority of the Group's revenues are denominated in Tenge and a significant portion of the Group's borrowings are denominated in U.S. Dollars, the Group'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 Group.

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 which could, in turn, adversely affect the Group's business, prospects, financial condition, cash flows or results of operations.

Kazakhstan has a less developed securities market than the United States, 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 States, 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 members of the Group, may be publicly available than for entities organised in the United States, 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 and the Guarantors believe they are 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 and/or the Guarantors need to comply with additional or different regulations. As of 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, the Guarantors 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.

The members of the Group cannot ensure the accuracy of official statistics and other data in this Prospectus published by Kazakhstan authorities

Official statistics and other data published by Kazakhstan authorities may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on different bases from those used in more developed countries. Neither the Issuer nor any Guarantor has independently verified such official statistics or other data and any discussion of matters relating to Kazakhstan in this Prospectus is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information. Specifically, investors should be aware that certain statistical information and other data contained in this Prospectus has been extracted from official Government sources and was not prepared in connection with the preparation of this Prospectus.

In addition, certain information contained in this Prospectus is based on the knowledge and research of the management of the Issuer and the Guarantors using information obtained from non-official sources. Although each of the Issuer and the Guarantors have attempted to verify this information to the extent practicable, the reliability and completeness of this information, which was not prepared in connection with the preparation of this Prospectus, remains subject to uncertainties and cannot be assured.

Risk Factors Relating to the Notes and the Guarantees

Favourable withholding tax treatment after the Intended Substitution is dependent on the Company maintaining the KASE Listing or a similar listing

Following the Intended Substitution, the Company expects that payments of interest from the Company, as the substituted issuer, to Non-Kazakhstan Holders would be exempt from withholding tax due to favourable tax treatment for securities listed on a Kazakhstan stock exchange currently in effect as at the date of this Prospectus. Although the Company intends to effect the Intended Substitution before the fourth interest payment date with respect to the Notes, no assurance can be given that the Company will be able to effect the Intended Substitution within this timeframe, that the Company will be able to maintain its listing at each interest payment date of the Notes, or that the tax and securities laws in Kazakhstan will not change materially, resulting in such tax relief no longer being available.

The Guarantees are structurally subordinated to the creditors of the Guarantors' subsidiaries and associates

The Guarantees are exclusively an obligation of the Guarantors. The Guarantors' subsidiaries and associates are separate and distinct legal entities and they have no obligation to pay any amounts due under the Notes or the Guarantees or to make any funds available for that purpose, whether by dividends, distributions, loans or other payments.

Additionally, the Guarantors' right to receive any assets of any of the Guarantors' subsidiaries or associates upon their liquidation or reorganisation, and therefore the right of the holders of the Guarantees to participate in those assets, will be effectively subordinated to the claims of the creditors of that subsidiary or associate, including trade creditors. In addition, even if a Guarantor were a creditor of any of its subsidiaries or associates, the Guarantor's rights as a creditor would be subordinate to any security interest in the assets of the Guarantor's subsidiaries or associates and any indebtedness of those entities senior to that held by the Guarantor. As at 31 December 2011, the Guarantors had KZT 616.7 billion of total liabilities (excluding intercompany liabilities). Although almost all of the Guarantors' assets are held by the Company as at the date of this Prospectus, the structural subordination risk will become more significant as the Group effectuates the restructuring pursuant to the Development Strategy, which contemplates a transfer of the assets and operations of the Company to its subsidiaries.

The Notes may be redeemed prior to maturity for tax reasons

In the event that the Issuer or the Guarantors would be obliged to increase the amounts payable in respect of the Notes due to any change in or amendment to the laws or regulations of The Netherlands or Kazakhstan, as the case may be, or any political sub-division thereof or of any authority therein or thereof having the power to tax or in the interpretation or administration thereof, the Issuer may redeem all outstanding Notes in accordance with the Terms and Conditions of the Notes. As with the optional redemption feature of the Notes referred to above, it may not be possible for an investor in the Notes to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate.

The Notes are subject to modification, waivers and substitution

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 the Noteholders, (i) to any modification of any provision of the Trust Deed (including the Guarantee), the Agency Agreement or the Notes, which is of a formal, minor or technical nature or is made to correct a manifest error, (ii) any other modification and any waiver or authorisation of any breach or proposed breach of any provision of the Trust Deed (including the Guarantee), the Agency Agreement or the Notes which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders or (iii) the substitution of another company as principal debtor under the Notes in place of the Issuer, or the substitution of another company as guarantor of the Notes in place of a Guarantor, in the circumstances described in "*Terms and Conditions of the Notes – Meetings of Noteholders, Amendment, Modification and Waiver*".

The Terms and Conditions of the Notes also provide that at the Company's written request, the Trustee shall, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, without the consent of the Noteholders, agree to the substitution of the Company or its successor in business in place of the Issuer as the principal debtor under the Trust Deed and the Notes.

Trading in the clearing systems is subject to minimum denomination requirements

The Notes will initially only be issued in global certificated form, and held through the clearing systems. Interests in the Global Notes will trade in book-entry form only, and notes in definitive registered form, or Definitive Note Certificates, will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of Notes. The common depositary, or its nominee, for the clearing systems will be the sole registered holder of the Global Notes representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the Global Note representing the Notes will be made to The Bank of New York Mellon, as principal paying and transfer agent, who will make payments to the clearing systems. Thereafter, these payments will be credited to accounts of participants who hold book-entry interests in the Global Notes representing the Notes and credited by such participants to indirect participants. After payment to the common depositary for the clearing systems, none of the Issuer, the Guarantors or the Trustee will have any responsibility or liability for the payment of interest, principal or other amounts to the owners of the book-entry interests. Accordingly, if an investor owns a book-entry interest, it must rely on the procedures of the clearing systems, and if an investor is not a participant in the clearing systems, on the procedures of the participant through which the investor holds its interest, to exercise any rights and obligations of a holder of Notes under the Trust Deed.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon the Issuer's solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if an investor owns a book-entry interest, it will be permitted to act only to the extent it has received appropriate proxies to do so from the relevant clearing system. The procedures implemented for the granting of such proxies may not be sufficient to enable an investor to vote on a timely basis.

Similarly, upon the occurrence of an Event of Default under the Trust Deed, unless and until Definitive Note Certificates are issued in respect of all book-entry interests, if an investor owns a book-entry interest, it will be restricted to acting through DTC, Euroclear and Clearstream, Luxembourg. The procedures to be implemented through DTC, Euroclear and Clearstream, Luxembourg may not be adequate to ensure the timely exercise of rights under the Notes. See "*Form of the Notes and Transfer Restrictions*".

The Notes may be subject to withholding under the EU savings directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or other similar income) ("**Savings Income**") paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State or certain limited types of entities established in that other Member State (interest payments on the Notes will be Savings Income for these purposes). However, for a transitional period, Austria and Luxembourg are instead required (unless during such period they elect otherwise) to operate a withholding system in relation to such payments, deducting tax at rates over time of 35% 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. The end of the transitional period is dependent upon the conclusion of other arrangements relating to the information exchange relating to such payments with certain other countries.

A number of non-EU countries, including Switzerland, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments of Savings Income made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State or certain limited types of entities established in that other Member State with effect from the same date. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments of Savings Income made by a person in a Member State to an individual or certain other residual entities resident in one of those territories. Where an individual Holder receives a payment of Savings Income from any Member State or dependent or associated territory employing the withholding arrangement, the individual Holder may be able to elect not to have tax withheld. The formal requirements may vary slightly from jurisdiction to jurisdiction. They generally require the individual Holder to produce certain information (such as his tax number) and consent to details of payments and other information being transmitted to the tax authorities in his home state. Provided that the other Tax Authority receives all of the necessary information the payment will not suffer a withholding under EC Council Directive 2003/48/EC or the relevant law conforming with the directive in a dependent or associated territory.

The Savings Directive is currently the subject of a review which may lead to it being amended to overcome its perceived shortcomings. It is not clear if and when these amendments will come into force. Any changes could apply to Notes that have already been issued at the date of the amendment of the Savings Directive.

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, none of the Issuer, the Guarantors or any Paying and Transfer Agent nor any other person would be obliged to pay Additional Amounts with respect to any Notes as a result of the imposition of such withholding tax. However, 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 Directive.

There is currently no trading market for the Notes and no market may develop

There can be no assurance that any market may develop for the Notes, or if so, the ability of holders of the Notes to sell their Notes or the price at which such holders would be able to sell Notes. Application has been made for the listing and quotation of the Notes on the Market and for the Notes to be admitted to the official list of the KASE. There can be no assurance that any such listings will be obtained or, if such listings are obtained, that an active trading market will develop or be sustained. In addition, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. Accordingly, there can be no assurance as to the development or liquidity of any market for the Notes.

Noteholders may be subject to exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in U.S. Dollars. 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 U.S. Dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. Dollars 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 U.S. Dollars 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.

The Notes are subject to interest rate risks

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Credit ratings do not reflect all risks

The Company's credit ratings are an assessment by the relevant rating agencies of the Company's ability to pay its debts when due. Consequently, real or anticipated changes in its credit ratings will generally affect the market value of the Notes. In addition, any downwards change in the ratings of Kazakhstan or Samruk-Kazyna could affect the Company's credit ratings and the market value of the Notes. One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings will not reflect the potential impact of all risks related to structure, market, additional factors discussed in this Prospectus, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

TERMS AND CONDITIONS OF THE NOTES

The following (subject to amendment and save for the text in italics) are the terms and conditions of the Notes which will be endorsed on each Individual Note Certificate and will be attached and (subject to the provisions thereof) apply to each relevant Global Note:

This Note is one of a duly authorised issue of U.S.$800,000,000 6.950% Notes due 2042 (the "**Notes**", which expression shall, unless the context otherwise so requires, be deemed to include a reference to any further notes issued pursuant to Condition 18 (*Further Issues*) and forming a single series therewith), issued by Kazakhstan Temir Zholy Finance B.V. (the "**Issuer**") and guaranteed by JSC National Company Kazakhstan Temir Zholy ("**KTZ**"), JSC Kaztemirtrans and JSC Lokomotiv (each a "**Guarantor**" and together, the "**Guarantors**", which term shall also include any Person becoming a Guarantor pursuant to Condition 5 (*Limitations on Changes in Business and Disposals of Assets*)) pursuant to a guarantee (the "**Guarantee**") contained in the Trust Deed referred to below. The Notes are constituted by a Trust Deed dated 10 July 2012 (the "**Trust Deed**") between the Issuer, each Guarantor and BNY Mellon Corporate Trustee Services Limited (the "**Trustee**", which expression shall include its successors as trustee under the Trust Deed), as trustee for holders of the Notes. The Issuer and each Guarantor have entered into a Paying Agency Agreement (the "**Agency Agreement**") dated 10 July 2012 with the Trustee, The Bank of New York Mellon (Luxembourg) S.A. as registrar (the "**Registrar**"), The Bank of New York Mellon, as principal paying agent (the "**Principal Paying Agent**"), The Bank of New York Mellon as U.S. paying agent (the "**U.S. Paying Agent**"), the other paying agents named therein (together with the Principal Paying Agent and the U.S. Paying Agent, the "**Paying Agents**") and the transfer agents (the "**Transfer Agents**") named therein. The Registrar, Paying Agents and Transfer Agents are together referred to herein as the "**Agents**", which expression and each of which definitions encompassed thereby include any successor agents appointed in these capacities from time to time in connection with the Notes.

References to the "**Issuer**" refer to, prior to completion of the Initial Substitution (as defined in the Trust Deed), Kazakhstan Temir Zholy Finance B.V. and not to any of its subsidiaries and, if and upon completion of the Initial Substitution, JSC National Company Kazakhstan Temir Zholy and not to any of its subsidiaries.

The holders of the Notes are bound by, subject to, and are deemed to have notice of, all the provisions of the Notes, the Agency Agreement and the Trust Deed (including the Guarantee). Certain provisions of these terms and conditions (the "**Conditions**") are summaries of the Trust Deed (including the Guarantee) and the Agency Agreement and are subject to the detailed provisions contained therein. Copies of the Trust Deed (including the Guarantee) and the Agency Agreement are available for inspection during normal business hours at the specified office, for the time being, of each of the Agents and the Trustee. The initial Agents and their initial specified offices are listed below.

References to Conditions are, unless the context otherwise requires, to the numbered paragraphs of these Conditions.

1. Form, Denomination and Title

(a) Form and Denomination

The Notes are in registered form. Notes sold (i) in offshore transactions in reliance on Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**") will be issued in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof and (ii) to qualified institutional buyers ("**QIBs**") in reliance on Rule 144A under the Securities Act ("**Rule 144A**") will be issued in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each such denomination referred to in (i) and (ii), an "**authorised denomination**"). The Notes will be represented by (i) a registered global note certificate representing the Notes which are resold pursuant to Rule 144A, in the form or substantially in the form set out in Schedule 1, Part 2 (*Form of Restricted Global Note Certificate*) of the Trust Deed (the "**Restricted Global Note**") and (ii) the registered global note certificate representing the Notes to be issued pursuant to Clause 3.1 (*Global Note Certificates*) which are sold outside the United States in reliance on Regulation S, in the form or substantially in the form set out in Schedule 1, Part 1 (*Form of Unrestricted Global Note Certificate*) of the Trust Deed (the "**Unrestricted Global Note**" and, together with the Restricted Global Note, the "**Global Notes**"). A certificate (each a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding or holdings of Notes. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the register (the "**Register**") which the Issuer shall procure to be kept by the Registrar.

(b) *Title*

Title to the Notes will pass by transfer and upon registration in the Register. In these Conditions, each "**Noteholder**" and "**holder**" means the Person (as such term is defined below) in whose name a Note is registered in the Register (or, in the case of joint holders, the first-named thereof) and "holders" will be construed accordingly. The holder of any Note will (except as otherwise ordered by a court of competent jurisdiction or required by law) be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or any interest therein, any writing thereon by any Person (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof and no Person will be liable for so treating the holder.

As used in these Conditions, "**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity including, without limitation, any state or agency of a state or other entity, whether or not having separate legal personality.

*Notes sold to QIBs in the United States in reliance on Rule 144A under the Securities Act will be represented by one or more Restricted Global Notes. Notes sold to investors outside the United States in reliance on Regulation S under the Securities Act will be represented by the Unrestricted Global Note. The Unrestricted Global Note will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). The Restricted Global Notes will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee of DTC.*

Ownership of beneficial interests in the Restricted Global Notes will be limited to persons that have accounts with DTC or persons that may hold interests through such participants. Ownership of beneficial interests in the Unrestricted Global Note will be limited to Persons that have accounts with Euroclear or Clearstream, Luxembourg or Persons that may hold interests through such participants. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected through, records maintained in book entry form by DTC and its participants or by Euroclear, Clearstream, Luxembourg and their participants as applicable. Global Notes will be exchangeable for Notes in definitive form only in certain limited circumstances specified in the Global Note.

(c) *Third party rights*

No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this does not affect the right or remedy of any Person which exists or is available apart from such act.

2. Transfer of Notes and Issue of Notes

(a) *Transfer*

Subject to Conditions 2(d) and 2(e), a Note may be transferred in whole or in part in an authorised denomination upon the surrender of the Note Certificate representing that Note, together with the form of transfer endorsed thereon (the "**Transfer Form**") (including any certification as to compliance with restrictions on transfer included in the Transfer Form) duly completed and executed, at the specified office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or, as the case may be, such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the Person(s) who have executed the Transfer Form. Transfer Forms are available from any Transfer Agent, the Registrar and the Issuer upon the request of any holder. In the case of a transfer of only a portion of the Notes represented by a Note Certificate, neither the portion transferred nor the balance thereof not transferred may be less than U.S.$200,000, and a new Note Certificate in respect of the balance not so transferred will be issued to the transferor.

(b) *Delivery*

Each new Note Certificate to be issued upon a transfer of any Notes will, within five Business Days of due surrender of the Note Certificate in accordance with Condition 2(a), be delivered at the specified office of the Registrar or, as the case may be, any Transfer Agent or (at the request and the risk of such transferee) mailed free of charge to the transferee by uninsured post to such address as the transferee entitled to the Notes represented by such Note Certificate may have specified. In this Condition 2(b), "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign currencies) in the city in which the Registrar or the relevant Transfer Agent has its specified office.

(c) *No Charge*

Registration or transfer of Notes will be effected without charge to the holder or transferee(s) thereof, but upon payment (or against such indemnity from the holder or the transferee(s) thereof as the Registrar or the relevant Transfer Agent may require) in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such registration or transfer.

(d) *Closed Periods*

No Noteholder may require the transfer of a Note to be registered during the period of 15 calendar days prior to the due date for any payment of principal or interest in respect of such Note.

(e) *Regulations concerning Transfer and Registration*

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes set forth in the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Transfer Agents. A copy of the current regulations will be sent, free of charge, by the Registrar or any Transfer Agent to any Noteholder who so requests in writing.

3. Status

(a) *Status of the Notes*

The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 4 (*Negative Pledge*)) unsecured obligations of the Issuer. The Notes rank and will rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsubordinated and unsecured obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law.

(b) *Status of the Guarantee*

Pursuant to the Guarantee, each Guarantor has unconditionally and irrevocably guaranteed and each of the Additional Guarantors will unconditionally and irrevocably guarantee (or, in the case of a Person becoming a Guarantor pursuant to the provisions of Condition 5 (*Limitations on Changes in Business and Disposals of Assets*), will unconditionally and irrevocably guarantee) on a joint and several basis, the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes and the Trust Deed. The obligations of each Guarantor under the Guarantee constitute (or, in the case of any Additional Guarantor or any Person becoming a Guarantor as provided above, will constitute) direct, general, unconditional, unsubordinated and (subject to Condition 4 (*Negative Pledge*)) unsecured obligations of each Guarantor, which rank and will rank at least *pari passu* in right of payment with all other present and future unsubordinated and unsecured obligations of each Guarantor, save only for such obligations as may be preferred by mandatory provisions of applicable law.

Each Guarantor has undertaken (or, in the case of any Additional Guarantor or any Person becoming a Guarantor as provided above, will undertake) in the Trust Deed that, so long as any of the Notes remain outstanding (as defined in the Trust Deed), it will not take any action for the liquidation or winding-up of the Issuer and will procure that sufficient funds are at all times made available to the Issuer to enable it to meet its liabilities as and when they fall due.

4. Negative Pledge

(a) Negative Pledge of the Issuer

Prior to the Initial Substitution, if any, so long as any Note remains outstanding, the Issuer shall not create, incur, assume or permit to arise or subsist any Security Interest upon the whole or any part of its undertaking, assets or revenues, present or future, to secure any Financial Indebtedness of the Issuer or any other Person, or any Indebtedness Guarantee in respect thereof, unless, at the same time or prior thereto, the Issuer's obligations under the Notes and the Trust Deed are secured, to the satisfaction of the Trustee, equally and rateably therewith or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders or as the Trustee in its discretion shall deem to be not materially less beneficial to the Noteholders.

(b) Negative Pledge of each Guarantor

So long as any Note remains outstanding (as defined in the Trust Deed), each Guarantor and, following the Initial Substitution, the Issuer shall not, and shall not permit any Material Subsidiary (as defined below) to, create, incur, assume or permit to arise or subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of their respective undertakings, assets or revenues, present or future, to secure any Financial Indebtedness of the Issuer, any Guarantor, any Material Subsidiary or any other Person, or any Indebtedness Guarantee in respect thereof, unless, at the same time or prior thereto, the relevant Guarantor's or, following the Initial Substitution, the Issuer's obligations under the Trust Deed (including, in particular, but without limitation, the Guarantee) are secured, to the satisfaction of the Trustee, equally and rateably therewith or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution of Noteholders or as the Trustee in its discretion shall deem to be not materially less beneficial to the Noteholders.

(c) Certain Definitions

For the purposes of these Conditions:

"**Consolidated EBITDA**" means, in relation to any year and without double counting, the net profit of KTZ and the Consolidated Subsidiaries for such period (i) before deducting any depreciation or amortisation, (ii) before deducting income tax or withholding tax (in each case whether current or deferred) and their equivalents in any relevant jurisdiction or any other tax on income or gains, (iii) before taking into account interest and other amounts in the nature of interest treated under IFRS as or in a like manner to interest accrued in respect of Financial Indebtedness as an obligation of or owed to KTZ or any Consolidated Subsidiary, in each case whether or not paid, deferred or capitalised during such period, (iv) after deducting any gain over book value and after adding back any loss on book value arising on the sale, lease or other disposal of property, plant and equipment by KTZ or any Consolidated Subsidiary during such period and any gain or loss arising on revaluation of property, plant and equipment during such period which has been reflected in KTZ's consolidated statement of income and (v) after deducting any gains and adding any losses attributable to the foreign currency exchange differences applicable to KTZ or any Consolidated Subsidiary.

"**Consolidated Subsidiaries**" means, at any time, those Subsidiaries of KTZ that are consolidated in the most recent consolidated audited accounts of KTZ prepared in accordance with IFRS.

"**Financial Indebtedness**" means any Indebtedness of any Person for or in respect of (i) Indebtedness for Borrowed Money, (ii) documentary credit facilities or (iii) bonds, standby letters of credit or other similar instruments issued in connection with the performance of contracts and Indebtedness Guarantees in respect of any of the foregoing Indebtedness.

"**IFRS**" means international financial reporting standards within the meaning of the IAS Regulation 1606/2002, as in effect from time to time.

"**Indebtedness**" means any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent.

"**Indebtedness for Borrowed Money**" means any Indebtedness for or in respect of (i) moneys borrowed, (ii) amounts raised by acceptance under any acceptance credit facility, (iii) amounts raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments, (iv) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with IFRS, be treated as finance or capital leases, (v) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred primarily as a means of raising finance or financing the acquisition of the relevant asset or service, (vi) amounts raised under any other transaction (including any forward sale or purchase agreement and the sale of receivables on a "with recourse" basis) having the commercial effect of a borrowing and (vii) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the mark to market value shall be taken into account).

"**Indebtedness Guarantee**" means in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation) (i) any obligation to purchase such Indebtedness, (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness, (iii) any indemnity against the consequences of a default in the payment of such Indebtedness and (iv) any other agreement to be responsible for such Indebtedness.

"**Material Subsidiary**" means, at any given time, any Subsidiary of KTZ (including each of the other Guarantors) whose gross assets, gross revenues or pre tax profits attributable to KTZ represent 10.0% or more of the consolidated gross assets, consolidated gross revenues or pre tax profits, as the case may be, of KTZ and the Consolidated Subsidiaries; whether or not a Subsidiary is a Material Subsidiary shall be established in the first instance by an annual certificate of KTZ delivered to the Trustee stating which of its Subsidiaries are Material Subsidiaries and, for the avoidance of doubt, a Subsidiary of KTZ may become, or cease to be, a Material Subsidiary as a result of an amalgamation, reorganisation or restructuring (but without prejudice to any restrictions on amalgamation, reorganisation or restructuring under these Conditions), in which event calculations shall be made as if the financial statements for such Subsidiary had been drawn up immediately after such amalgamation, reorganisation or restructuring and such financial statements formed the basis of the relevant calculation and, in addition, a certificate provided by KTZ that in KTZ's management's opinion a Subsidiary of KTZ is or is not or was or was not at any particular time or throughout any period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties and the Trustee shall be entitled to rely upon any such certificate prepared by KTZ and shall not be responsible for any loss occasioned by acting or not acting on any such certificate.

"**Permitted Security Interest**" means any Security Interest: (a) granted in favour of any Guarantor by any Material Subsidiary to secure Financial Indebtedness owed by such Material Subsidiary to such Guarantor; (b) being liens or rights of set off arising by operation of law and in the ordinary course of business, including, without limitation, any rights of set off with respect to demand or time deposits maintained with financial institutions and bankers' liens with respect to property of any Guarantor or any Material Subsidiary held by financial institutions; (c) granted upon or with regard to any property or assets to secure the purchase price thereof or the cost of construction, improvement or repair of all or any part of such property or assets or to secure Financial Indebtedness incurred solely for the purpose of financing the acquisition, construction, improvement or repair of all or any part of such property or assets and transactional expenses related thereto (so long as such Security Interest was not created in contemplation thereof), provided that the maximum amount of Financial Indebtedness thereafter secured by such Security Interest does not exceed the purchase price or cost of construction, improvement or repair of such property or assets (including transactional expenses) or the Financial Indebtedness incurred solely for the purpose of financing the acquisition, construction, improvement or repair of such property or assets; (d) on or relating to any property or assets hereafter acquired by any Guarantor or any Material Subsidiary and existing on the date of acquisition (so long as such Security Interest was not created in contemplation of the acquisition of such property or assets); (e) on or over goods or related documents of title arising or created in the ordinary course of business as security only for Financial Indebtedness under export credit or trade finance facilities relating to those goods or documents of title; (f) granted upon or with regard to any property or assets of any Guarantor or any Material Subsidiary to secure Financial Indebtedness incurred in connection with any securitisation relating to such property or assets, provided that the revenues attributable to property or assets subject to any such Security Interest are less than in aggregate 25.0% of Consolidated EBITDA in the most recent financial year for which KTZ has audited consolidated financial statements prepared in accordance with IFRS; (g) in respect of any interest rate swap, option, cap, collar or floor agreement or any foreign currency swap agreement or other similar agreement or arrangement designed to protect any Guarantor or any Material Subsidiary against fluctuations in interest or foreign currency rates; (h) not covered by any of the provisions under paragraphs (a) to (g) above (inclusive) of this definition of Permitted Security Interest which secures Financial Indebtedness with an aggregate principal amount at any time not exceeding the greater of U.S.$15,000,000 and 15.0% of Consolidated EBITDA in the most recent financial year for which KTZ has audited consolidated financial statements prepared in accordance with IFRS, or the equivalent in other currencies; or (i) arising out of the refinancing, extension, renewal or refunding of any Financial Indebtedness secured by a Security Interest permitted by any of the above exceptions, provided that the Financial Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Financial Indebtedness and such Security Interest is not extended to cover any property not previously subject to such Security Interest.

"**Security Interest**" means a mortgage, charge, pledge, lien security interest or other encumbrance of any kind whatsoever securing any obligation of any Person or any other type of preferential arrangement having a similar effect over any assets or revenues of such Person.

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at a given time, any other Person (the "**second Person**") (i) whose affairs and policies the first Person directly or indirectly Controls or (ii) as to whom the first Person owns directly or indirectly more than 50% of the capital, voting stock or other right of ownership and "**Control**", as used in these Conditions, means the power to direct the management and the policies of the relevant Person, whether through the ownership of share capital, by contract or otherwise, "Controlled" being construed accordingly.

5. Limitations on Changes in Business and Disposals of Assets

(a) Limitation on Changes in Business

KTZ shall procure that the business of KTZ and its Subsidiaries shall comprise at a minimum the business of owning and operating Kazakhstan's national railway network and the infrastructure relating thereto and of providing, either by itself or its Subsidiaries or by the procurement of the relevant services from third parties, of all relevant network services in relation thereto.

(b) Limitations on Disposals by the Issuer

For so long as any Note remains outstanding, the Issuer will not either in a single transaction or in a series of transactions, whether related or not and whether voluntarily or involuntarily, sell, assign, convey, transfer, grant or otherwise dispose of all or, in the opinion of the Trustee, a substantial part of its assets or property to any Person.

(c) Limitations on Disposals by each Guarantor

For so long as any Note remains outstanding, except as permitted by Condition 6 (*Limitations on Merger or Consolidation*), each Guarantor will not, and (in the case of KTZ) will procure that the Material Subsidiaries will not, either in a single transaction or in a series of transactions, whether related or not and whether voluntarily or involuntarily, sell, assign, convey, transfer, grant or otherwise dispose of all or any of its or their assets or property to any Person, except as follows:

(i) disposals of Core Assets (otherwise than under paragraph (iii) below) to KTZ or a Subsidiary of KTZ (each, a "**Transferee Subsidiary**") or to an Eligible Transferee, provided, however, that (A) after giving effect to such disposal and any related transactions, the Transferee Subsidiary (in the case of a disposal to a Transferee Subsidiary) remains a Subsidiary of KTZ and (in the case of a disposal to either a Transferee Subsidiary or an Eligible Transferee) no Event of Default (as defined in Condition 13 (*Events of Default*)) nor any event which, with the giving of notice or lapse of time or the satisfaction of any other condition, would be an Event of Default has occurred and is continuing and (B) in the case of a Transferee Subsidiary, if either (X) the relevant Transferee Subsidiary is, or after giving effect to such disposal will become, a Material Subsidiary or (Y) in case such Transferee Subsidiary is not the Issuer or a Guarantor, after giving *pro forma* effect to such disposal as if such disposal occurred on 1 January of the last Fiscal Year, the Issuer and the Guarantors would not have been in compliance with the Guarantor Threshold Test in Condition 7 as of 31 December of the last Fiscal Year, then such Transferee Subsidiary or, in the case of a transfer to an Eligible Transferee, such Eligible Transferee, will become an Additional Guarantor in accordance with the terms of Condition 7 (*Additional Guarantors*); or

(ii) disposals of assets, other than Core Assets;

(iii) disposals of Core Assets which are obsolete, redundant or surplus and not necessary for the operation of the relevant Guarantor's business; or

(iv) disposals of other Core Assets provided that the aggregate value of all such other Core Assets disposed of since 31 December 2011 does not exceed at any time 15% of the value of property, plant and equipment as shown in KTZ's then most recent audited consolidated financial statements prepared in accordance with IFRS.

(d) Defined Terms

For the purposes of these Conditions:

"**Core Assets**" means (i) the mainline railway network, (ii) the locomotives and cargo wagons now owned or hereafter acquired by JSC Lokomotiv or JSC Kaztemirtrans, as the case may be, and (iii) ownership interests in any Person owning or controlling directly or indirectly, Core Assets referred to in (i) or (ii) of this definition;

"**Eligible Transferee**" means any Person which is not a Subsidiary of KTZ but is engaged in business in the railway transportation sector in Kazakhstan and is controlled by the Government of Kazakhstan;

"**mainline railway network**" means the mainline railway infrastructure of the Republic of Kazakhstan that consists of main tracks and station tracks as well as objects of power supply, signalling, communications, devices, equipment, buildings and other objects, technologically necessary for its operation;

"**maintenance**" includes the detection and rectification of any faults;

"**network services**" means services of providing mainline railway network in exploitation and operation of rolling stock traffic; and

"**track**" means land or other property comprising the permanent way of any railway, together with the ballast, sleepers and metals laid thereon and overhead power lines related thereto, whether or not the land or other property is also used for other purposes, along with crossings, bridges, viaducts, tunnels, culverts, retaining walls or other structures used or to be used for the support, or otherwise in connection with, track and any walls, fences or other structures bounding the railway or bounding any adjacent or adjoining property.

6. Limitations on Merger or Consolidation

(a) Limitations on the Issuer and each Guarantor

Neither the Issuer (except in respect of the Initial Substitution, if any) nor any of the Guarantors shall, except as approved by an Extraordinary Resolution, consolidate with or merge into any Person other than the Issuer or a Guarantor unless:

(i) the Person formed by the consolidation or into which the Issuer or the relevant Guarantor, as the case may be, is merged (the "**Successor Company**") agrees in writing to assume the obligation to make due and punctual payment of all amounts payable under the Notes and the Guarantee (as the case may be) and all other obligations of the Issuer or the relevant Guarantor (as the case may be) under the Notes and the Trust Deed (including the Guarantee);

(ii) immediately after giving effect to the transaction, no Event of Default will have occurred and be continuing;

(iii) the Issuer or the relevant Guarantor, as the case may be, has delivered to the Trustee (A) a certificate, in the case of the Issuer, of two directors of the Issuer or, in the case of a Guarantor, of the General Manager of such Guarantor, stating that the consolidation or merger complies with this Condition 6 and that all requirements set forth herein relating to the transaction have been complied with and (B) an opinion of independent legal advisers of recognised standing in form and substance satisfactory to the Trustee that the Successor Company has validly assumed the obligations to be assumed by it pursuant to Condition 6(a)(i) and that the Trust Deed (including the Guarantee) and the Notes constitute legal, valid, binding and enforceable obligations of the Successor Company, and the Trustee shall be entitled to rely upon any such certificate or opinion and shall not be responsible for any loss occasioned by acting (or not acting) on any such certificate or opinion, as the case may be; and

(iv) the Successor Company expressly agrees, subject to Condition 12 (*Taxation*), (A) to pay such Additional Amounts as may be necessary in order that the net amounts received by each Noteholder shall, after any deduction or withholding of Taxes and any present or future taxes, duties, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of, or within any political subdivision of, or any authority having power to tax in the jurisdiction in which the Successor Company is incorporated or is engaged in business, equal the amounts that would have been received by such Noteholder in respect of the Notes held by it in the absence of the consolidation or merger and (B) to indemnify and hold harmless each holder of a Note from and against, and reimburse each such holder for, the amount of any Taxes withheld or deducted from, or paid by such holder in respect of payments made under or with respect to the Notes or the Trust Deed in circumstances where the said obligation to pay Additional Amounts is or may have become illegal, unenforceable or otherwise invalid.

(b) Effect of Consolidation or Merger

Upon any consolidation, merger, conveyance or transfer in accordance with this Condition 6 the Successor Company shall succeed to and be substituted for, may exercise every right and power of, and shall be bound by every obligation of, the Issuer or the relevant Guarantor, as the case may be, under the Notes and the Trust Deed (including, in the case of a Guarantor, the Guarantee) with the same effect as if the Successor Company had been named as the Issuer or a Guarantor, as the case may be.

7. Additional Guarantors

The Issuer and each Guarantor shall ensure that on the Issue Date and as at the end of each of KTZ's fiscal years beginning with the fiscal year ending 31 December 2012 (each, a "**Fiscal Year**"), the aggregate combined total assets and total revenue of the Issuer and the Guarantors (determined separately and calculated on a stand-alone non-consolidated basis for each entity and without double counting (for the avoidance of doubt, all intra-group items and investments in Subsidiaries by the Issuer or a Guarantor, as the case may be, or any of their Subsidiaries shall be excluded) (such calculation, a "**Combined Unconsolidated Basis**")) for the most recently ended Fiscal Year shall equal or exceed (the "**Guarantor Threshold Test**") 85.0% of the aggregate combined total assets and total revenue, respectively, of KTZ and its Subsidiaries (determined on a consolidated basis), by causing one or more of its Subsidiaries that are not Guarantors to become Guarantors in accordance with the terms of these Conditions to the extent necessary to ensure the foregoing thresholds are met. Such Guarantor Threshold Test shall be tested following each annual audit of KTZ using financial information prepared in accordance with IFRS.

The Issuer and each Guarantor shall procure that any Subsidiary, Transferee Subsidiary or Eligible Transferee that needs to become an Additional Guarantor pursuant to these Conditions shall execute a supplemental trust deed and a supplemental paying agency agreement in a form specified by the Trustee, subject to the Trustee having been provided with such information as it may require in relation to any proposed Additional Guarantor prior to any supplemental trust deed or supplemental paying agency agreement being executed (the "**Additional Guarantee Agreements**"). The Issuer and each Guarantor shall give not less than 30 days' notice to the Trustee and the Noteholders in accordance with Condition 17 (*Notices*) of the addition of each Additional Guarantor and, so long as the Notes are listed on the London Stock Exchange and/or any other stock exchange on which the Notes may be listed or quoted from time to time, shall comply with applicable rules of the London Stock Exchange and/or such other exchange. The accession of the Additional Guarantors pursuant to this Condition 7 shall be conditional upon receipt by the Trustee of a legal opinion, in form and substance satisfactory to the Trustee, of independent legal counsel of recognised standing as to the enforceability of the guarantee under the Additional Guarantee Agreements from such Additional Guarantor. The Trustee shall be entitled to accept the legal opinion referred to above without further enquiry or liability to any Person as sufficient evidence of the matters contained therein.

The obligations of each Additional Guarantor will be limited under relevant laws applicable to such Additional Guarantor to the extent that the granting of the relevant Guarantee would:

(i) not be consistent with corporate benefit, capital preservation, financial assistance or fraudulent conveyance rules or any other general statutory laws or regulations (or analogous restrictions) of any applicable jurisdiction; or

(ii) cause the directors of such Additional Guarantor to contravene their fiduciary duties, to incur civil or criminal liability or to contravene any legal prohibition.

The guarantee of a Guarantor will be released automatically and without further action on the part of any Noteholder or the Trustee:

(iii) in connection with any sale, assignment, transfer, conveyance or other disposition of all or substantially all of the assets of that Guarantor (including by way of merger, consolidation, amalgamation, combination, transfer or conveyance of substantially all of its assets to, or liquidation into), provided that the sale or other disposition does not breach Condition 5 (*Limitations on Changes in Business and Disposals of Assets*) and Condition 6 (*Limitations on Merger or Consolidation*); or

(iv) in connection with any sale or other disposition of Capital Stock of that Guarantor, provided that the sale or other disposition does not breach Condition 5 (*Limitations on Changes in Business and Disposals of Assets*) and Condition 6 (*Limitations on Merger or Consolidation*)

provided that, (A) the release of such Guarantor or (B) the release and simultaneous replacement of such Guarantor with one or more Additional Guarantors in accordance with (iii) or (iv) above is in compliance with this Condition 7.

The Issuer shall promptly notify the Trustee and the Noteholders in accordance with Condition 17 (*Notices*) of the release of any Guarantor.

8. Provision of Certain Information

For so long as any Notes are outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, each of the Issuer and each Guarantor will furnish upon the request of a holder of Notes or a beneficial owner of an interest therein to such holder or beneficial owner or to a prospective purchaser of Notes designated by such holder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) under the Securities Act, and will otherwise comply with the requirements of Rule 144A under the Securities Act, if, at the time of such request, the Issuer or the relevant Guarantor is not a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended, or exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

9. Interest

(a) Interest Payment Dates

The Notes bear interest from (and including), 10 July 2012 (the "**Issue Date**") to (but excluding) the Final Redemption Date (as defined in Condition 10 (*Redemption, Purchase and Cancellation*) at the rate of 6.950% per annum, payable semi-annually in arrear on 10 January and 10 July in each year commencing on 10 January 2013 (each, an "**Interest Payment Date**"), subject as provided in Condition 11 (*Payments*). Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an "Interest Period".

(b) Cessation of Interest

Each Note will cease to bear interest from the Final Redemption Date unless, after presentation of the relevant Note Certificate, payment of principal is improperly withheld or refused. In such event, it will continue to bear interest at such rate (as well after as before judgment) until whichever is the earlier of (i) 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 (ii) 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 the Notes up to that seventh day (except to the extent that there is any subsequent default in payment).

(c) Day-Count Fraction

If interest is required to be calculated for any period other than an Interest Period, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

10. Redemption, Purchase and Cancellation

(a) Final Redemption

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 10 July 2042 (the "**Final Redemption Date**"), subject as provided in Condition 11 (*Payments*).

(b) Redemption for Tax Reasons

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 (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption and any Additional Amounts then payable, if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay Additional Amounts as provided or referred to in Condition 12 (*Taxation*) as a result of any change in, or amendment of, the laws, treaties or regulations of The Netherlands or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws, treaties or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 10 July 2012, and such obligation cannot be avoided by the Issuer taking reasonable measures available to it or (ii) KTZ satisfies the Trustee immediately prior to the giving of such notice by the Issuer that a Guarantor has or (if a demand was made under the Guarantee) would become obliged to pay Additional Amounts as provided or referred to in Condition 12 (*Taxation*) or the Guarantee, as the case may be, or KTZ has or will become obliged to make any such withholding or deduction as is referred to in Condition 12 (*Taxation*) or the Guarantee, as the case may be, from any amount paid by it to the Issuer in order to enable the Issuer to make a payment of principal or interest in respect of the Notes, in either case to any greater extent than would have been required had such a payment been required to be made on 10 July 2012, as a result of any change in, or amendment to, the laws, treaties or regulations of the Republic of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws, treaties or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 10 July 2012, and such obligation cannot be avoided by the relevant Guarantor or KTZ, as the case may be, taking reasonable measures available to it; provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer, such Guarantor or KTZ, as the case may be, would be obliged to pay such Additional Amounts or make such withholding or deduction. Prior to the publication of any notice of redemption pursuant to this Condition 10(b), the Issuer shall deliver or procure that there is delivered to the Trustee a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and an opinion of independent legal advisers of recognised standing in form and substance satisfactory to the Trustee to the effect that the Issuer or (as the case may be) the relevant Guarantor, has or will become obliged to pay such Additional Amounts to make such withholding or deduction as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above in which event such certificate and opinion shall be conclusive and binding on the Noteholders. Upon the expiry of any such notice as is referred to in this Condition 10(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 10(b).

(c) Redemption at the option of the Noteholders

Following the occurrence of a Relevant Event, the Issuer, failing which KTZ, will, give notice in accordance with Condition 17 (*Notices*) within 30 days of such Relevant Event, with a copy to the Trustee, at the option of the holder of any Note, redeem such Note on the sixtieth day after notice thereof has been given by the Issuer to the Noteholders (the "**Put Settlement Date**") (with a copy to the Trustee) at 101% of its principal amount together with interest accrued to the Put Settlement Date. In order to exercise the option contained in this Condition 10(c) the holder of a Note must, not less than 15 days before the Put Settlement date, deposit with any Paying and Transfer Agent the relevant Note Certificate and a duly completed put option notice (a "**Put Option Notice**") in the form obtainable from any Paying and Transfer Agent. No Note Certificate, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(c) may be withdrawn; provided, however, that if, prior to the Put Settlement Date, any such Note becomes immediately due and payable or, upon due presentation of any such Note Certificate on the Put Settlement Date, payment of the redemption moneys is improperly withheld or refused, such Note Certificate shall, without prejudice to the exercise of the relevant option, be returned to the holder by uninsured first class mail (airmail if overseas) at such address as may have been given by such Noteholder in the relevant Put Option Notice. The Trustee shall not be required to take any steps to ascertain whether a Relevant Event or any event which could lead to a Relevant Event has occurred or may occur and will not be responsible or liable to the holder of any Note for any loss arising from any failure by it to do so.

"**Relevant Event**" means the Issuer ceasing to be a Subsidiary of KTZ, KTZ ceasing to be Controlled by the Government of the Republic of Kazakhstan or any other Guarantor ceasing to be a Subsidiary of KTZ or otherwise Controlled by the Government of Kazakhstan.

For the avoidance of doubt the substitution of KTZ for the Issuer shall not constitute a Relevant Event.

If this Note is represented by a Global Note Certificate or is in definitive form and held through DTC, Euroclear or Clearstream, Luxembourg to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Paying and Transfer Agent of such exercise in accordance with the standard procedures of DTC, Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by DTC, Euroclear or Clearstream, Luxembourg or any common depositary for them to the Paying and Transfer Agent by electronic means) in a form acceptable to DTC, Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by a Global Note Certificate, at the same time present or procure the presentation of the relevant Global Note Certificate to the Paying and Transfer Agent for notation accordingly.

(d) *Redemption by the Issuer following a partial redemption of the Notes at the option of Noteholders*

If 75% or more of the aggregate principal amount of the Notes originally issued shall have been redeemed on the Put Settlement Date in accordance with the provisions of Condition 10(c), the Issuer shall, within 90 days of the Put Settlement Date, having given not less than 30 or more than 60 days' notice to the Noteholders in accordance with Condition 17 (*Notices*) (which notice shall be irrevocable) (with a copy to the Trustee), redeem on the expiry date of such notice all (but not some only) of the Notes at their principal amount together with interest accrued to but excluding the date of such redemption.

(e) *No other redemption*

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in this Condition 10.

(f) *Purchase*

The Issuer or any Guarantor, or any Person acting on behalf of the Issuer or any Guarantor, may at any time purchase or procure others to purchase for its account Notes, at any price, in the open market or otherwise. Notes so purchased may be held or resold (provided that such resale is outside the United States as defined in Regulation S under the Securities Act or, in the case of any Notes resold pursuant to Rule 144A, is only made to QIBs or surrendered for cancellation, at the option of the Issuer or such Guarantor, as the case may be. Any Notes so purchased, while held by or on behalf of the Issuer or a Guarantor, or any Person acting on behalf of the Issuer or a Guarantor, shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Noteholders.

(g) *Cancellation*

All Notes redeemed, or purchased and surrendered for cancellation as aforesaid, will be cancelled forthwith and may not be re-issued or re-sold. For so long as the Notes are admitted to trading on the London Stock Exchange plc (the "**Stock Exchange**") and the rules of such exchange so require, the Issuer shall promptly inform the Stock Exchange of the cancellation of any Notes under this Condition 10(g).

11. Payments

(a) *Principal*

Payment of principal in respect of each Note and payment of interest due other than on an Interest Payment Date will be made to the Person shown in the Register at the close of business on the Record Date (as defined below) and subject to the surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificate at the specified office of the Registrar or any Paying Agent.

(b) *Interest*

Payment of interest due on an Interest Payment Date will be made to the Persons shown in the Register at close of business on the Record Date.

(c) *Record Date*

"Record Date" means the Business Day before the due date for the relevant payment.

(d) *Payments*

Each payment in respect to the Notes pursuant to Conditions 11(a) (*Principal*) and 11(b) (*Interest*) will be made by U.S. dollar cheque drawn on a bank in New York City and mailed to the relevant Noteholder at the address appearing in the Register as provided below. However, upon application by the Noteholder to the specified office of the Registrar or any Paying Agent not less than 15 days before the due date for any payment in respect of a Note, such payment may be made by transfer to a U.S. dollar account maintained by the payee with a bank in New York City.

Where payment is to be made by cheque, the cheque will be mailed on the Business Day (as defined below) immediately preceding the due date for payment or, in the case of payments referred to in Condition 11(a) (*Principal*), if later, on the Business Day on which the relevant Note Certificate is surrendered (or endorsed as the case may be) as specified in Condition 11(a) (*Principal*) (at the risk and, if mailed at the request of the Noteholder otherwise than by ordinary mail, expense of the Noteholder).

Where payment is to be made by transfer to the U.S. dollar account, payment instructions (for value the due date or, if the due date is not a Business Day, for value the next succeeding Business Day) will be initiated, in the case of principal, on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in case of part payment only, endorsed) and, in the case of interest and other amounts, on the due date for payment.

(e) Agents

The names of the initial Agents and their initial specified offices are set forth below. The Issuer and the Guarantors reserve the right under the Agency Agreement by giving to the Principal Paying Agent, the Principal Transfer Agent and any other Agent concerned at least 60 days' prior written notice, which notice shall expire at least 30 days before or after any due date for payment in respect of the Notes, to remove any Paying Agent, Transfer Agent or the Registrar and to appoint successor or additional Paying Agents, Transfer Agents or another Registrar, provided that it will at all times maintain:

(i) A Principal Paying Agent and a Principal Transfer Agent;

(ii) Paying Agents and Transfer Agents having a specified office in Europe, which will be in London, so long as the Notes are admitted to trading on the London Stock Exchange and the rules of the London Stock Exchange so require;

(iii) a Paying Agent and a Transfer Agent with a specified office on a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Union Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments or any law implementing or complying with, or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(iv) a Registrar, having a specified office in New York City.

Notice of such removal or appointment and of any change in the specified office of any Paying Agent, Transfer Agent or Registrar will be given to Noteholders in accordance with Condition 17 (*Notices*) as soon as practicable.

(f) Payments subject to Fiscal Laws

All payments of principal and interest in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(g) Delay in Payment

Noteholders will not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for payment not being a Business Day or (ii) a cheque mailed in accordance with this Condition 11 arriving after the due date for the payment or being lost in the mail.

(h) Business Days

In this Condition, "**Business Day**" means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York City and, in the case of surrender of a Note Certificate, in the place of the specified office of the Registrar or relevant Paying Agent, to whom the Note Certificate is surrendered.

12. Taxation

All payments of principal and interest in respect of the Notes (including payments by a Guarantor under the Guarantee or otherwise under the Trust Deed) shall be made free and clear of, and without deduction or withholding for, any taxes, duties, assessments, or governmental charges imposed, levied, collected, withheld or assessed by The Netherlands or the

Republic of Kazakhstan or any political subdivision or any authority thereof or therein having the power to tax (collectively "**Taxes**"), unless such withholding or deduction is required by law. In such event, the Issuer or (as the case may be) the relevant Guarantor will, subject to certain exceptions and limitations set forth below, pay such additional amounts ("**Additional Amounts**") to the holder of any Note as may be necessary in order that every net payment of the principal of and interest on such Note, after withholding for or on account of such Taxes upon or as a result of such payment will not be less than the amount provided for in such Note to be then due and payable. Notwithstanding the foregoing, neither the Issuer nor any Guarantor will be required to make any payment of Additional Amounts (a) to any such holder for or on account of any such Taxes which would not have been so imposed but for (i) the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of such holder) and The Netherlands, in case of Taxes imposed by The Netherlands, or in Kazakhstan, in case of Taxes imposed by the Republic of Kazakhstan, (including but not limited to, citizenship, nationality residence, domicile, or existence of a business, a permanent establishment, a dependent agent, a place of business or a place of management present or deemed to be present within that jurisdiction) other than the mere holding of the Note or (ii) the presentation by the holder of the relevant Note for payment on a date more than 30 days after the date (the "Relevant Date") which is the later of the date on which such payment became due and payable and the date on which payment thereof is duly provided for, except to the extent that the holder would have been entitled to Additional Amounts on presenting the same for payment on the last day of such 30-day period; (b) where the withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings or any law implementing or complying with, or introduced in order to conform to, such Directive and the holder of the relevant Note could have avoided such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union; or (c) with respect to any payment on a Note or under the Trust Deed to a holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to such Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of the Note.

In addition, if and to the extent that the obligations of the Issuer or a Guarantor, as the case may be, to pay Additional Amounts pursuant to this Condition 12 are or have become illegal, unenforceable or otherwise invalid, the Issuer and each Guarantor will indemnify and hold harmless each holder of a Note from and against, and will, upon written request of a holder and presentation of reasonable supporting documentation, reimburse each such holder for, the amount of any Taxes withheld or deducted from, or paid by such holder in respect of, payments made under or with respect to the Notes or the Trust Deed and which would not have been withheld, deducted or paid had the said obligations not been or become illegal, unenforceable or otherwise invalid. Solely for purposes of these Conditions, any payment made pursuant to this paragraph shall be considered an Additional Amount.

If the Issuer or a Guarantor becomes generally subject at any time to any taxing jurisdiction other than or in addition to The Netherlands or, in the case of a Guarantor, the Republic of Kazakhstan, references in these Conditions to The Netherlands or, as the case may be, the Republic of Kazakhstan shall be read and construed as a reference to The Netherlands and/or the Republic of Kazakhstan and/or such other jurisdiction.

Any reference in these Conditions to principal, redemption amount and/or interest in respect of the Notes shall be deemed also to include a reference to any Additional Amounts which may be payable under this Condition 12.

Notwithstanding anything to the contrary in this Condition 12, none of the Issuer, the Guarantor, any paying agent or any other person shall be required to pay any Additional Amounts with respect to any withholding or deduction imposed on or in respect of any Note pursuant to sections 1471-1474 of the U.S. Internal Revenue Code of 1986, as amended ("**FATCA**"), the laws of the Republic of Kazakhstan implementing FATCA, or any agreement between the Issuer and the United States or any authority thereof entered into for FATCA purposes.

13. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of not less than one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (subject in each case to being indemnified to its satisfaction) shall, by notice to the Issuer, declare the Notes to be, and whereupon they shall immediately become, due and repayable at their principal amount, together with accrued interest and all other amounts (including Additional Amounts), if any, then due and payable in respect thereof, if any of the following events (each an "**Event of Default**") occurs:

(a) *Non-payment:* the Issuer or a Guarantor, as the case may be, fails to pay any principal or redemption amount in respect of any of the Notes when the same becomes due and payable, either at maturity, upon redemption, by declaration or otherwise, or the Issuer or a Guarantor, as the case may be, is in default with respect to the payment of interest on, or any other amounts, including Additional Amounts, due in respect of, any of the Notes and such default continues for a period of five Business Days; or

(b) *Breach of other obligations:* the Issuer or any Guarantor is in default in the performance, or is otherwise in breach, of any covenant, obligation, undertaking or other agreement under the Notes, the Trust Deed (including, in the case of each Guarantor, under the Guarantee) or the Agency Agreement (other than a default or breach elsewhere specifically dealt with in this Condition 13) and such default or breach (which is, in the opinion of the Trustee, capable of remedy) is not remedied within 40 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer by the Trustee and is, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders; or

(c) *Cross-default:* (i) any Financial Indebtedness of the Issuer or any Guarantor or Material Subsidiary becomes or becomes capable of being declared due and payable prior to the due date for payment thereof by reason of default by the Issuer or the relevant Guarantor or Material Subsidiary thereunder or is not repaid at maturity as extended by any grace period applicable thereto or (ii) any Indebtedness Guarantee given by the Issuer or any Guarantor or Material Subsidiary is not honoured when due and called, provided that the aggregate principal amount of such Financial Indebtedness and the Financial Indebtedness covered by such Indebtedness Guarantee exceeds U.S.$35,000,000 (or its equivalent in other currency); or

(d) *Invalidity or Unenforceability:* (i) the validity of the Notes or the Trust Deed (including the Guarantee) is contested by the Issuer or any Guarantor or the Issuer or any Guarantor shall deny any of its obligations under the Notes, the Trust Deed (including the Guarantee) or the Agency Agreement (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise), (ii) it is or becomes (or the Trustee determines that it will become) unlawful for the Issuer or any Guarantor to perform or comply with all or any of its obligations set out in the Notes, the Trust Deed (including the Guarantee) or the Agency Agreement or (iii) all or any of the Issuer's or any Guarantor's obligations set out in the Notes, the Trust Deed (including the Guarantee) or the Agency Agreement shall be or become unenforceable or invalid; or

(e) *Insolvency or Bankruptcy:* (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, readjustment of debt, marshalling of assets and liabilities or similar arrangements involving the Issuer or any Guarantor or Material 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 Guarantor or Material 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

(f) *Enforcement proceeding:* a distress, attachment, execution or other legal process is levied, enforced or sued out on or against a substantial part, in the opinion of the Trustee, of the property, assets or revenues of the Issuer or any Guarantor or Material Subsidiary and is not discharged or stayed within 60 days; or

(g) *Security enforced:* any Security Interest, present or future, created or assumed by the Issuer or any Guarantor or Material Subsidiary becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar Person) and the aggregate amount secured by any such Security Interests so enforced exceeds U.S.$50,000,000 (or its equivalent in any other currency); or

(h) *Judgments:* a final judgment or judgments for the payment of money have been entered by a court or courts of competent jurisdiction against the Issuer or any Guarantor or Material Subsidiary and remain undischarged for a period of at least 60 days without stay of execution of the relevant judgment or judgments during the period and the aggregate amount of all such judgments at any time outstanding (to the extent not paid or to be paid by insurance) exceeds U.S.$35,000,000 or the equivalent in any other currency (for this purpose, any deductibles, self-insurance or retention shall not be treated as covered by insurance); or

(i) *Winding-Up:* an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer or any Guarantor or Material Subsidiary or the Issuer or any Guarantor or Material Subsidiary ceases to carry on all or, in the opinion of the Trustee, a material part, of its business or operations, except for the purpose of and followed by a merger or consolidation which is permitted by Condition 6 (*Limitations on Merger or Consolidation*) or on terms approved by the Trustee or by an Extraordinary Resolution of the Noteholders; or

(j) *Analogous events:* any event occurs, which, under the laws of The Netherlands or the Republic of Kazakhstan, has an analogous effect to any of the events referred to in paragraphs (e) to (i) above; or

(k) *Authorisations and consents:* any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration, the entering into of all necessary agreements or other documents and the compliance in all material respects (in the opinion of the Trustee) with any applicable laws or regulations (including any foreign exchange rules or regulations pertaining to the Issuer's or any Guarantor's ability to make payments in respect of the Notes or otherwise under the Guarantee or the Trust Deed) of any governmental or other regulatory authority) which is at any time required to be taken, fulfilled or done in order (i) to enable the Issuer or any Guarantor lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes and the Trust Deed (including the Guarantee) or (ii) to ensure that those obligations are legally binding and enforceable is not done, lapses and is not renewed or is cancelled or otherwise ceases to be maintained in full force and effect; or

(l) *Maintenance of business:* any Guarantor or Material Subsidiary fails to take any action as is required of it under applicable regulations in the Republic of Kazakhstan to maintain in effect any material rights, privileges, titles to property, franchises and the like necessary or desirable in the normal conduct of its business, activities or operations and such failure is not remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to KTZ and is materially prejudicial (in the opinion of the Trustee) to the interests of the Noteholders; or

(m) *Government Intervention:* (i) all or, in the opinion of the Trustee, a substantial part of the undertaking, assets and revenues of the Issuer or any Guarantor or Material Subsidiary is condemned, seized or otherwise appropriated or (ii) the Issuer or any Guarantor or Material Subsidiary is prevented from exercising normal control over all or a substantial part of its undertaking, assets and revenues.

14. Prescription

Claims in respect of principal of and interest or other amounts (including Additional Amounts) payable under the Notes will become void unless made within a period of ten years (in the case of principal) or (in the case of interest and other amounts) five years from the appropriate Relevant Date.

15. Replacement of Note Certificates

If any Note Certificate is mutilated, defaced, destroyed, stolen or lost it may be replaced at the specified office of the Registrar or any Transfer Agent subject to all applicable laws and stock exchange requirements (if applicable), upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence, security and indemnity or otherwise as the Issuer and/or the Registrar may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

16. Meetings of Noteholders, Amendment, Modification and Waiver

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the modification of these Conditions or the Trust Deed (including the Guarantee) or the waiver of past defaults. Except for the purpose of passing an Extraordinary Resolution, the quorum at any such meeting shall be one or more persons present holding Notes or being proxies or representatives and holding or representing in the aggregate not less than one-tenth in principal amount of such Notes for the time being outstanding. The quorum at any meeting for passing an Extraordinary Resolution shall be one or more persons present in person holding Notes or being proxies or representatives and holding or representing in the aggregate a clear majority in principal amount of such Notes for the time being outstanding, or at any adjourned meeting, one or more Persons holding or representing any Notes for the time being outstanding, except that the adoption of any proposal (i) to alter the status or maturity of the Notes or the due date for any amount payable in respect of the Notes or under the Guarantee, (ii) to reduce or cancel the principal amount of, or interest on, the Notes, (iii) to modify or cancel the Guarantee, (iv) to change the currency of payment in respect of the Notes or under the Guarantee, (v) to change the obligation of the Issuer and each Guarantor to pay Additional Amounts pursuant to Condition 12 (*Taxation*) or under the Trust Deed; (vi) to modify the covenants of the Issuer or any Guarantor in Conditions 4 (*Negative Pledge*), 5 (*Limitations on Changes in Business and Disposals of Assets*), 6 (*Limitations on Merger or Consolidation*), 10(c) (*Redemption at the option of the Noteholders*) or 10(d) (*Redemption by the Issuer following a partial redemption of the Notes at the option of the Noteholders*), (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or (viii) to modify the percentage required to amend or modify the Notes or the Trust Deed (including the Guarantee) or waive any future compliance or past default by the Issuer or any Guarantor or reduce the percentage of the aggregate principal amount of Notes required for the taking of action or the quorum required at any meeting of Noteholders at which a resolution is adopted, requires the approval of Noteholders pursuant to an Extraordinary Resolution adopted at a meeting at which one or more Persons holding or representing not less than three-quarters or, at an adjourned meeting, not less than one-quarter of the principal amount of the Notes for the time being outstanding form a quorum or at any adjourned meeting at which one or more Persons form a quorum. An Extraordinary Resolution passed at any meeting of Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

(b) Modification and Waiver

Subject to the Trust Deed, the Trustee may agree, without the consent of the Noteholders, (i) to any modification of any provision of the Trust Deed (including the Guarantee), the Agency Agreement or the Notes (including these Conditions) which is of a formal, minor or technical nature or is made to correct a manifest error and (ii) any other modification and any waiver or authorisation of any breach or proposed breach of any provision of the Trust Deed (including the Guarantee), the Agency Agreement or the Notes (including these Conditions) which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and shall be notified to the Noteholders as soon as practicable thereafter.

(c) Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition 16), 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 or any Guarantor, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

(d) Substitution

The Trust Deed provides that at KTZ's written request, prior to the fourth interest payment date on the Notes, the Trustee shall, subject to such amendment of the Trust Deed and such other conditions as set forth in the Trust Deed, without the consent of the Noteholders, agree to the substitution of KTZ or its successor in business in place of the Issuer as the principal debtor under the Trust Deed and the Notes. The Trustee is not required to make any determination as to whether the Initial Substitution is materially prejudicial to the Noteholders. The Trust Deed also 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 entity in place of a Guarantor, or of any previous substituted company.

17. Notices

(a) To Noteholders

Notices to Noteholders will be sent to them by first class mail (or equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as the Notes are listed on the Stock Exchange and the rules of the Stock Exchange so require, notices to Noteholders will be published in a leading newspaper having general circulation in London (which is expected to be the Financial Times) or, if such publication is not practicable, in a leading English language newspaper having general circulation in Europe.

So long as any of the Notes are represented by the Global Note Certificates, notices required to be published in accordance with Condition 17 (Notices) may be given by delivery of the relevant notice to DTC, Euroclear and Clearstream, Luxembourg (as applicable) for communication by them to the relevant accountholders, provided: (i) that such notice is also delivered to the Stock Exchange; and (ii) so long as the Notes are admitted to trading on the Stock Exchange and the rules of the Stock Exchange so require, publication will also be made in a leading daily newspaper having general circulation in London (which is expected to be the Financial Times).

(b) To the Issuer and any Guarantor

Notices to the Issuer or any Guarantor will be deemed to be validly given if delivered to KTZ at 98 Pobedy Avenue, Sary-Arka District, Astana, 010000, Kazakhstan for the attention of the General Manager (or at such other address and for such other attention as may have been notified to the holders in accordance with Condition 17(a)) and will be deemed to have been validly given when delivered.

(c) To the Trustee and Registrar

Notices to the Trustee or the Registrar will be deemed to have been validly given if delivered to the specified office, for the time being, of the Trustee or the Registrar, as the case may be, and will be validly given when delivered.

18. Further Issues

Subject to the Issuer's and Guarantors' covenants and in accordance with the Trust Deed, the Issuer may from time to time without the consent of the Noteholders create and issue further notes having the same terms and conditions as the Notes in all respects (except for the issue price, issue date and the first payment of interest on them) and so that such further issues 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 notes issued pursuant this Condition. Any such further notes shall be constituted by a deed supplemental to the Trust Deed.

Noteholders should note that additional securities that are treated as a single series for non-tax purposes may be treated as a separate series for U.S. federal income tax purposes. In such case, the new securities may be considered to have been issued with original issue discount, as defined in the U.S. Internal Revenue Code of 1986, as amended, and the U.S. Treasury regulations issued thereunder, which may affect the market value of the Notes since such additional securities may not be distinguishable from the Notes.

19. Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or any Guarantor as it may think fit to enforce the terms of the Trust Deed (including the Guarantee) and the Notes (whether by arbitration pursuant to the Trust Deed or by litigation), but it need not take any such proceedings unless it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in principal amount of the Notes outstanding and it shall have been indemnified and/or provided with security to its satisfaction. Except as provided in the Trust Deed, no Noteholder may proceed directly against the Issuer or each Guarantor in respect of the Notes or otherwise under the Trust Deed unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing. The Notes provide for the Trustee to take action on behalf of the Noteholders in certain circumstances, but only if the Trustee is indemnified to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes and accordingly in such circumstances the Trustee will be unable to take action notwithstanding the provision of an indemnity to it, and it will be for Noteholders to take such action directly.

20. The Trustee

The Trustee may, in making any determination under these Conditions, act on the opinion or advice, or information obtained from, any expert and will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from it so acting.

Until the Trustee has actual or express knowledge to the contrary, the Trustee may assume that no Event of Default has occurred.

The Trustee is not liable for any failure to monitor compliance by the Issuer or the Guarantors with the Conditions (including the Issuer's and Guarantors' covenants and Condition 13 (*Events of Default*)) and may rely upon the information provided to it in any certificate, in the case of the Issuer, of two directors of the Issuer or, in the case of a Guarantor, of the General Manager of such Guarantor pursuant to these Conditions or the Trust Deed.

Unless ordered to do so by a court of competent jurisdiction or unless required by the rules of the Stock Exchange, the Trustee shall not be required to disclose to any Noteholder any confidential financial or other information made available to the Trustee by the Issuer or any Guarantor.

21. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and for payment of its costs and expenses in priority to the claims of the Noteholders. The Trustee is entitled to enter into business transactions with the Issuer, any Guarantor or any entity related to the Issuer or any Guarantor without accounting for any profit.

22. Currency Indemnity

Each reference in these Conditions to a specified currency is of the essence. To the fullest extent permitted by applicable law, the obligations of the Issuer and each Guarantor in respect of any amount due under the Notes or the Trust Deed (including the Guarantee) shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in U.S. dollars that the Noteholder entitled to receive that payment may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the date on which that Noteholder receives that payment and the Issuer and each Guarantor shall indemnify the Noteholders against any deficiency arising or resulting from any variation in rates of exchange between the date as of which such amount of U.S. dollars is notionally converted into another currency for the purposes of any such judgment or otherwise and the date of actual payment in such other currency. If the amount in U.S. dollars that may be so purchased for any reason falls short of the amount originally due, the Issuer or the relevant Guarantor shall pay such additional amount, in U.S. dollars, as may be necessary to compensate for the shortfall. Any obligation of the Issuer or a Guarantor not discharged by payment in such other currency shall be due as a separate and independent obligation which, to the extent permitted by applicable law, shall continue in full force and effect until discharged, notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due in respect of the Notes or under any such judgment or order or any indulgence granted from time to time and shall give rise to a separate and independent cause of action. Any such shortfall will be deemed to constitute a loss suffered by the relevant Noteholders and no proof or evidence of any loss will be required.

23. Rights of Third Parties

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

24. Governing Law and Jurisdiction

(a) Governing Law

The Notes and the Trust Deed, including any non-contractual obligations arising out of or in connection with the Notes and the Trust Deed, are governed by, and construed in accordance with, English law.

(b) Arbitration

The Issuer and each Guarantor agrees that any claim, dispute or difference of whatever nature arising under, out of or in connection with the Notes or the Trust Deed (including a claim, dispute or difference regarding its existence, termination or validity or any non-contractual obligations arising out of or in connection with this Trust Deed) (a "**Dispute**"), shall be referred to and finally settled by arbitration in accordance with the rules of the London Court of International Arbitration ("**LCIA**") (the "**Rules**") as at present in force and as modified by this Condition, which Rules shall be deemed incorporated into this Condition. The number of arbitrators shall be three, one of whom shall be nominated by the Issuer/Guarantors, one by the Trustee and the third of whom, who shall act as Chairman, shall be nominated by the two party-nominated arbitrators, provided that if the third arbitrator has not been nominated within 30 days of the nomination of the second party-nominated arbitrator, such third arbitrator shall be appointed by the LCIA court. The seat of arbitration shall be London, England and the language of arbitration shall be English. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

(c) Trustee's Option

At any time before the Trustee has nominated an arbitrator to resolve any Dispute(s) pursuant to Condition 24(b) (*Arbitration*), the Trustee, at its sole option, may elect by notice in writing to the Issuer and the Guarantors that such Dispute(s) shall instead be heard by the courts of England or by any other court of competent jurisdiction, as more particularly described in Condition 24(d) (*Jurisdiction*). Following any such election, no arbitral tribunal shall have jurisdiction in respect of such Dispute(s).

(d) Jurisdiction

In the event that the Trustee serves a written notice of election in respect of any Dispute(s) pursuant to Condition 24(c) (*Trustee's Option*), the Trustee and the Issuer and each Guarantor agrees, that the courts of England shall have jurisdiction to hear and determine any such Dispute(s) and, for such purposes, irrevocably submit to the jurisdiction of such courts. Subject to Condition 24(b) (*Arbitration*), nothing in this Condition shall (or shall be construed so as to) limit the right of the Trustee to bring proceedings ("**Proceedings**") for the determination of any Dispute(s) in any other court of competent jurisdiction, nor shall the bringing of such Proceedings in any one or more jurisdictions preclude the bringing of Proceedings by any Manager in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

(e) Appropriate Forum

For the purposes of Condition 24(d) (*Jurisdiction*), the Issuer and each Guarantor have irrevocably waived any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings in connection with a Dispute and have each agreed not to claim that any such court is not a convenient or appropriate forum.

(f) Process Agent

The Issuer and each Guarantor agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Cheeswrights (Notaries Public) at Bankside House, 107 Leadenhall Street, London EC3A 4AF, United Kingdom, or, if different, its registered office for the time being or at any address of the Issuer or the relevant Guarantor, as the case may be, in Great Britain at which process may be served on it in accordance with Part 34 of the Companies Act 2006. If such person is not or ceases to be effectively appointed so to accept service of process on behalf of the Issuer or the relevant Guarantor, as the case may be, the Issuer or the relevant Guarantor, as the case may be, shall notify the Trustee and appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Trustee shall be entitled to appoint such a person by written notice to the Issuer in accordance with Condition 17 (*Notices*) and the relevant Guarantor. Nothing in this paragraph shall affect the right of the Trustee to serve process in any other manner permitted by law.

(g) Consent to Enforcement, etc.

The Issuer and each Guarantor consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings, including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment that may be given in such Proceedings.

(h) Enforcement of Awards and Judgments; Waiver of Immunity

The Issuer and each Guarantor agree that any award made pursuant to Condition 24(b) (*Arbitration*) in relation to a Dispute or any final judgment in any Proceeding may be enforced in a tribunal or court (as the case may be) to the jurisdiction of which the Issuer or any Guarantor is or may be subject. If and to the extent that the Issuer or any Guarantor may in respect of any Proceedings or Dispute in any jurisdiction be entitled to claim for itself or its assets or revenues immunity from suit, from the jurisdiction of any court, from execution, attachment (whether in aid of execution of a judgment, before judgment or award or otherwise) or any other relief or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or such Guarantor or its assets or revenues, the Issuer and each Guarantor have irrevocably agreed not to claim and have irrevocably waived such immunity to the fullest extent permitted now or hereafter by the laws of such jurisdiction in which such Proceedings or Dispute are commenced.

(i) Language

These Conditions have been prepared and negotiated in English which shall be the governing language. In order to comply with internal requirements of the Guarantors, a Russian version of these Conditions may be prepared. In the event of any inconsistency between the Russian and English language versions, the English language version shall prevail to the extent of such inconsistency and the Russian version shall be amended accordingly, without any act or approval by any party hereto, to reflect the meaning of the English version. The existence of multiple versions of these Conditions shall not be construed to create multiple obligations on the Issuer.

USE OF PROCEEDS

The net proceeds from the issue of the Notes is expected to amount to approximately U.S.$796,210,000 after deduction of fees and expenses related to the offering. Approximately U.S.$220 million of the net proceeds from the offering will be used by the Issuer to repay a bridge facility dated 22 May 2012 as amended by the Amendment Agreement dated 8 June 2012 entered into by the Issuer, the Guarantors, Barclays Bank PLC and HSBC Bank plc. The remainder of the net proceeds will be on-lent by the Issuer to Kaztemirtrans which will use the net proceeds in the amount of approximately U.S.$576,210,000 to acquire rolling stock.

THE ISSUER

General

The Issuer was incorporated under the laws of The Netherlands on 11 September 2001 as a private limited liability company and is registered with the Amsterdam Chamber of Commerce Commercial Register under number 24325568. The Issuer is owned by the Company, with Kaztemirtrans, a wholly owned subsidiary of the Company, holding 99.64% and the Company holding directly 0.36% of the Issuer's issued and outstanding shares. The Company is currently in the process of transferring its 0.36% ownership interest in the Issuer to Kaztemirtrans.

The registered office of the Issuer is Prins Bernhardplein 200, 1097 JB Amsterdam, The Netherlands, and its telephone number is +31 (0) 205214757.

Capitalisation

The authorised share capital of the Issuer consists of 25,090,000 common shares, par value EUR 100 per share. Of these shares, 50,180 ordinary shares have been issued and fully paid at par, resulting in a total capitalisation of EUR 5,018,000.

Business

Under Article 2 of its Articles of Association (as currently in effect), the Issuer is permitted, *inter alia*, to raise funds in the international capital markets and lend such funds to the Group. On 11 May 2006, the Issuer issued U.S.$450,000,000 aggregate principal amount of 6.50% notes which matured on 11 May 2011 and U.S.$350,000,000 aggregate principal amount of 7.00% notes due 2016 (collectively, the "**2006 Notes**"). The outstanding 2006 Notes are guaranteed by the Guarantors. Additionally, on 6 October 2010, the Issuer issued U.S.$700,000,000 aggregate principal amount of 6.375% notes due 2020 which are guaranteed by the Guarantors (the "**2010 Notes**").

The Issuer has no employees or subsidiaries. Since its inception, the Issuer has not engaged in any material activities other than those incidental to its registration as a private company under the laws of The Netherlands, those related to the issuance of the 2006 Notes, those related to the issuance of the 2010 Notes and those related to the issuance of the Notes.

There are no legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Issuer is aware) involving the Issuer, which may have, or have had since the date of the Issuer's incorporation, a significant effect on the financial position or profitability of the Issuer.

Management

The Issuer has four Managing Directors. The Directors of the Issuer and their business addresses are as follows:

Director	Business Address
Mrs Yelena Ivanovna Lepskaya, Managing Director of Finance of the Company	6 Kunayev street, Esil District, Astana, 010000, Republic of Kazakhstan
Mr. Shagdarbek Zhaisanbayev, President of Kaztemirtrans	6 Kunayev street, Esil District, Astana, 010000, Republic of Kazakhstan
Mr. Wim G. Rieff, employee of Intertrust (Netherlands) B.V.	Prins Bernhardplein 200, 1097 JB Amsterdam, The Netherlands
Intertrust (Netherlands) B.V., a Netherlands limited liability company	Prins Bernhardplein 200, 1097 JB Amsterdam, The Netherlands

The members of the board of directors of the Issuer's corporate director, Intertrust (Netherlands) B.V., are Messrs Otgerus Joseph Anton van der Nap, Peter de Langen, Ronald Willem Bakker, and Derk Jan Cornelis Niezing. The business address of each of these directors is Prins Bernhardplein 200, 1097 JB Amsterdam, The Netherlands.

There are no potential conflicts of interest between any duties of the Managing Directors as a member of the board of directors of the Issuer or any of the board of directors of the Issuer's corporate directors, Intertrust (Netherlands) B.V., towards the Issuer and their private interests and/or other duties.

Financial Statements

The Issuer prepares financial statements on an annual basis in accordance with Dutch law. All financial statements, annual or interim, prepared after the date of this Prospectus, will be available for inspection (and copies thereof may be obtained in English) on any business day during normal office hours at the registered office of the Issuer and at the specified offices (as determined by the Trust Deed) of the Principal Paying Agent. The fiscal year of the Issuer ends each year on 31 December.

CONSOLIDATED CAPITALISATION OF THE COMPANY

The following table sets out the consolidated capitalisation of the Company as at the date indicated. The following table should be read in conjunction with "*Selected Consolidated Financial and Other Information of the Company*", "*Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group*" and the Annual Financial Statements and the related notes thereto.

	As at 31 December 2011
	(KZT in thousands)
Current indebtedness	
Borrowings	33,119,423
Current portion of debt securities issued	2,056,610
Current portion of finance lease liabilities	614,257
Total	**35,790,290**
Long-term indebtedness	
Borrowings	167,374,546
Debt securities issued	154,927,950
Finance lease liabilities	5,016,103
Total	**327,318,599**
Equity	
Share capital	579,417,097
Additional paid-in capital and unissued share capital	103,121,474
Foreign currency translation reserve	(197,201)
Retained earnings	261,978,267
Equity attributable to owner of the Company	944,319,637
Non-Controlling Interests	6,158,078
Total equity	**950,477,715**
Total capitalisation	**1,313,586,604**

As at the date of this Prospectus, except as discussed below, there has been no material change in the Company's capitalisation since 31 December 2011.

Under the loan facility agreement with the JSC Halyk Bank of Kazakhstan, Lokomotiv drew down a tranche in the amount of KZT 1,500,000 thousand on 18 January 2012, a tranche in the amount of KZT 1,500,000 thousand on 22 February 2012, and a tranche in the amount of KZT 2,000,000 thousand on 19 April 2012 to replenish working capital for an aggregate amount of KZT 5,000,000 thousand with interest rates of 5.5% to 6.0% and a repayment date of 24 October 2012.

Under the unsecured principal loan facility agreement dated 18 April 2012 with JSC "Alfa-Bank" in the form of a revolving credit line in the total amount of KZT 1,700,000 thousand for replenishment of working capital and refinancing of a loan from JSC "ATF Bank", LLP "Kamkor Lokomotiv" drew down the following:

- On 18 April 2012 LLP "Kamkor Lokomotiv" took out a short-term loan in the amount of KZT 800,000 thousand for the replenishment of working capital with a repayment date of 18 April 2013 and an interest rate of 9% per annum. The repayment of principal is due at maturity, and interest is payable on a monthly basis. The loan was granted without collateral.

- On 2 May 2012 LLP "Kamkor Lokomotiv" took out a short-term loan in the amount of KZT 900,000 thousand for the replenishment of working capital with a repayment date of 18 April 2012 and an interest rate of 9% per annum. The repayment of principal is due at maturity, and interest is payable on a monthly basis. The loan was granted without collateral.

Under the loan facility agreement with the EBRD, Kaztemirtrans drew down a tranche in the amount of U.S.$11,788,425 on 13 March 2012, a tranche in the amount of U.S.$48,383,298 on 15 May 2012, and a tranche in the amount of KZT 7,011,862 thousand on 17 May 2012, to finance the purchase of up to 4,000 units of freight wagons for the Group. The loan is paid quarterly with an interest rates of LIBOR for six-month deposits (for tranches in U.S. Dollars) and all-in cost (for a tranche of Tenge) plus 2.95%. The repayment of principal is subject to a grace period of up to May 2013; then payments must be made quarterly until maturity in November 2018. The loan is guaranteed by the Company.

On 24 May 2012, Kaztemirtrans entered into a loan facility agreement with JSC Development Bank of Kazakhstan, guaranteed by the Company, to finance the purchase of 4000 units of freight gondolas in the amount of U.S.$188,291,712 with a maturity of 25 May 2017. Pursuant to the agreement, on 25 May 2012 Kaztemirtrans drew down tranches in the aggregate amount of U.S.$62,033,048 with an interest rate of 6.75% per annum. The repayment of principal is due at maturity, and interest is payable on a semi-annual basis.

On 25 May 2012, Lokomotiv entered into a loan facility agreement, guaranteed by the Company and Kaztemirtrans, with HSBC Bank plc, SB HSBC Kazakhstan JSC, Hongkong and Shanghai Banking Corporation Limited, China Development Bank Corporation and China Export & Credit Insurance Corporation ("**Sinosure**") for an aggregate amount of up to U.S.$73 million (the "**Sinosure Loan Facility**"). The Sinosure Loan Facility has a term of 10 years and amounts borrowed under the agreement will bear interest at LIBOR plus 3% plus mandatory costs, if any. As at the date of this Prospectus, Lokomotiv had not drawn any amounts under the Sinosure Loan Facility but currently expects to draw the full amount under the Sinosure Loan Facility in the third quarter of 2012.

On 31 May 2012, Lokomotiv entered into a loan facility agreement, guaranteed by the Company and Kaztemirtrans, with HSBC France, HSBC Bank plc, SB HSBC Kazakhstan JSC, Citibank international plc (Paris Branch), the Bank of Tokyo-Mitsubishi UFJ, LTD (Paris Branch) and Compagnie Française d'Assurance pour le Commerce Extérieur ("**COFACE**") for an aggregate amount of up to EUR 880.9 million (the "**COFACE Loan Facility**"). The COFACE Loan Facility has a term of 10 years after the start date for repayment for any loan under the facility, and amounts borrowed under the agreement will bear interest at fixed and variable rates. As at the date of this Prospectus, Lokomotiv had not drawn any amounts under the COFACE Loan Facility.

The Company is in the process of negotiating a loan agreement with the Export-Import Bank of the United States in the amount of U.S.$424.9 million and expects to enter into such agreement in the third quarter of 2012.

Samruk-Kazyna is also currently expected to make a capital contribution in the amount of KZT 10.1 billion as additional funding for the construction of a railway line between Uzen and the Turkmenistan state border and a railway line between Khorgas and Zhetygen in the third quarter of 2013 and a capital contribution in the amount of KZT 4 billion in the third quarter of 2012 for the purpose of funding the construction of a railway line between Zhezkazgan and Beyneu and a railway line between Arkalyk and Shubarkol. However, there can be no assurance that such funds will be approved in the amount or in accordance with the timeline that the Company currently anticipates. In addition, the Company also currently intends to procure loans at below-market rates from Samruk-Kazya in the amount of approximately KZT 60 billion for the construction of the Zhezkazgan-Beyneu and Arkalyk-Shubarkul railway lines and in the amount of approximately KZT 2.1 billion for the purchase of additional passenger railway cars. See "*Risk Factors – Risk Factors Relating to the Group-The Group has historically received and continues to rely on support from the Government, which indirectly controls the Company and may cause it to engage in business practices that conflict with the Company's commercial interests and the interests of the Noteholders*".

SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION OF THE COMPANY

The following selected consolidated historical financial information as at 31 December 2011, 31 December 2010 (restated), and 1 January 2010 (restated) and for the years ended 31 December 2011 and 31 December 2010 (restated) has been extracted from the Annual Financial Statements, which are included elsewhere in this Prospectus.

Prospective investors should read the following selected consolidated financial and other information in conjunction with the information contained in ''*Presentation of Financial and Certain Other Information*'', ''*Risk Factors*'', ''*Consolidated Capitalisation of the Company*'', ''*Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group*'', ''*The Issuer*'', ''*Business of the Group*'' and the Annual Financial Statements and the related notes thereto appearing elsewhere in this Prospectus.

Statement of Comprehensive Income Data

	For the year ended 31 December		
	2011(1)	**2011**	**2010 (restated)**
	(unaudited) (U.S.$ in thousands)	*(KZT in thousands)*	
Revenue			
Freight transportation	4,067,766	603,656,403	501,555,575
Passenger transportation	370,037	54,913,553	50,914,647
Government grants	124,356	18,454,475	15,409,258
Other revenue	173,348	25,724,911	14,501,328
Total revenue	4,735,507	702,749,342	582,380,808
Cost of sales	(3,169,004)	(470,280,262)	(397,418,883)
Gross profit	1,566,503	232,469,080	184,961,925
General and administrative expenses	(422,994)	(62,772,376)	(69,164,226)
Selling expenses	(1,078)	(159,971)	(121,788)
(Loss)/recovery of loss from impairment of property, plant and equipment	(6,085)	(903,059)	106,428
Bargain purchase gain	6,392	948,610	—
Other income and expenses	22,784	3,381,126	1,885,036
Finance income	31,295	4,644,247	3,289,691
Finance costs	(131,504)	(19,515,232)	(12,998,931)
Foreign exchange loss	(11,053)	(1,640,265)	(118,652)
Share of profit of associates and joint ventures	467	69,331	242,810
Profit before taxation	1,054,727	156,521,491	108,082,293
Income tax expense	(224,344)	(33,292,672)	(41,545,541)
Profit for the year	830,383	123,228,819	66,536,752

(1) The Group's presentation currency is the Tenge. These figures have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 31 December 2011, KZT 148.40 per U.S.$1.00. Such conversion should not be construed as a representation that the KZT amounts have been or could be converted into U.S.$ at this rate or any other rate.

Statement of Financial Position Data

	As at 31 December			As at 1 January
	2011[(1)]	**2011**	**2010 (restated)**	**2010 (restated)**
	(unaudited) (U.S.$ in thousands)	*(KZT in thousands)*		
Property, plant and equipment	8,554,373	1,269,468,987	993,529,020	845,741,549
Total non-current assets	9,061,472	1,344,722,454	1,030,647,694	862,108,659
Other financial assets	345,159	51,221,664	122,201,395	17,706,980
Cash and cash equivalents	877,439	130,211,949	97,513,097	54,706,785
Total current assets	2,152,725	319,464,451	296,324,891	156,261,408
Total assets	11,214,534	1,664,236,905	1,326,972,585	1,018,370,067
Total equity	6,404,836	950,477,715	765,543,238	672,851,430
Non-current borrowings[(2)]	2,205,651	327,318,599	206,156,546	155,726,878
Total non-current liabilities	3,123,165	463,477,624	304,743,435	214,996,269
Current borrowings[(3)]	241,174	35,790,290	103,437,557	22,326,829
Total current liabilities	1,686,533	250,281,566	256,685,912	130,522,368
Total liabilities	4,809,698	713,759,190	561,429,347	345,518,637

(1) The Group's presentation currency is the Tenge. These figures have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 31 December 2011, KZT 148.40 per U.S.$1.00. Such conversion should not be construed as a representation that the KZT amounts have been or could be converted into U.S.$ at this rate or any other rate.

(2) Represents the aggregation of the non-current portion of borrowings, debt securities issued and finance lease liabilities.

(3) Represents the aggregation of the current portion of borrowings, the current portion of debt securities issued and current portion of finance lease liabilities.

Statement of Cash Flows Data

	For the year ended 31 December		
	2011[(1)]	**2011**	**2010 (restated)**
	(unaudited) (U.S.$ in thousands)	*(KZT in thousands)*	
Net cash flows from operating activities	1,399,941	207,751,268	165,620,434
Net cash flows used in investing activities	(1,792,135)	(265,952,854)	(302,584,001)
Net cash flows from financing activities	616,864	91,542,547	179,818,642
Net increase in cash and cash equivalents	224,670	33,340,961	42,855,075
Cash and cash equivalents at the beginning of the year	657,096	97,513,097	54,706,785
Effect of foreign exchange rates on cash and cash equivalents	(4,327)	(642,109)	(48,763)
Cash and cash equivalents at the end of the year	877,439	130,211,949	97,513,097

(1) The Group's presentation currency is the Tenge. These figures have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 31 December 2011, KZT 148.40 per U.S.$1.00. Such conversion should not be construed as a representation that the KZT amounts could have been converted into U.S.$ at this rate or any other rate.

Financial Ratios

	As at and for the year ended 31 December	
	2011	2010 (restated)
	(KZT in thousands, except ratios)	
Group EBITDA[(1)]	237,009,591	173,599,577
Current ratio[(2)]	1.28	1.15
Coverage ratio[(3)]	9.02	9.31
Total debt to equity ratio[(4)]	0.38	0.40
Total debt to Group EBITDA[(5)]	1.53	1.78

(1) The Group defines Group EBITDA as EBITDA plus finance income, or profit for the year before income tax expense, finance costs, depreciation and amortisation. Group EBITDA are not measures 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. Group EBITDA is computed as follows:

	For the year ended 31 December	
	2011	2010 (restated)
	(KZT in thousands)	
Profit for the year	123,228,819	66,536,752
Income tax expense	33,292,672	41,545,541
Finance costs	19,515,232	12,998,931
Depreciation and amortisation[(*)]	60,972,868	52,518,353
Group EBITDA	237,009,591	173,599,577

(*) Includes all depreciation and amortisation recorded under cost of sales, general and administrative expenses, selling expenses and other expenses.

(2) The Group defines current ratio as current assets divided by current liabilities.

(3) The Group 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 Group EBITDA.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION OF THE GROUP

The following discussion and analysis is intended to assist in the understanding and assessment of the trends and significant changes in the Group's results of operations and financial condition. Historical results may not be indicative of future performance. This discussion is based on the Annual Financial Statements and should be read in conjunction with the Annual Financial Statements, the notes thereto, and other information appearing elsewhere in this Prospectus. This discussion includes forward-looking statements that involve risks and uncertainties. The Group'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 Company is the national railway company of Kazakhstan and owns and operates Kazakhstan's national railway system and related infrastructure. The Company was established by decree of the Government of the Republic of Kazakhstan, which through its wholly owned subsidiary, Samruk-Kazyna, owns all of the outstanding shares of the Company. As Kazakhstan's national railway company, the Company has a monopoly over the provision of services on Kazakhstan's mainline railway network and is a dominant provider of freight transportation services in Kazakhstan. JSC Passenger Transportation, a subsidiary of the Company, is a dominant provider of passenger transportation services in Kazakhstan. The Group is the largest employer and taxpayer in Kazakhstan and also is a significant contributor to the development of the infrastructure necessary to transport raw materials and finished goods, both into and out of Kazakhstan. Due to Kazakhstan's limited access to navigable water routes, underdeveloped road infrastructure and Kazakhstan's dependence on the export of raw materials and import of finished goods, the railway system is a crucial component of Kazakhstan's economic growth.

The Group is responsible for the maintenance, operation and modernisation of Kazakhstan's mainline railway network and provides railway transportation, infrastructure and support services, which include maintaining all railway infrastructure, machinery and equipment in the Republic of Kazakhstan; ensuring the safety of railway operations; developing material and technical systems for the railway network; and establishing international railway transit corridors as agreed with Kazakhstan's Ministry of Transportation. In addition, in connection with recent Government initiatives for the development of transportation logistics, which is a relatively new priority in Kazakhstan's transportation sector, the Company has been appointed the national transportation and logistics operator and will be responsible for institutional development and operational coordination in this regard.

The Group's freight transportation revenue was KZT 603.7 billion for the year ended 31 December 2011 and KZT 501.6 billion for the year ended 31 December 2010, which accounted for 85.9% and 86.1%, respectively, of total revenue. According to NSA data, the Group's freight turnover, which includes freight transported in third-party wagons hauled by the Group, accounted for 49.8% and 55.3% of all freight turnover in Kazakhstan by all modes of transportation in 2011 and 2010, respectively. For the year ended 31 December 2011, the Group had an overall freight turnover of 223.6 billion tonne-kilometres, which represented an increase from 2010 when the Group had an overall freight turnover of 213.2 billion tonne-kilometres. See "*Business Operations of the Group – Transport Services – Freight Transportation*".

The Group's passenger transportation revenue was KZT 54.9 billion for the year ended 31 December 2011 and KZT 50.9 billion for the year ended 31 December 2010, which accounted for 7.8% and 8.7% respectively, of total revenue. For the year ended 31 December 2011, the Group had passenger turnover of 14.6 billion passenger-kilometres, which represents an increase from 2010 when the Group had passenger turnover of 13.9 billion passenger-kilometres. See "*Business Operations of the Group – Transport Services – Passenger Transportation*".

Factors and Trends Affecting Financial Condition and Results of Operations

The main factors that have affected the Group's results of operations during the periods being analysed, and that can be expected to affect the Group's results of operations in the future, are (i) the Kazakhstan economy; (ii) demand for the transportation of commodities; (iii) tariffs and Government grants; (iv) the cost of fuel; (v) the impact of changes in exchange rates; (vi) movements in interest rates; (vii) international trade volumes of countries that border Kazakhstan; (viii) the CIS railway network system and reforms of the Kazakhstan railway industry; (ix) taxation; (x) cost-saving measures; and (xi) competition. These factors should be taken into account in reviewing the Group's results of operations for the periods discussed.

The Kazakhstan Economy

The correlation of rail freight turnover with both Kazakhstan's growth in GDP and industrial production is relatively high largely due to the volumes of commodities transported. However, with the onset of the global economic downturn, most notably in the second half of 2008 and into the first half of 2009, both freight and passenger transportation volumes declined, broadly reflecting the effect the downturn had on the Kazakhstan economy during that period. As a result, the Group substantially reduced its capital expenditures in 2009, which it could no longer fully fund from operating cash flow or other sources, and implemented other cost reduction measures. In the second half of 2009 and in 2010, freight transportation volumes recovered, and consequently, the Group's transportation volumes also increased. In 2011, as general economic conditions continued to improve, freight transportation volumes increased, which, in turn, led to a further increase in the Group's transportation volumes. In 2011, the volume of freight transported totalled 279.6 million tonnes and total freight turnover was 223.6 billion tonne-kilometres, as compared to 267.7 million tonnes and 213.2 billion tonne-kilometres, respectively, in 2010. Accordingly, the Group expects that its revenues will continue to be highly correlated with GDP growth and industrial production growth in Kazakhstan. See ''*Kazakhstan's Economy and the Railway Industry in Kazakhstan*'' and ''*Risk Factors – The Group's results of operations and financial condition are significantly influenced by general economic conditions in Kazakhstan*''.

Demand for the Transportation of Commodities

In light of the need for delivery both domestically and for export of commodities by rail, certain commodities, in particular oil and oil products and coal, account for a significant amount of the freight tariff revenues that the Group generates. In the years ended 31 December 2011 and 2010, oil and oil products accounted for 24.3% and 22.9%, respectively, of the Group's total freight tariff revenue, while coal accounted for 11.4% and 11.8%, respectively, of the Group's total freight tariff revenue.

The transportation of crude oil from oil fields to oil refineries in Kazakhstan by railways accounted for approximately 5% to 6% 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. Although the railways currently have wider geographical coverage than pipelines in Kazakhstan, demand for shipments by rail is not consistent, due to seasonal differences in the demand for crude oil, such as in winter when demand for crude oil can decrease as a result of seasonal closures of operating facilities that use crude oil, and from time to time refinery closures for, among other things, repairs. In addition, with the development and extension of Kazakhstan's pipeline network connecting oil fields, refineries and oil purchasers' storage facilities, demand for transportation by rail is expected to decrease in upcoming years. See ''*Risk Factors – Railway transportation may be subject to increasing competition from other modes of freight transportation, and the Group may be subject to increasing competition from other transportation and logistics Companies*''.

The Group faces its greatest competition in the transportation 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. The freight turnover by pipeline increased by approximately 15% in 2011 compared to 2010. While the Group faces significant competition from pipelines in the transport of crude oil, an area of expected growth for the Group is the transportation of refined oil products. Unlike crude oil, due to its nature, oil products cannot typically be transported by pipeline. Transportation of oil products accounted for 60.6% and 59.3% of the Group's total volume of transported oil and oil products in the years ended 31 December 2011 and 2010, respectively.

In 2011, freight turnover in respect of transportation of crude oil, which accounts for 40% of the Group's freight tariff revenue derived from transportation of oil and oil products, decreased by approximately 10% compared to 2010, while freight turnover from the transportation of diesel fuel, which accounted for 14% of the Group's freight tariff revenue derived from transportation of oil and oil products increased by approximately 18% as compared to 2010. In the same period, turnover from the transportation of kerosene, which accounts for 10% of the Group's freight tariff revenue from transportation of oil and oil products, increased by approximately 16%, turnover from the transportation of residual fuel oil which accounts for 10% of the Group's freight tariff revenue from the transportation of oil and oil products, increased by approximately 13% and turnover from the transportation of other light oil products, which accounts for 6% of the Group's freight tariff revenue from transportation of oil and oil products, increased by approximately 18%.

Domestic transportation of coal, which accounted for 5.9% and 5.7% of the Group's total freight tariff revenue generated from the transportation of coal in 2011 and 2010, respectively, is directed to the industrial sector and to public utility complexes for purposes of generating heating and electric energy. Needs of the industrial sector are generally stable being dependent on overall industrial growth of the country, while requests of public utility complexes for coal are mostly driven by seasonal demand. The Company believes that increasing needs for heating and electric energy will entail further growth of coal transportation with a possible adjustment for the development of gas supply. The majority of export shipments of coal that the Group transports, which accounted for 5.6% and 6% of the Group's total freight tariff revenue generated from the transportation of coal in 2011 and 2010, respectively, are targeted at Ural and Siberian consumers in Russia, leaving only a small portion of export coal going to third countries which are not members of the Organisation for Railways Cooperation (the "**OSJD**"). Kazakhstan coal producing companies are from time to time subject to competition from the Russian competitors, which can lead to fluctuations in the amount of coal that the Group transports for export.

Tariffs and Government Grants

In the periods presented in this section, a significant majority of the Group's revenue was derived from freight and passenger transportation which was subject to regulated rail transportation tariffs. Except with respect to transit tariffs for freight that passes through Kazakhstan to destinations outside of Kazakhstan, the tariffs that are applicable to the Group's operations are based on detailed price lists approved by the Anti-Monopoly Agency, which specify prices for freight and passenger transportation based on weight, freight class or class of travel, direction, distance and destination, and are subject to an annual, and occasionally, supplemental, indexation process. Transit freight tariffs, which accounted for 21% and 18% of the Group's tariff revenues in 2011 and 2010, respectively, are typically set by the Company on the basis of the Tariff Policy of Railways of CIS Countries for International Cargo Transportation, which establishes the framework for tariffs that the CIS members states have agreed to follow. See "*Business of the Group – Government Regulation and Tariffs*". Since freight tariffs differ according to the distance and class of freight, among other things, changes in average transportation distances and changes in the mix of freight transported can lead to higher or lower revenues, operating profits and margins for the Group. Further, the Government, through the Anti-Monopoly Agency, may consider wider economic and political factors in setting tariffs, such as the low tariff for domestic transportation of coal used for power generation and heating. For example, the provision of passenger rail services in Kazakhstan is considered a social responsibility of the rail operator and, accordingly, tariffs are kept artificially low to ensure affordable passenger rail services for all members of the public. As a result, the Group's revenue, profit for the year and margins are sensitive to annual changes in transportation tariffs (particularly freight tariffs). Freight tariffs increased by an average of 17.6% in 2010 and 15% in 2011. Effective 1 April 2012, freight tariffs increased by an average of 15% for 2012, and based on the Government's Development Programme, the Company currently expects freight tariffs to increase by an annual average of 15% for 2013 and 2014, with future annual increases to be determined based on the then applicable rate of inflation. In addition, as part of the SES established by Belarus, Kazakhstan and Russia, an agreement provides for the unification of tariffs by 1 January 2013, across export, import and domestic freight tariffs within each of these countries and permits rail transportation operators, at their discretion, based on certain economic factors, to change those tariffs. Starting from 1 January 2015, each of these countries must provide access to their respective railway infrastructures to the transportation operators from the other countries within the SES. In accordance with the Development Programme, the Company intends, subject to economic conditions, to unify its tariffs across the different types of freight it transports by 2015, provided this is economically viable. As part of the SES, these countries have agreed to cooperate with respect to compensation of economically justifiable expenses relating to international trade within the SES, the development of infrastructure and tariff transparency. According to the World Bank, average customs tariffs have increased from 6.7% before establishment of the SES to 11.5% after incorporation of unified tariffs within the SES and led to a displacement of imports from third countries and a higher cost of imports, but has also led to increased revenues from tariffs. This is reflected in the Group's turnover for imports of freight, which increased by 8.1% in 2011 compared to 2010, while revenues generated from imports of freight during the same period increased by 24.6%. See "*Risk Factors – The position of the Company as a monopoly and a dominant entity and the position of the other Guarantors as dominant entities may result in adverse regulatory interference in the Group's operation*".

The Group's profit is also affected by the amount of grants it receives from the Government. The Group receives grants from the Government as compensation for certain passenger transportation tariffs being set at low or unprofitable levels. These are shown in the Group's consolidated statement of comprehensive income in "Government grants". In each period presented in this section, the Group received grants for passenger transportation, with the level of grants changing periodically. For the year ended 31 December 2011, the Group received KZT 18.5 billion in grants, which represented an increase of 19.8% from KZT 15.4 billion in grants received in 2010. See "*Business of the Group – Business Operations of the Group – Transport Services – Passenger Transportation*" and "*Risk Factors – Risk Factors Relating to the Group – The Group has historically received and continues to rely on support from the Government, which indirectly controls the Company and may cause it to engage in business practices that conflict with the Company's commercial interests and the interests of the Noteholders*".

Cost of Fuel

In 2011 and 2010, fuel and lubricants accounted for 16.6% and 16.2%, respectively, of the Group's cost of sales. Diesel fuel, the price of which can be subject to dramatic fluctuations, accounted for a significant majority of the Groups costs for fuel and lubricants accounting for 89.5% and 89.3% in 2011 and 2010, respectively. The Group purchases diesel fuel for its locomotives and other types of fuel and lubricants primarily through open tenders held in accordance with the procurement procedures established by Samruk-Kazyna. To manage the pricing risks, the Group usually holds procurement tenders in the beginning of a calendar year on fixed price terms with the flexibility to decrease the initially fixed price it must pay if the market prices for the subject commodity or service decrease. See "*Quantitative and Qualitative Disclosures about Market Risk – Inflation and Commodities Prices*", "*Risk Factors – Risk Factors Relating to the Group – The Group is subject to commodity price risk and foreign currency exchange rate risk, each of which the Group has a limited ability to manage*" and "*Business of the Group – Customers and Suppliers – Suppliers*".

Impact of Changes in Exchange Rates

The Tenge/U.S. Dollar exchange rate in Kazakhstan affects the Group's results of operations principally because a majority of the Group's borrowings and debt securities are denominated in U.S. Dollars. As at 31 December 2011, 58.3% of the Group's borrowings and debt securities were denominated in U.S. Dollars. Accordingly, fluctuations in the Tenge/U.S. Dollar exchange rate may significantly affect the Group's consolidated results of operations. See "*Quantitative and Qualitative Disclosures about Market Risk – Foreign Currency Exchange Rate Risk*" and "*Risk Factors – Risk Factors Relating to the Group – The Group is subject to commodity price risk and foreign currency exchange rate risk, each of which the Group has a limited ability to manage*".

On 4 February 2009, the NBK devalued the Tenge by 18% against the U.S. Dollar, 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) and to enhance the competitiveness of Kazakhstan exports. After the devaluation of the Tenge, the NBK returned to a managed-float exchange-rate regime and maintained an exchange rate within a specific corridor, which was subsequently broadened in 2010. In February 2011, the NBK established a new "managed floating exchange rate" regime that generally allows the NBK to intervene when necessary to support the Tenge, without any reference to a formal fluctuation corridor or specific parameters. From 31 December 2009 to 31 December 2011, the Tenge depreciated against the U.S. Dollar by 0.03%. Because most of the Group's consolidated total borrowings are denominated in U.S. Dollars, any devaluation of the Tenge has a net negative impact on the Group's financial condition and results of operations and cash flows. See "*Presentation of Financial and Certain Other Information – Currency and Exchange Rate Information*" for certain period-end and average Tenge/U.S. Dollar official exchange rates.

Movements in Interest Rates

Movements in interest rates affect the Group's results of operations principally because a significant part of the Group's borrowings have a variable interest rate. As at 31 December 2011 and 2010, 14.8% and 12.9%, respectively, of the Group's total borrowings and debt securities issued were issued with variable interest rates. Interest rates in the United States fell significantly beginning in the third quarter of 2007 and continue to remain at historically low levels. As and when interest rates in the United States begin to increase, the Group's expense under its variable interest rate borrowings will increase and its results of operations could be adversely affected. See "*Quantitative and Qualitative Disclosures about Market Risk – Interest Rate Risk*".

International trade volumes from countries that border Kazakhstan

According to the Committee for Customs Control, the foreign trade turnover of Kazakhstan in 2011 was U.S.$101.6 billion, which represents an increase of 26% compared to 2010. From 2010 to 2011, Kazakhstan's exports increased by U.S.$23.5 billion, or 41.2%, while imports decreased by U.S.$2.5 billion, or 10.6%. China is a significant contributor to Kazakhstan's foreign trade turnover. China accounted for 20.2% and 17.7% of Kazakhstan's exports and 23.7% and 16.9% of Kazakhstan's imports in 2011 and 2010, respectively, according to the Committee for Customs Control. The Company believes that Kazakhstan's geographic position relative to China will afford Kazakhstan significant opportunities to capitalise on China's economic growth by facilitating both China's import of raw materials and export of finished goods to countries in Europe. Kazakhstan currently accounts for less than 0.5% of total trade between these trading partners, and the Government hopes to capitalise on increased volumes of transit freight traffic between China and the EU that travels overland through Kazakhstan. The Company believes the transit route from China to Europe through Kazakhstan has several advantages, including that it is faster than the current sea route through the Suez Canal and is cheaper than transporting by air freight, which in the future could lure an increasing amount of freight traffic from these alternative routes. In addition, the Company believes that recent initiatives announced by the government of China with respect to industrial and transportation development of Xinjiang Uygur Autonomous Region (XUAR), a region bordering the Eastern part of Kazakhstan, may further increase Kazakhstan's transit and exports potential, especially in light of construction of the Khorgas-Zhetygen railway line, connecting railways of Kazakhstan and China. An additional increase in transit is also expected to come from the opening of the North-South corridor, for which the Group is involved in construction of the Uzen-Turkmenistan border railway line.

The CIS railway network systems and reforms in the Kazakhstan railway industry

As at the date of this Prospectus, Kazakhstan, Russia and Ukraine, being members of or participants in the CIS, were at different stages of reforming their respective national railway systems, while other CIS countries were not as active in developing their railway systems. Beginning in 2009, the Russian government covers 100% of all losses resulting from passenger transportation, while in Ukraine and Kazakhstan, such losses are only partially subsidised by the State and in Kazakhstan passenger transportation tariffs are also indirectly subsidised from freight transportation revenues. All three countries have stated their intention to upgrade and modernise their locomotives, rolling stock and fixed assets by attracting either public or private investments and divesting certain non-core assets. Both Russia and Ukraine have developed conceptual models, stipulating separation of the mainline railway infrastructure from the transportation activity, while retaining State regulation and control over the mainline railway network and creating a competitive market for freight and passenger transportation.

One of the main reforms implemented in Russia is the change of ownership structure of freight wagon fleet towards privatisation. This tendency has resulted in a shift in international transportation and deregulation in the wagon fleet management as private carriers strive to engage their wagons primarily in technologically simple but cost-efficient shipping operations creating increases of light running, yard time and shortage of freight fleet. The Company believes that this reform may have an impact on the whole CIS where 1,520 millimetre railway tracks are used that would require introduction of changes into the wagon fleet management system and tariff policies emphasising light running of the wagons. As the main preventive measure against negative impacts of the reform in Russia the Government's railway infrastructure Development Programme for the years 2010-2014 provides for deregulation of the freight transportation by 2014.

In addition, as part of an agreement under the SES, Belarus, Kazakhstan and Russia each enacted into law on 1 January 2012 rules that regulate tariffs 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. In addition, starting from 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 SES.

The government has recently fostered competition in the railway industry by, for example, allowing freight forwarders to enter the market to compete with the Group and by requesting the Group to give such private operators access to the railway system. However, these government reform actions taken in Kazakhstan have not created a fully competitive market for freight and passenger transportation by rail. Consequently, Kazakhstan is considering further reforms including changes in regulations for freight and passenger transportation and formation of a competitive market of operators with equal access to the mainline railway network. In May 2010, the Board of Directors of the Company approved the Development Strategy, which sets forth the development strategy of the Group through 2020 in light of ongoing Government reform measures, in particular the Government's railway infrastructure Development Programme for the years 2010-2014. The Development Strategy is focused primarily on improving effectiveness of the production and commercial activity of the Group, maintaining its leading position at freight transportation market after the deregulation of freight transportation in Kazakhstan, creating efficient portfolio and production assets and enhancement of manageability of the business. To implement the Development Strategy the Company has drawn up the action plan for realisation of the Development Strategy by 2020, according to which the Group intends to form four separate business lines by 2015: mainline infrastructure, freight transportation, passenger transportation and locomotive and rolling stock assembly and repair. The Group's results of operations have been and will continue to be impacted by the industry-wide reforms in Kazakhstan and the Group's response thereto, as well as how effectively the Group is able to implement the Development Strategy and separate its business lines. See "*Business of the Group – Ongoing Restructuring*".

Taxation

Before the enactment of the 2009 Tax Code, which became effective on 1 January 2009, the statutory corporate income tax rate in Kazakhstan, where most of the Group's operations are located, was 30%. Under the 2009 Tax Code, the corporate income tax rate was reduced to 20% in 2009 and, based on legislation subsequent to the 2009 Tax Code, is expected to remain at 20% in subsequent years.

The 2009 Tax Code provides for the right to deduct the initial value of buildings and equipment over three years in equal instalments or through a one-time deduction from the date such buildings or equipment are first used. Expenses on the construction, manufacture and installation of preferential objects prior to the first use thereof may also be deducted, which allows for an increased amount of deductions through the use of investment tax preferences. Further, the 2009 Tax Code allows for expenses incurred in connection with repair of leased property to be deducted, regardless of the type of repair, which leads to increased deductions for repairs of fixed assets. Losses by the Group incurred after 1 January 2009 may be carried forward for up to ten years in order to offset taxable income in future tax periods. Tax losses carried forward which were incurred prior to 1 January 2009 expire three years from the date incurred. The Group has unrecognised deferred tax assets relating to tax losses carried forward. In management's opinion, it is not probable that there will be sufficient taxable income available in the future against which such deferred tax assets can be utilised. The tax effect from tax losses that were not carried forward amounted to KZT 1,182,414 thousand and KZT 4,396,135 thousand for the years ended 31 December 2011 and 2010, respectively.

Cost-saving measures

Since 2009, the Group has implemented and continues to implement several cost-saving measures including, among others, the following:

- restructuring of assets through merger and liquidation of servicing subsidiary companies;
- establishment of new joint ventures manufacturing railway industry oriented products (locomotives, passenger cars, molded and other pieces) to decrease service costs for maintenance and repair of fixed assets;
- sale of non-core and inactive assets, including buildings, siding tracks, machines and equipment;
- active material management;
- revision of previously approved and formulation of new staff numbering standards aimed at efficient use of labour resources; and

- decrease in employee, administrative, training and entertainment expenses.

As part of its cost-saving measures, the Group also makes certain arrangements to increase labour efficiency, improve production processes, improve management of production processes, improve management of repair works and introduce energy saving technologies. However since 2010, the Group has started increasing investments into the railway infrastructure and rolling stock. See "*Consolidated Results of Operations for the Years Ended 31 December 2011 and 2010 – General and Administrative Expenses*" and "*Risk Factors – Risk Factors Relating to the Group – Maintenance and modernisation of the Group's railway infrastructure requires significant ongoing investment, and there can be no assurance that the Group will receive the funding necessary to make such investments*".

Reportable Segments

Cargo (or freight) transportation and passenger transportation are the two reportable segments of the Group. For the year ended 31 December 2011, the cargo (or freight) transportation and passenger transportation segments accounted for 86.4% and 10.5%, respectively, of the Group's revenue and 78.0% and 19.5%, respectively, of the Group's cost of sales. For the same period, unallocated revenues and cost of sales, which relate primarily to the Group's repair services, sales of scrap inventory and sales of electricity, accounted for 3.1% and 2.5%, respectively. The provision of passenger rail services in Kazakhstan is considered a social responsibility of the rail operator and, accordingly, tariffs are kept artificially low to ensure affordable passenger rail services to all members of the public. As a result, the revenue generated from passenger operations has historically been insufficient to meet related operational costs. For the year ended 31 December 2011, the cargo (or freight) transportation segment had profit for the year of KZT 147.8 billion, while the passenger transportation segment had a loss for the year of KZT 31.7 billion, and KZT 7.1 billion in profit was not allocated to the Group's operating segments. See Note 3 of the Notes to the Annual Financial Statements that are included elsewhere in this Prospectus.

Consolidated Results of Operations for the Years Ended 31 December 2011 and 2010

Revenue

The Group's revenue for the year ended 31 December 2011 was KZT 702.7 billion which increased by KZT 120.3 billion from the year ended 31 December 2010 where revenue was KZT 582.4 billion. The principal sources of the Group's revenue are fees from freight and passenger transport and government grants.

Freight Transportation

The following table provides a breakdown of the Group's freight tariff revenue by type of transportation activity for each of the periods indicated:

	For the year ended 31 December	
	2011	**2010**
	(KZT in thousands)	
Export	200,624,715	186,872,345
Domestic	156,755,104	125,387,881
Transit*	126,447,974	91,128,037
Import	73,062,239	58,659,167
Other**	46,766,371	39,508,145
Total	603,656,403	501,555,575

* Transit freight tariffs are set in Swiss Francs and re-calculated in U.S. dollars for settlement purposes.

** Includes revenue for use of freight cars by third parties, revenue for locomotive haulage services rendered to third parties in freight traffic, and additional charges.

The following table provides a breakdown of the Group's freight tariff revenue by type of freight for each of the periods indicated:

	For the year ended 31 December	
	2011	**2010**
	(KZT in thousands)	
Coal	69,097,106	59,337,198
Ore	37,109,104	37,967,049
Construction materials	24,417,221	21,327,553
Oil and oil products	146,781,285	114,897,178
Grain and grain products	17,816,322	19,746,473
Ferrous metals	42,821,590	36,906,119
Other freight*	218,847,404	171,865,860
Other**	46,766,371	39,508,145
Total	603,656,403	501,555,575

* Includes revenue for transportation of other freight (ferrous scrap, chemical and mineral fertilisers, chemicals and sodium carbonate, nonferrous metals, among other things).

** Includes revenue for use of freight cars by third parties, revenue for locomotive haulage services rendered to third parties in freight traffic, and additional charges.

Revenue from freight transportation increased by KZT 102.1 billion to KZT 603.7 billion for the year ended 31 December 2011 from KZT 501.6 billion for the year ended 31 December 2010. This increase was primarily due to an increase of freight tariffs effective from 1 January 2011 by an average of 15%; the introduction of a new calculation method of basic tariff rates for transit transportation in the CIS countries for 2011, which resulted in an increase of tariffs for transit transportation by an average of 13.7%, or KZT 14.4 billion; an increase of freight turnover by an average of 4.9%; an increase of additional charges by an average 50.4% or KZT 9.7 billion; and a change in the transit freight transportation structure and an increase in the Swiss Franc exchange rate by 12.7% or KZT 1.8 billion.

Passenger Transportation

The following table presents the Group's revenue from passenger transportation for the periods indicated:

Revenue by Passengers

	For the year ended 31 December	
Passengers	**2011**	**2010**
	(KZT in thousands)	
Inter-regional	25,822,806	24,432,887
International	22,383,113	20,213,855
Intercity and suburban	1,028,022	868,152
Other*	5,679,612	5,399,753
Total	54,913,553	50,914,647

* Includes revenue for baggage transportation, passenger service and other services.

Revenue from passenger transportation increased by KZT 4.0 billion, or 7.9%, to KZT 54.9 billion for the year ended 31 December 2011 from KZT 50.9 billion for the year ended 31 December 2010. The increase was primarily due to an increase in passenger turnover of 5% to 14.6 billion passenger-kilometres in 2011 compared to 13.9 billion passenger-kilometres in 2010, and a 10% increase in passenger tariffs in January 2011 on international routes for all types of cars and on domestic inter-regional, intercity and suburban routes for luxury cars. This increase in turnover was primarily due to the launching of additional trains on existing routes and the addition of additional cars to certain passenger trains for holidays and weekends. See "*Business of the Group – Government Regulation and Tariffs – Passenger Tariff Regulation and Pricing*".

Government Grants

For the year ended 31 December 2011, revenue from Government grants was KZT 18.5 billion, which represented a KZT 3.1 billion, or 19.8%, increase as compared to the KZT 15.4 billion in revenue from Government grants for the year ended 31 December 2010. The increase was primarily due to the increase in passenger turnover as described above, which resulted in additional losses in the Group's passenger transportation segment as a result of Government regulation of passenger transportation tariffs that are kept artificially low to ensure affordable passenger rail services to all members of the public, as well as an increase in costs incurred by the Group in relation to increased lease payments by JSC Passenger Cars Leasing Company, a subsidiary of the Company that operates passenger cars, due to the renewal of its passenger cars fleet. In addition, the Group currently indirectly subsidises its subsidiary JSC Passenger Transportation through the revenues it generates from its freight transportation operations by providing this subsidiary with a discount on the tariffs it pays for access to the mainline railway network for inter-regional transportation. In 2010, the Anti-Monopoly Agency commenced the gradual reduction of this discount by 10% a year (in 2011 and 2012 the discount was 80% and 70%, respectively) and in 2013, the discount is expected to be reduced to zero.

Other Revenue

The Group generates other revenue from the sale of goods, which consists primarily of inventory and old property, plant and equipment as scrap to other railway operators and sales of electricity, and the provision of services to third parties, which consists primarily of repair services. Historically, the Group has sold electricity from its power supply facilities to individuals and certain companies located in remote stations and crossing loops that were not equipped with separate power transmission lines. However, as at the date of this Prospectus, the Group does not currently sell electricity to third parties but does generate other revenue from penalties it imposes on its counterparties for the failure of those parties to timely retrieve their cargo cars.

Other revenue increased KZT 11.2 billion, or 77.4%, to KZT 25.7 billion for the year ended 31 December 2011 from KZT 14.5 billion for the year ended 31 December 2010. The increase was mainly because of a KZT 10.0 billion increase in sales of goods and provision of services to third parties in 2011 compared to 2010 that primarily related to increases in the volumes of sales of goods and the provision of services to third parties. Penalties received from the failure of counterparties to timely retrieve their cargo cars increased by KZT 1.2 billion in 2011 compared to 2010.

Cost of Sales

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

	For the year ended 31 December		% change between the year ended 31 December 2011 and 2010
	2011	2010 (restated)	
	(KZT in thousands)		
Personnel costs, including short-term provisions	170,725,908	153,190,333	11.4
Fuels and lubricants	78,261,229	64,518,931	21.3
Services[(1)]	46,714,969	18,238,543	156.1
Depreciation and amortisation	57,015,002	50,367,504	13.2
Materials and supplies	59,148,299	59,518,772	(0.62)
Electricity	25,421,805	22,184,263	14.6
Wagon usage fee[(2)]	16,948,107	18,412,949	(8.0)
Operating lease expenses	1,338,082	1,789,782	(25.2)
Lease of communication channels	1,946,403	2,066,206	(5.8)
Employee benefit expenses	4,651,104	2,389,503	94.6
Professional services	2,293,065	1,919,977	19.4
Business trip expenses	2,431,754	2,036,197	19.4
Personnel training	753,789	647,608	16.4
Other	2,630,746	138,315	1,802.0
	470,280,262	397,418,883	18.3

(1) Services comprises repair and maintenance and utility supplies services.

(2) Wagon usage fee comprises fees for usage of wagons owned by other operators

Cost of sales increased by KZT 72.9 billion, or 18.3%, from the year ended 31 December 2010 to the year ended 31 December 2011. The increase was primarily the result of a KZT 28.5 billion increase in cost of repair and maintenance and utility supplies services, a KZT 17.5 billion increase in personnel costs, including short-term provisions, a KZT 13.7 billion increase in cost of fuel and lubricants, and a KZT 6.6 billion increase in depreciation and amortisation in 2011 compared to 2010.

The increase in costs related to repair and maintenance and utility supplies services was primarily due to the increased volume of roundhouse servicing of wagons, increased volume of current repairs and service maintenance of locomotives, purchase of fuel equipment services that were not included in the fuel price, as compared to 2010 when such services were included in the fuel price, as well as the increase in prices for purchased services and enlarged volume of transportation work.

The increase in personnel costs, including short-term provisions was primarily due to an increase in salaries to the employees of the Group of an average of 7% in 2011 and the pay-out of KZT 3 billion from a reserve account that was required pursuant to an improvement notice issued by the Kazakhstan labour authorities that prescribed the payment of additional allowances in calculating the salaries of employees who had been living in the Sub-Aral area, which is an ecological disaster location.

The cost of fuels and lubricants increased primarily due to an increase in the price and volume of diesel fuel used for locomotive haulage as a result of increased volume of freight transportation hauled by diesel locomotives by 4.1% and an increase in the price for diesel fuel by 16.7%.

The increase in depreciation and amortisation was primarily due to commissioning of new fixed assets and, accordingly, increased costs of depreciation and amortisation by KZT 6.6 billion, or 13.2%, from the year ended 31 December 2010 to the year ended 31 December 2011.

General and Administrative Expenses

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

	For the year ended 31 December		% change between the year ended 31 December 2011 and 2010
	2011	2010 (restated)	
	(KZT in thousands)		
Personnel costs, including short-term provisions	30,787,927	26,323,483	17.0
Property tax and other taxes	14,831,621	9,266,651	60.1
Charities and sponsorship	8,058,680	6,225,450	29.4
Depreciation and amortisation	3,608,515	2,147,929	68.0
Social activities	1,498,552	482,386	210.7
Business trip expenses and representative expenses	1,453,265	1,239,012	17.3
Professional services	1,419,623	1,313,930	8.04
Consulting, audit and legal services	1,315,939	1,240,973	6.04
Allowances for doubtful debts	1,118,705	1,275,820	(12.3)
Services	1,179,746	724,298	62.9
Materials	928,124	687,596	35.0
Employee benefit expenses	846,135	538,842	57.0
Advertising expenses	778,253	691,268	12.6
Bank services	739,558	739,125	0.1
Provision on legal claims	590,447	3,801,217	(84.5)
Operating lease expenses	222,754	527,044	(57.7)
Allowance for unrecoverable VAT receivable	(9,905,425)	8,998,670	(210.1)
Other expenses	3,299,957	2,940,532	12.2
	62,772,376	69,164,226	(9.2)

General and administrative expenses decreased KZT 6.4 billion, or 9.2%, to KZT 62.8 billion for the year ended 31 December 2011 from KZT 69.2 billion for the year ended 31 December 2010. The decrease was principally due to the combined impact of the reversal of part of the allowance for unrecoverable VAT receivable in 2011 in the amount of KZT 8.4 billion due to the amended VAT calculation methodology introduced by the Government through adoption of the Resolution of the Government No. 739 dated 30 June 2011. In addition, in 2011 the Group reversed a reserve in the amount of KZT 2.97 billion created against the additionally assessed taxes, penalties and fines upon the tax audit conducted during fiscal year 2008 that were reduced pursuant to a ruling of the Kazakhstan Supreme Court in 2010, which served as grounds for the reversal. The Group also paid out amounts in accordance with a court settlement with Tele KRONA LLP against a KZT 3.8 billion reserve created in 2010. See "*Business of the Group – Litigation*". These decreases were offset in part by a KZT 5.6 billion increase in property tax and other taxes that resulted from an increased amount of property tax assessed on newly commissioned buildings and construction projects and expenses relating to repairs that increased the value of such buildings and construction projects, a KZT 4.5 billion increase in personnel costs, including short-term provisions, and the creation of a reserve against a litigation matter with KT&T in the amount of KZT 500 million in 2011. See "*Business of the Group – Litigation*".

(Loss)/Recovery of Loss from Impairment of Property, Plant and Equipment

For the year ended 31 December 2011, the Group recognised an impairment of property, plant and equipment of KZT 0.9 billion as compared to a reversal of an impairment of property, plant and equipment of KZT 0.1 billion for the year ended 31 December 2010. The loss in 2011 primarily related to the impairment of non-transit railway lines located in Russia that were previously operated by the Company in accordance with an intergovernmental agreement between Kazakhstan and Russia, as well as reserves for incomplete construction.

Other Income and Expense

The Group's other income and expense consists primarily of income and expense on disposal of fixed assets and accounts payable that were written off. For the year ended 31 December 2011, other income was KZT 3.4 billion, which represented a KZT 1.5 billion, or 79.4%, increase as compared to the KZT 1.9 billion in other income for the year ended 31 December 2010.

Finance Income

The Group's finance income consists primarily of interest income on short-term investments and bank deposits. Finance income increased KZT 1.3 billion, or 41.2%, to KZT 4.6 billion for the year ended 31 December 2011 from KZT 3.3 billion for the year ended 31 December 2010.

Finance Costs

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

	For the year ended 31 December		% change between the year ended 31 December 2011 and 2010
	2011	2010 (restated)	
	(KZT in thousands)		
Interest expense on debt securities issued	11,226,015	9,411,475	19.3
Interest expense on loans	7,036,280	2,255,778	211.9
Finance lease charge	1,054,963	1,081,798	2.5
Amortisation of discount on debt securities issued	197,974	249,880	(20.8)
	19,515,232	12,998,931	50.1

Finance costs increased KZT 6.5 billion, or 50.1%, to KZT 19.5 billion for the year ended 31 December 2011 from KZT 13.0 billion for the year ended 31 December 2010. The increase was primarily the result of a KZT 6.6 billion, or 56.6% increase in interest expense on loans and debt securities issued.

Interest expense on loans increased in 2011 compared to 2010 primarily due to the increased volume of loans. The increase in interest expense on debt securities issued in 2011 compared to 2010 was primarily due to the issuance of U.S.$700 million in Eurobonds in October 2010 offset by the repayment of U.S.$450 million in 5-year Eurobonds in May 2011.

Foreign Exchange Loss

For the year ended 31 December 2011, the foreign exchange loss was KZT 1.6 billion, which represented a KZT 1.5 billion increase in losses as compared to KZT 0.1 billion in the year ended 31 December 2010. The increased loss was primarily due to the remeasurement of cash and cash equivalents and loans denominated in foreign currencies, primarily in U.S. Dollars, for the reporting period. See "*Business of the Group – Government Regulation and Tariffs – Freight Tariff Regulation and Pricing – Transit Freight Tariffs*", "*Major Factors Affecting Results of Operations – Impact of Changes in Exchange Rates*" and "*Quantitative and Qualitative Disclosures about Market Risk – Foreign Currency Exchange Rate Risk*".

Share of Profit of Associates and Joint Ventures

The Group accounts for its investments in associates and joint ventures, entities over which the Group has significant influence but not control, using the equity method of accounting. With respect to the Group's associates and joint ventures, the Group shared in a profit of KZT 0.07 billion for the year ended 31 December 2011 compared to a profit of KZT 0.2 billion for the year ended 31 December 2010.

Income Tax Expense

Under the 2009 Tax Code, the Group's corporate income tax rate in 2010 and 2011 was 20%. Income tax expense comprises current income tax expense and deferred income tax expense or benefit. For the year ended 31 December 2011, the Group had income tax expense of KZT 33.3 billion as compared to income tax expense of KZT 41.5 billion, which included a KZT 16.3 billion change in tax rate effect, for the year ended 31 December 2010. In 2011, the Group's income tax expense increased by KZT 8.2 billion as compared to the year ended 31 December 2010 (excluding the rate alteration effect), which was primarily attributable to the increase of deferred tax obligations for fixed assets and other long-term assets.

Profit for the Year

Profit for the year ended 31 December 2011 increased KZT 56.7 billion, or 85.2%, to KZT 123.2 billion from KZT 66.5 billion for the year ended 31 December 2010.

Liquidity and Capital Resources

The Group's operations, including maintenance and repair of Kazakhstan's railways and related infrastructure, as well as maintenance and repair of the locomotives and rolling stock and other types of property, plant and equipment, are capital intensive activities. The Group requires funds primarily for working capital purposes to meet its short-term financial obligations as they fall due, as well as for upgrading Kazakhstan's railways and related infrastructure and expanding and maintaining its rolling stock and locomotive fleet.

The Group's cash flow from operations, Government grants, borrowings under credit agreements, loans and capital contributions from Samruk-Kazyna and issuance of bonds have served as the historical sources of capital and liquidity for the Group's business and are expected to serve as the Group's sources of capital and liquidity for the near term. The Group has experienced instances in the past when the Group had insufficient liquidity to fully fund its planned capital expenditures. See "*Risk Factors – Risk Factors Relating to the Group – Maintenance and modernisation of the Group's railway infrastructure requires significant ongoing investment, and there can be no assurance that the Group will receive the funding necessary to make such investments*".

The Group's current assets exceeded its current liabilities by KZT 69.2 billion and KZT 39.6 billion for the years ended 31 December 2011 and 2010, respectively. The current liquidity ratio was 1.28 and 1.15 for the years ended 31 December 2011 and 2010, respectively. The improvement in the current liquidity ratio in 2011, as compared to 2010, is primarily due to the decreased amount of current liabilities by KZT 6.4 billion or 2.5% and an increase in current assets by KZT 23.1 billion or 7.8%. The decrease in current liabilities mainly resulted from the reduction of the current portion of debt securities issued and borrowings, which followed from the repayment of the 5-year Eurobonds in May 2011, while the increased amount of current assets was primarily attributable to the growth of the assets held for the benefit of the shareholder and cash and cash equivalents. See "*Risk Factors – The Group has experienced liquidity problems and had in the past a working capital deficit*".

Cash Flows

The following table summarises the Group's cash flows for the periods indicated:

	For the year ended 31 December	
	2011	**2010**
	(KZT in thousands)	
Net cash from operating activities	207,751,268	165,620,434
Net cash used in investing activities	(265,952,854)	(302,584,001)
Net cash from financing activities	91,542,547	179,818,642
Net increase in cash and cash equivalents	33,340,961	42,855,075
Cash and cash equivalents at the beginning of the period	97,513,097	54,706,785
Effect of foreign exchange rates on cash and cash equivalents	(642,109)	(48,763)
Cash and cash equivalents at the end of the period	130,211,949	97,513,097

Net Cash Flows From Operating Activities

For the year ended 31 December 2011, net cash flows from operating activities increased KZT 42.2 billion, or 25.4%, to KZT 207.8 billion from KZT 165.6 billion for the same period in 2010. This increase was primarily due to the increase in profit before taxation by KZT 48.4 billion, which resulted from an increase in freight turnover, in particular with respect to freight with higher average freight tariffs, such as oil and oil products and other freights.

Net Cash Flows Used In Investing Activities

For the year ended 31 December 2011, net cash flows used in investing activities decreased KZT 36.6 billion, or 12.1%, to KZT 266.0 billion from KZT 302.6 billion for the same period in 2010. This decrease was primarily due to the combined effects of increased cash outflows in connection with the acquisition of fixed and intangible assets required in relation to new projects, including new railway lines, among others things, a decrease in short-term investments by KZT 45.3 billion, and a KZT 1.4 billion decrease in investments in charter capital of affiliates to KZT 2.8 billion as at 31 December 2011 from KZT 4.2 billion as at 31 December 2010.

Net Cash Flows From Financing Activities

For the year ended 31 December 2011, net cash flows from financing activities decreased KZT 88.3 billion, or 49.1%, to KZT 91.5 billion from KZT 179.8 billion for the same period in 2010. The decrease was primarily due to the combined effects of the repayment of debt securities in the amount of KZT 66.0 billion, an increase in the payment of dividends and distributions by KZT 8.0 billion, and a KZT 29.4 billion increase in purchases of assets held for the benefit of Samruk-Kazyna, which went toward KZT 38.6 billion cash paid for the year ended 31 December 2011 in relation to construction of a teleradio complex in Astana. During the same period, the Group increased its borrowings by KZT 81.3 billion and received payments for unissued share capital in the amount of KZT 38.4 billion.

Capital Expenditures

The Group's capital expenditures accounted for KZT 353.2 billion and KZT 209.3 billion for the years ended 31 December 2011 and 2010, respectively, and were aimed at performance of obligations under binding contracts on construction of new railway lines Khorgas-Zhetygen, connecting to China and Uzen-Turkmenistan border, capital repairs of railways, construction of plants producing diesel locomotives (in association with General Electric), electric locomotives (in association of Alstom and Transmasholding), passenger cars (in association with Patentes Talgo) and freight wagons, development of Dostyk border station, expansion of telecommunication networks through laying of fibre optic lines, and acquisition and capital repairs of locomotives, freight wagons and passenger cars.

The Group annually approves its plan for capital expenditures at the end of the preceding year. According to the Development Strategy the Group intends to contribute significant funds into maintenance, development and modernisation of its railways infrastructure in the subsequent years. As at 31 March 2012, the Group had committed to contracts amounting to KZT 612.7 billion for the construction of the new Khorgas-Zhetygen and Uzen-Turkmenistan border railway lines, a plant for the production of passenger wagons in Astana, the capital repair of railways, activities related to expansion of Dostyk station, as well as the purchase of freight and passenger electric locomotives, cargo and passenger wagons and locomotives.

The Company currently intends to invest approximately KZT 519.8 billion, KZT 318.2 billion, KZT 511.5 billion and KZT 490.2 billion in 2012, 2013, 2014 and 2015, respectively, primarily for investments in acquiring rolling stock, construction of railway lines, in particular the Zhetygen – Khorgas, Uzen – Turkmenistan, Zhezkazgan – Beyneu, Arkalyk – Shubarkol railway lines, maintenance, development and modernisation of railway infrastructure, capital repairs to rolling stock and improvements in administration and social conditions of workers. The Group currently anticipates financing its budgeted and committed capital expenditures primarily through the net proceeds from the Offering, long-term borrowings, financing and loans from its sole shareholder, and its own funds, among other sources. However, no assurances can be provided that these intended investments will be made in the manner currently contemplated, that the financing for these plans will be received on terms that are satisfactory to the Company or at all, or that the amounts currently budgeted will be sufficient to meet the Group's capital expenditure requirements for the periods indicated. See "*Risk Factors – Maintenance and modernisation of the Group's railway infrastructure requires significant ongoing investment, and there can be no assurance that the Group will receive the funding necessary to make such investments*".

Borrowings

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

	Currency	Maturity	Interest rate (%)	Current (unaudited)	Non-current (unaudited)
				(KZT in thousands)	
Short-term borrowings:					
JSC Citibank Kazakhstan:					
Loan	Tenge	2012	4.75	4,400,580	—
Notes of Citibank Kazakhstan	Tenge	2012	—	2,970,000	—
JSC ATF Bank	Tenge	2012	10	2,234,538	—
JSC Halyk Bank of Kazakhstan:					
Loan 1	Tenge	2012	10.02-10.5	654,875	—
Loan 2	Tenge	2012	5.5-6	7,061,333	—
Other loans	Tenge	2012	10-15	302,961	—
Long-term borrowings:					
Fixed rates:					
Japan Bank for International Cooperation	Japanese Yen	2020	3.00	745,762	5,917,944
Instituto de Credito Oficial	U.S. Dollars	2021	2.50	365,051	2,927,635
JSC Development Bank of Kazakhstan:					
Loan 1	U.S. Dollars	2013	9.80	376,605	186,400
Loan 2	Tenge	2015	8	447,966	932,540
JSC National Welfare Fund Samruk-Kazyna:					
Loan 1(1)	Tenge	2024	2	260,000	20,907,565
Loan 2(1)	Tenge	2036	0.75	250	1,840,219
Loan 3(1)	Tenge	2036	0.75	313	6,889,867
Loan 4	Tenge	2017	7.2	48,000	15,000,000
Loan 5	Tenge	2017	7.2	192,000	60,000,000
JSC ATF Bank:					
Loan 1	U.S. Dollars	2012	4.51	85,554	—
Loan 2	Tenge	2017	8.48	253,815	1,071,428
Loan 3	U.S. Dollars	2017	8.84	366,174	1,742,807
JSC SB HSBC Bank Kazakhstan	Tenge	2012	12.5	106,148	—
Secured Notes	Euro	2016	5.48	70,178	235,480
JSC Halyk Bank of Kazakhstan:	Tenge	2013	12.5	285,618	71,250
Debt securities 2006	U.S. Dollars	2016	7.00	478,132	51,373,046
Debt securities 2010	U.S. Dollars	2020	6.375	1,578,478	103,554,904
Variable rates:					
ABN Amro Bank N.V.:					
Loan 1(2)	U.S. Dollars	2012	LIBOR + 0.13	290,291	—
Loan 2(3)	U.S. Dollars	2014	LIBOR + 0.07	2,103,746	1,848,503
Loan 3(2)	U.S. Dollars	2011	LIBOR + 1.20	—	—
European Bank of Reconstruction and Development ("**EBRD**"):					
Loan 1(2)	U.S. Dollars	2018	LIBOR + 3.25-3.35	2,192,715	12,290,279
Loan 2(2)	U.S. Dollars	2020	LIBOR + 3.25	63,014	7,390,320
Loan 3(4)	U.S. Dollars, Tenge	2018	LIBOR + 2.95	94,222	12,132,712
JSC ATF Bank:					
Loan 1	Tenge	2013	9.93-15	704,090	349,512
Loan 2(2)	U.S. Dollars	2016	LIBOR + 3	3,335,587	10,965,111
JSC Halyk Bank of Kazakhstan	Tenge	2016	7-12	3,108,037	4,674,974
Total				35,176,033	322,302,496

(1) Loan provided to the Company by Samruk-Kazyna, the Company's shareholder, at below-market rates.

(2) LIBOR is 6-month LIBOR for U.S. Dollar-denominated deposits.

(3) LIBOR is 3-month LIBOR for U.S. Dollar-denominated deposits.

(4) 6-month LIBOR for U.S. Dollar-denominated deposits plus 2.95% for U.S. Dollar tranche and all-in cost plus 2.95% for Tenge tranche. If the all-in cost for the tranche I loan is at any time higher than the currency conversion hurdle rate on any interest determination date EBRD shall be entitled to request that the entire amount of the tranche I loan be converted into a U.S. Dollar loan from the next following interest payment date by providing EBRD with a conversion request at least fifteen business days prior to an interest payment date.

Since 31 December 2011, the Group has entered into the following additional borrowing arrangements. See "*Consolidated Capitalisation of the Company*":

Under the loan facility agreement with the JSC Halyk Bank of Kazakhstan, Lokomotiv drew down a tranche in the amount of KZT 1,500,000 thousand on 18 January 2012, a tranche in the amount of KZT 1,500,000 thousand on 22 February 2012, and a tranche in the amount of KZT 2,000,000 thousand on 19 April 2012 to replenish working capital for an aggregate amount of KZT 5,000,000 thousand with interest rates of 5.5% to 6.0% and a repayment date of 24 October 2012.

Under the unsecured principal loan facility agreement dated 18 April 2012 with JSC "Alfa-Bank" in the form of a revolving credit line in the total amount of KZT 1,700,000 thousand for replenishment of working capital and refinancing of a loan from JSC "ATF Bank", LLP "Kamkor Lokomotiv" drew down the following:

- On 18 April 2012 LLP "Kamkor Lokomotiv" took out a short-term loan in the amount of KZT 800,000 thousand for the replenishment of working capital with a repayment date of 18 April 2013 and an interest rate of 9% per annum. The repayment of principal is due at maturity, and interest is payable on a monthly basis. The loan was granted without collateral.
- On 2 May 2012 LLP "Kamkor Lokomotiv" took out a short-term loan in the amount of KZT 900,000 thousand for the replenishment of working capital with a repayment date of 18 April 2012 and an interest rate of 9% per annum. The repayment of principal is due at maturity, and interest is payable on a monthly basis. The loan was granted without collateral.

Under the loan facility agreement with the EBRD, Kaztemirtrans drew down a tranche in the amount of U.S.$11,788,425 on 13 March 2012, a tranche in the amount of U.S.$48,383,298 on 15 May 2012, and a tranche in the amount of KZT 7,011,862 thousand on 17 May 2012, to finance the purchase of up to 4,000 units of freight wagons for the Group. The loan is paid quarterly with an interest rates of LIBOR for six-month deposits (for tranches in U.S. Dollars) and all-in cost (for a tranche of Tenge) plus 2.95%. The repayment of principal is subject to a grace period of up to May 2013; then payments must be made quarterly until maturity in November 2018. The loan is guaranteed by the Company.

On 24 May 2012, Kaztemirtrans entered into a loan facility agreement with JSC Development Bank of Kazakhstan, guaranteed by the Company, to finance the purchase of 4000 units of freight gondolas in the amount of U.S.$188,291,712 with a maturity of 25 May 2017. Pursuant to the agreement, on 25 May 2012 Kaztemirtrans drew down tranches in the aggregate amount of U.S.$62,033,048 with an interest rate of 6.75% per annum. The repayment of principal is due at maturity, and interest is payable on a semi-annual basis.

On 25 May 2012, Lokomotiv entered into the Sinosure Loan Facility, guaranteed by the Company and Kaztemirtrans, with HSBC Bank plc, SB HSBC Kazakhstan JSC, Hongkong and Shanghai Banking Corporation Limited, China Development Bank Corporation and Sinosure for an aggregate amount of up to U.S.$73 million. The Sinosure Loan Facility has a term of 10 years and amounts borrowed under the agreement will bear interest at LIBOR plus 3% plus mandatory costs, if any. As at the date of this Prospectus, Lokomotiv had not drawn any amounts under the Sinosure Loan Facility but currently expects to draw the full amount under the Sinosure Loan Facility in the third quarter of 2012.

On 31 May 2012, Lokomotiv entered into the COFACE Loan Facility, guaranteed by the Company and Kaztemirtrans, with HSBC France, HSBC Bank plc, SB HSBC Kazakhstan JSC, Citibank international plc (Paris Branch), the Bank of Tokyo-Mitsubishi UFJ, LTD (Paris Branch) and COFACE for an aggregate amount of up to EUR 880.9 million. The COFACE Loan Facility has a term of 10 years after the start date for repayment for any loan under the facility, and amounts borrowed under the agreement will bear interest at fixed and variable rates. As at the date of this Prospectus, Lokomotiv had not drawn any amounts under the COFACE Loan Facility.

The Company is in the process of negotiating a loan agreement with the Export-Import Bank of the United States in the amount of U.S.$424.9 million and expects to enter into such agreement in the third quarter of 2012.

In addition, the Company currently intends to procure loans at below-market rates from Samruk-Kazya in the amount of approximately KZT 60 billion for the construction of the new railway lines between Zhezkazgan and Beyneu and between Arkalyk and Shubarkul and in the amount of KZT 2.1 billion for the purchase of additional passenger railway cars. See "*Risk Factors – Risk Factors Relating to the Group – The Group has historically received and continues to rely on support from the Government, which indirectly controls the Company and may cause it to engage in business practices that conflict with the Company's commercial interests and the interests of the Noteholders*".

Going forward, the Group intends to attract longer-term financing for its investment projects from international financial markets. These markets have traditionally offered lower interest rates as compared to the domestic financial markets. The Company believes its credit ratings and reputation as a safe debtor will allow it to attract this longer-term financing. The Group also expects to continue cooperation with international financial institutions, such as the EBRD and export-import agencies. While attracting additional borrowed capital, the Group must comply with all financial covenants in its existing loan agreements.

The loan and guarantee agreements related to the Group's borrowings require that the Company, Kaztemirtrans, Lokomotiv and other subsidiaries comply with certain affirmative and negative covenants in the operation of their respective businesses. While the specific provisions of each of the loan and guarantee agreements vary, they generally require that the Group members subject to the agreements take or refrain from taking certain actions specified in the loan or guarantee agreements. These provisions require the Group members subject to the agreements to obtain the prior written consent of the lender prior to implementing any material change to the scope or nature of their respective businesses. In addition, lender consent generally is required prior to any merger, consolidation or reorganisation of the affected members of the Group, 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 Development Strategy. Any disposition of the core railway network, freight carriages or locomotives would require consent of certain lenders. Other transactions that are limited by one or more of the agreements or guarantees include incurring capital expenditures greater than amounts specified in the loan agreement and incurring additional indebtedness or guaranteeing the indebtedness of third parties 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 Group, existing loan and guarantee agreements require that the parties subject to the agreements maintain or periodically satisfy as at particular dates certain financial tests. The most restrictive of these financial ratio tests requires maintenance of an EBIT (defined as profit for the year before income tax expense and finance cost) to finance cost ratio of 2.0 or more, total debt to equity of 2.0 or less and total debt to Group EBITDA of 3.5 or less, with compliance computed using the definitions contained in the Borrowing Policy of the Samruk-Kazyna Group dated 28 June 2011 and in the relevant agreements. As at the date of this Prospectus, the Company believes that it is in compliance with the covenants contained in the Borrowing Policy of the Samruk-Kazyna Group and in its existing loan and guarantee agreements.

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

Contractual Commitments

The following sets forth the contractual maturities of the Group's significant contractual obligations as at 31 December 2011:

	Payments due by periods			
	Total	Up to 1 year	1-5 years	More than 5 years
	(KZT in thousands)			
Bank debt	104,435,012	32,774,217	53,718,052	17,942,743
Debt to Samruk-Kazyna	165,055,247	6,207,396	25,729,762	133,118,089
Other loans	308,962	308,962	—	—
Debt securities	231,778,017	10,328,066	91,080,551	130,369,400
Finance lease	9,758,609	1,370,017	5,242,687	3,145,905
Operating lease	699,019	699,019	—	—
Purchase commitments	467,859,430	152,704,762	209,874,373	105,280,295
Total[(1)(2)]	979,894,296	204,392,439	385,645,425	389,856,432

(1) This includes certain obligations that are denominated in currencies other than the Tenge. The actual amounts payable may differ significantly based on the exchange rate at the date of payment and have been calculated for the purpose of this table based on the applicable rate at 31 December 2011. In addition, the amounts related to debt have certain restrictive covenants, which if violated could result in acceleration of these payments.

(2) This table excludes amounts payable for employee benefits and deferred tax liabilities as these amounts include estimates and the period in which they will be paid is not established by a contractual agreement.

See Note 35 to the Notes to the Annual Financial Statements.

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 Group is exposed to a variety of market risks arising in the operation of its business, including (i) inflation and commodity prices, (ii) foreign currency exchange risk, (iii) interest rate risk, (iv) liquidity risk and (v) credit risk. Under the direction of the Board of Directors and the Risk Management Department of the Company, as well as the Department of Marketing and Procurement Analysis in respect of commodity prices, the Group 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.

Inflation and Commodities Prices

A significant portion of the Group's operating expenses are affected by the level of inflation, particularly in wages and salaries, which for 2010 was 7.8% and for 2011 was 7%. It is difficult to predict the precise effect of changing inflation on future Group operations. No assurance may be given as to the Group's future success in moderating the impact of inflation on the Group's operating results.

The Group's operating expenses are also affected by changes in commodities prices, particularly fuel costs. International, political, and economic circumstances and a number of other circumstances affect fuel prices and supplies. Given that fuel comprises a significant part of the Group's cost of sales and constitutes the biggest part in terms of procurement volumes, any change of prices for this type of commodity may have a material impact on the Group's expense budget. During the year ended 31 December 2011 prices for fuel have been revised quarterly. The Department of Marketing and Procurement Analysis is responsible for monitoring consumer, commodities and services prices on a regular basis and preparing market research. The research comprises forecast reports in respect of anticipated future movements in commodity and consumer prices which are considered when the Company budgets for purchases of services, fuel and lubricants and other materials for the relevant period. In the event that consumer, commodities and services prices are changed, the Group will introduce changes to its procurement plan. In order to mitigate pricing risks in a forthcoming year the Company conducts planning, holds primary tenders and contracts suppliers using fixed prices during the fourth quarter of the preceding year with the flexibility to decrease the fixed price it must pay if the market prices for subject commodity or service decrease. See "*Risk Factors – Risk Factors Relating to the Group – The Group is subject to commodity price risk and foreign currency exchange rate risk, each of which the Group has a limited ability to manage*" and "*Major Factors Affecting Results of Operations – Cost of Fuel*".

Foreign Currency Exchange Rate Risk

The Group is exposed to currency risk related to changes in exchange rates of the U.S. Dollar, the Euro, the Russian Rouble, the Swiss Franc and the Japanese Yen. Changes in the value of the U.S. Dollar involve the most risk for the Group as many of the Group's borrowings are denominated in U.S. Dollars and any devaluation of the Tenge against the U.S. Dollar results in increased foreign exchange losses. Assuming a 10% increase in the value of the U.S. Dollar relative to the Tenge, the change in the value of the Group's debt securities and loans and accrued interest as at 31 December 2011 would have resulted in a KZT 15.7 billion decrease and a KZT 5.8 billion decrease, respectively, in the Group's profits, with the net effect of KZT 17.6 billion, while the change in the value of the Group's debt securities and loans and accrued interest as at 31 December 2010 would have resulted in a KZT 22.3 billion decrease and a KZT 5.4 billion decrease, respectively, in the Group's profits, with the net effect of KZT 16.1 billion.

To manage its foreign currency exchange risk, the Group monitors changes in exchange rates in the currencies in which its cash, investments and borrowings are denominated. The Group maintains a portion of its cash in U.S. Dollars in order to partially offset foreign currency gain or loss on its borrowings. In addition, the Group has approved a Policy for Hedging Interest and Currency Risks. The Group currently has plans to hedge a part of its currency risk through the use of derivative financial instruments in the near future.

See Note 35 of the Notes to the Annual Financial Statements. See "*Risk Factors – Risk Factors Relating to the Group – The Group is subject to commodity price risk and foreign currency exchange rate risk, each of which the Group has a limited ability to manage*" and "*Major Factors Affecting Results of Operations – Impact of Changes in Exchange Rates*".

Interest Rate Risk

Interest rates on the Group's borrowings are either fixed or variable, at a fixed spread over LIBOR or variable within a range, for the duration of each contract. At the time of raising additional debt financing, the Group uses its judgment to decide whether a fixed or variable rate would be more favourable over the expected term. As at 31 December 2011 and 2010, 14.8% and 12.9%, respectively, of the Group's total borrowings and debt securities issued were borrowings and debt securities issued with variable interest rates. In 2011, interest expense on bank loans attributable to variable interest rate increased by KZT 3,679 thousand, as compared to 2010, while in 2010 the Group had a KZT 197,611 thousand decrease in interest expense on bank loans compared to 2009 due to a reduction of variable interest rates. Assuming a 1% increase in variable interest rates, the increase of interest expense would have resulted in KZT 528,392 thousand. To manage its interest rate risk, the Group monitors changes in interest rates and attempts to balance loans with variable interest rates against loans with fixed interest rates. See Note 35 of the Notes to the Annual Financial Statements. See "*Major Factors Affecting Results of Operations – Movements in Interest Rates*".

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. However, this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Group manages liquidity risk in accordance with requirements of Samruk-Kazyna on the risk of liquidity of short-term, mid-term and long-term financing. The Group manages liquidity risk by maintaining adequate reserves, banks loans and accessible credit lines, by monitoring the projected and actual cash flows of the Group and comparing the maturities of the Group's financial assets and liabilities on a quarterly basis, by observing internal ratios of liquidity and borrowings and coordinating with Samruk-Kazyna in respect of capital contributions. In the case of a liquidity deficit, the Group may take various actions to restore liquidity, including funding loans, reducing expenses, negotiating changes in the maturity of liabilities and/or restructuring assets and liabilities for the purpose of changing their duration. See Note 35 of the Notes to the Annual Financial Statements. See "*Risk Factors – Risk Factors Relating to the Group – The Group has experienced liquidity problems and had in the past a working capital deficit*".

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk arises principally from the Company's accounts receivables from customers and its investment securities. Customer credit risk is minimised by the fact that the Group operates on a prepayment basis with the majority of its customers. Prepayments are secured by bank guarantees. The Group manages credit risk on its investment securities by establishing limits for deposits put with banks and other financial institutions and conducting financial operations with creditworthy counterparties with an adequate credit history and a stable financial position. See Note 35 of the Notes to the Annual Financial Statements and "*Business of the Group – Customers and Suppliers – Freight Customers*".

Off-Balance Sheet Arrangements

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

Critical Accounting Judgments and Estimates

The preparation of the Annual Financial Statements in conformity with IFRS requires management to make judgments and use estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Annual Financial Statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on historical experience and other factors that are considered to be relevant, events or actions may mean that actual results ultimately differ from those estimates.

The following discussion is qualified in its entirety by reference to the discussion of the Group's significant accounting policies contained in Note 2 of the Notes to the Annual Financial Statements that is included elsewhere in this Prospectus.

Impairment of Assets

At the end of each reporting period the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

The assessment of whether there is an indication of impairment is based on a number of factors, such as a change in the restructuring process, expectations of growth in the railway industry, estimates of future cash flows, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate any impairment exists.

If any such indication exists, the recoverable amount of the assets is estimated and compared to the carrying amount of the assets. If the carrying amount exceeds the recoverable amount, an impairment is recorded. The recoverable amount is the greater of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that management believes reflects current market assessments of the time value of money and the risks specific to the assets. A change in the estimated recoverable amount could result in an impairment, or reversal of an impairment, in future periods.

Post-Employment Benefits

The Group operates a defined benefit pension scheme which has been accounted for in accordance with IAS 19 – "Employee Benefits". See "*Management and Employees – Employee Retirement Benefits*". Application of IAS 19 requires the exercise of judgement in relation to various assumptions including future annual minimum pay raises, employer and pensioner demographics, discount rates and the expected rate of future annual railway ticket price increases. The Group bases the estimates on, amongst other things, historical experience and recommendations of its actuaries. A change in these estimates could have a significant impact on the Group's profits in future periods. Additional information regarding the Group's employee benefit obligations is contained in Note 20 of the Notes to the Annual Financial Statements.

Inventory Valuation

Inventory is valued at the lower of cost or net realisable value. The Group records an allowance to reduce the carrying value of obsolete and slow-moving inventory to net realisable value, when appropriate. The actual value realised on disposition of such inventory may differ from the net realisable value; any such difference could have a significant impact on future operating results.

Recoverability of VAT

At each reporting date the Group assesses the recoverability of VAT arising on sales to customers on international transportation. The Group cannot charge VAT onwards to these customers, and accordingly can only receive these amounts through an offset against future VAT liability or collection from the tax authorities. In assessing the recoverability of the VAT receivable, the Group considers information from the internal tax department regarding projected VAT liability, correspondence with government tax authorities, and historical recovery experience. The actual amount of VAT recovery could differ materially from the Group's estimate and this could materially impact operating results.

Depreciation of Property, Plant and Equipment

Depreciation of property, plant and equipment is computed using the straight-line method over estimated useful lives. The estimates of useful lives, residual values and methods of depreciation are reviewed at each reporting date and adjusted if appropriate. Any changes are accounted for prospectively as a change in accounting estimates. Estimates of the useful lives and residual values of these assets are based on the expected economic use, repair and maintenance programmes, and volume of activity, technological advancements and other business conditions and may require significant future expenditures in order to maintain the property to a high level. If these assumptions were to change, it could result in significantly different depreciation amounts than those previously recorded.

In 2011 management revised the useful life for certain locomotives due to moral depreciation. This change in estimate, determined from an assumption of usage of those assets until the end of useful life, will lead to the increase of depreciation in the current year and all subsequent years for KZT 1,007,691 thousand.

Income Taxes

Kazakhstan legislative acts and regulations are not always clearly written. Instances of inconsistent opinions between local, regional and national tax authorities are possible. Where additional taxes are imposed by the tax authorities, penalties and interest applied are significant; penalties are generally assessed at 50% of the additional taxes accrued, and interest is assessed at 22.5% of taxes not settled on a timely basis. As a result, penalties and interest can exceed the amount of additional accrued taxes.

Because of the uncertainties disclosed above, the ultimate amount of taxes, penalties and interest, if any, imposed may be in excess of the amount expensed to date and accrued as at 31 December 2011 and 2010 and at 1 January 2010. Any difference between these estimates and the actual amount, if any, ultimately paid could have a significant impact on the Group's profits in future periods.

Recent Developments

The Group's total cost of sales as a percentage of total revenue increased to 69% in the first quarter of 2012 compared to 66% in the first quarter of 2011. The Group's cash and cash equivalents decreased to KZT 87.4 billion as at 31 March 2012, compared to KZT 130.2 billion as at 31 December 2011. This decrease in cash and cash equivalents was primarily due to payments made by the Group in relation to investments in new projects, including KZT 3.2 billion toward the construction of the teleradio complex in Astana and new railway lines, among other things, as well as payments for inventories, including materials and supplies, spare parts and fuel.

In addition, on 29 May 2012, the Company's sole shareholder, Samruk-Kazyna, resolved to increase the dividends for the year ended 31 December 2011 to be paid by the Company in 2012 to 30% from 15% of net profits.

For a discussion of the additional borrowing arrangements the Group entered into since 31 December 2011, see "*Borrowings*".

KAZAKHSTAN'S ECONOMY AND THE RAILWAY INDUSTRY IN KAZAKHSTAN

Kazakhstan's Economy

Kazakhstan has been recognised by both the EU and the United States as having a "market economy". The World Bank reported that, since gaining independence in 1991, Kazakhstan has maintained a strategic focus on economic development. Further, Kazakhstan is considered to be a vital hub for trade across the Central Asia region, including Russia, China and the former Soviet states.

The Kazakhstan economy is highly resource-dependent and is primarily driven by exports of oil, gas and minerals, which account for more than 70% of the country's total exports. The U.S. Department of State reported that, in addition to substantial oil and gas reserves, Kazakhstan has significant deposits of natural resources, including coal, iron, copper, zinc, uranium and gold. Other key sectors of the Kazakhstan economy include manufacturing, agriculture and transportation. From 2000 to 2007, Kazakhstan enjoyed strong economic performance with an average real GDP growth of 10%, as reported by the World Bank.

According to the International Monetary Fund ("**IMF**"), the Kazakhstan economy, similar to most national economies, experienced significant economic difficulty in light of the 2008 and 2009 global financial crisis. The IMF reported that global liquidity conditions began to tighten in Kazakhstan in August 2007 and by 2008, the ability for domestic banks to access international financial markets declined, exports for goods and services declined, credit growth stalled and property prices dropped following years of rapid growth. The IMF also observed that, although high oil prices cushioned, to an extent, the sudden decline in capital inflows, Kazakhstan's economic growth slowed by mid-2008 and into 2009. The World Bank reported that during 2009, Kazakhstan experienced a reduction in trade and significant capital outflows. The IMF has noted that banking sector difficulties and large external debt repayments in the banking sector led to a devaluation of the Kazakhstan currency in 2009. However, according to the World Bank, significant improvement of the balance of payments, and an increase of monetary and fiscal reserves also helped the central bank to maintain exchange rate stability. In February 2010, the central bank introduced a wider, asymmetric trading corridor (+10/-15% around the central parity of Tenge/U.S. Dollar 150). Since then, the Kazakhstan currency has gained only about 2%. The central bank has been able to accumulate dollar reserves and limited the appreciation of the Tenge against the U.S. dollar.

According to the IMF, Kazakhstan underwent economic recovery after the 2007-2009 crisis. Such recovery continues to be strong, supported by high oil prices and the rebound in agricultural output following the 2010 drought. According to World Bank and IMF data, Kazakhstan's GDP grew by 7.3% in 2010 and the IMF estimates that it grew by 7.5 % in 2011. The IMF ranks Kazakhstan as one of the top 10 fastest growing countries.

The IMF believes that the rise in revenue from commodity exports, oil related foreign direct investment and external funding helped to sustain the necessary dollar capital inflows to keep the Tenge's appreciation within the central bank targets. However, most non-resource sectors of the economy continue to suffer from low productivity and competitiveness, resulting in Kazakhstan's economy being vulnerable to commodity price fluctuations.

According to the IMF, the recovery is taking place against the backdrop of a rapidly deteriorating external environment. If downside risks to global economic growth related to possible delays in the resolution of the crisis in the eurozone and in the recovery of private demand in the United States materialise, commodity prices, global trade and capital flows would likely decline, restricting growth in the Kazakhstan economy which is exposed to these shocks, given its dependence on commodity exports and its close links with international markets.

A customs union between Kazakhstan, Russia and Belarus was established in 1 January 2010 and marked a major change in the path of regional integration with important implications for Kazakhstan. The ultimate goal is the creation of a SES with a market of 170 million people by the end of 2012. Kazakhstan is also pursuing accession to the World Trade Organization (WTO).

Despite the current progress, economic recovery in Kazakhstan is expected to be fragile as credit expansion remains restrained and activity in key sectors, such as construction and real estate, remains weak. Resolution of the bank solvency crisis remains a top priority for Kazakhstan and is viewed as critical to the recovery of Kazakhstan's economy. Although Kazakhstan authorities have made progress towards resolving the banking sector problems, a number of concerns remain, such as system-wide asset quality and an increase in the number of non-performing loans among the portfolios of Kazakhstan's banks. In particular, BTA, one of the restructured banks, has now become insolvent as it emerged that a large capital injection originally accounted for as equity is in fact a loan. Further, the decline in the value of real estate prices has added to the cumulative effects of the economic difficulty.

According to the IMF, in 2011 Kazakhstan's public debt as a percentage of GDP is relatively low (11%) compared to members of the "Group of Eight" countries, such as Japan (230%), Italy (120%), the United States (103%), France (86%), Canada (85%), UK (83%), Germany (82%) and certain current and former members of the CIS, such Ukraine (37%), Georgia (34%) and Russia (10%). In addition, according to the IMF and the Ministry of Finance of Kazakhstan, Kazakhstan's central bank reserves and national fund reserves have been increasing in recent years and in 2011 were U.S.$ 43.7 billion (estimated) and U.S.$ 29.2 billion, respectively.

Railway Industry

Overview

Kazakhstan is located in Central Asia and is bordered in the north by Russia; in the east by China; in the south by Kyrgyz Republic, Uzbekistan, and Turkmenistan; and in the west by the Caspian Sea. The country covers an area of 2.7 million square kilometres and, in terms of land mass, is the ninth largest country in the world and the second largest country, after Russia, in the CIS. According to the World Bank, the transportation industry is one of the most significant sectors of Kazakhstan's economic structure.

The Kazakhstan railway system originally formed part of the Soviet Union's rail network and was divided into three railways operated under the control of the Soviet Railway Ministry. Due to the predominance of bulk raw materials carried over long distances, the three railways were among some of the most profitable in the Soviet Union. After the dissolution of the Soviet Union in 1991, the economic disruption and falling production levels throughout the former Soviet Union caused a sharp decline in rail transportation volumes in the 1990s. After Kazakhstan's independence, the Government kept certain tariffs artificially low and provided directed tariff discounts to certain industries, in particular, the mining industry. Even with financial assistance in the form of directed discounts, some entities were unable to afford the cost of rail transportation, which resulted in a decline in railway traffic volume. The decline in railway traffic volume coupled with a decline in Government aid had a significant impact on railway revenues, and in order to remain operational, the railroad operators that were the Company's predecessors were forced to defer fleet renewals and maintenance programmes.

The reform of the Kazakhstan railway sector began in 1997 after the Government realised that its prior strategy was unsustainable. The Government merged the three railways existing at that time and established the Railway Republican State Enterprise to restructure the rail network by consolidating its activities and stabilising its financial condition. Despite the restructuring efforts from 1997 to 2000, the Government recognised the need for further fundamental restructuring of the railway sector and in 2002 created the Company to serve as the State railroad enterprise.

According to the NSA, The Worldwide Association of Cooperation for Railway Companies and other publicly available information, for the year ended 31 December 2011, net freight turnover for select state-owned railway companies was as follows: China National Rail (China) – 2,947 billion tonne-km; Russian Railways (Russia) – 2,130 billion tonne-km; Canadian Pacific Canadian National Railway (Canada) – 300 billion tonne-km; Ukrainian Railways (Ukraine) – 244 billion tonne-km; the Group (Kazakhstan) – 224 billion tonne-km; and Deutsche Bahn (Germany) – 112 billion tonne-km.

Freight Transportation and International Trade

The railway system plays a particularly important role with respect to freight transportation in Kazakhstan. The World Bank has noted that, as a result of certain geographical characteristics particular to Kazakhstan, such as its vast territory, landlocked position and highly dispersed population, location of natural resources and location of centres of economic activity, the Kazakhstan economy is heavily reliant on rail freight transportation. Further, Kazakhstan has one of the busiest railways in terms of traffic volume among the countries in the Eastern Europe and Central Asia regions. Moreover, the country's railways play an important role in transporting coal, minerals and other commodities over vast distances, typically 1,000 kilometres or more, as Kazakhstan's economy places a heavy emphasis on the production of raw materials and intermediate goods. The Kazakhstan railway system also includes an extensive passenger network, providing suburban, intercity and interregional passenger services throughout Kazakhstan. Although passenger transportation is important in Kazakhstan, it does not have the same level of activity as that of freight transportation.

Kazakhstan serves as a vital hub for trade from Russia, China, the EU and the Republics of Kyrgyzstan, Uzbekistan and Turkmenistan. Kazakhstan's geographic location provides the country a strategic opportunity to service freight transit from and to the north, south, east and west. For example, the Government has noted that Kazakhstan's position in Asia allows the country to exploit potential rail transit needs as there are few other alternatives for Asian states to connect to Russia and Europe. According to the Asian Development Bank, Kazakhstan's largest trading partners are China and Russia. The Asian Development Bank noted that, although the EU and Russia are key countries for trade, the greatest opportunities for Kazakhstan as a transit country are expected to come from China over the immediate and mid-term because of China's robust and growing economy, particularly in its Western region, which provides increased demand for deliveries of large scale goods to global markets. Moreover, the World Bank noted that China offers potential for regional trade because China is used by many shippers to reach the open sea for destinations in South-East Asia, Japan and the United States.

The Asian Development Bank has noted that Kazakhstan has a superior railway logistics system as compared to other Central Asian states and Russia in that its tracks are better maintained and built around strategic nodes in key cities. Despite this advantage, the Government has noted that the current transit system does not utilise the country's full transit potential. Given Kazakhstan's geographic and national economic interest in international trade with Russia and China, achieving this potential will require resolution of certain key infrastructure issues and differences in trade policies among trading partners. The World Bank and Asian Development Bank have indentified the following trade barriers:

- high transportation and handling costs associated with the use of the railway transit in Kazakhstan. Transportation costs in Kazakhstan account for 8% of the final cost of goods transported via railway, compared to industrialised countries, where transportation costs typically account between 4% and 5% of the final cost of the transported goods;
- lack of adequate storage capacities at cargo terminals and warehouses at certain key rail cities in Kazakhstan;
- delays at the Dostyk railway terminal located at the Kazakhstan-Chinese border due to different rail gauges used by Kazakhstan and China. Rail gauge refers to the internal distance between the insides of the rail track. Due to rail gauge differences, transit goods must be transloaded or re-transferred by machine from China's railcars to Kazakhstan's railcars; and
- stringent regulation and documentation requirements imposed by China with respect to the railway system.

Because Kazakhstan's economy is heavily dependent on commodity exports and freight transportation, an efficient railway system is considered essential in order to develop domestic and international trade. Provided that such inefficiencies as described above can be overcome or sufficiently managed, Kazakhstan is in a position to exploit international trade through its railway system given the country's strategic geographic location between Russia, Europe and China and China's growing economy.

BUSINESS OF THE GROUP

Overview

The Company is the national railway company of Kazakhstan and owns and operates Kazakhstan's national railway system and related infrastructure. The Company was established by decree of the Government of the Republic of Kazakhstan, which through its wholly owned subsidiary, Samruk-Kazyna, owns all of the outstanding shares of the Company. As Kazakhstan's national railway company, the Company has a monopoly over the provision of services on Kazakhstan's mainline railway network and is a dominant provider of freight transportation services in Kazakhstan. JSC Passenger Transportation, a subsidiary of the Company, is a dominant provider of passenger transportation services in Kazakhstan. The Group is the largest employer and taxpayer in Kazakhstan and also is a significant contributor to the development of the infrastructure necessary to transport raw materials and finished goods, both into and out of Kazakhstan. Due to Kazakhstan's limited access to navigable water routes, underdeveloped road infrastructure and Kazakhstan's dependence on the export of raw materials and import of finished goods, the railway system is a crucial component of Kazakhstan's economic growth.

The Group is responsible for the maintenance, operation and modernisation of Kazakhstan's mainline railway network and provides railway transportation, infrastructure and support services, which include maintaining all railway infrastructure, machinery and equipment in the Republic of Kazakhstan; ensuring the safety of railway operations; developing material and technical systems for the railway network; and establishing international railway transit corridors as agreed with Kazakhstan's Ministry of Transportation. In addition, in connection with recent Government initiatives for the development of transportation logistics, which is a relatively new priority in Kazakhstan's transportation sector, the Company has been appointed as the national transportation and logistics operator and will be responsible for institutional development and operational coordination in this regard.

The Group's freight transportation revenue was KZT 603.7 billion for the year ended 31 December 2011 and KZT 501.6 billion for the year ended 31 December 2010, which accounted for 85.9% and 86.1%, respectively, of total consolidated revenue. According to NSA data, the Group's freight turnover, which includes freight transported in third-party wagons hauled by the Group, accounted for 49.8% and 55.3% of all freight turnover in Kazakhstan by all modes of transportation in 2011 and 2010, respectively. For the year ended 31 December 2011, the Group had an overall freight turnover of 223.6 billion tonne-kilometres, which represented an increase from 2010 when the Group had an overall freight turnover of 213.2 billion tonne-kilometres. See "*Business Operations of the Group – Transport Services – Freight Transportation*".

The Group's passenger transportation revenue was KZT 54.9 billion for the year ended 31 December 2011 and KZT 50.9 billion for the year ended 31 December 2010, which accounted for 7.8% and 8.7% respectively, of total consolidated revenue. For the year ended 31 December 2011, the Group had a passenger turnover of 14.6 billion passenger-kilometres, which represents an increase from 2010 when the Group had a passenger turnover of 13.9 billion passenger-kilometres. See "*Business Operations of the Group – Transport Services – Passenger Transportation*".

As at 31 December 2011, the assets of the Group included:

- 14,319.4 kilometres of operational rail track, of which 4,170.6 kilometres were electrified tracks;
- 765 stations and operating points, including: (i) six distributing stations, where trains are linked or unlinked and locomotives are changed, (ii) 71 freight stations, where freight can be processed, (iii) 63 division stations, where transit freight can be processed, and (iv) 625 wayside stations, where trains can be temporarily idled to make way for passing trains;
- 1,759 locomotives;
- 55,659 freight cars;
- 2,120 passenger cars; and
- 19,810 track switches.

See "*The Rail System*".

The Company's status as a natural monopoly and a dominant provider of freight transportation services and the status of its subsidiaries, Kaztemirtrans and Lokomotiv, as dominant providers of railcars and locomotive haulage services, respectively, subject the Group to regulation by the

Government, which includes limitations on the amount these entities can charge customers for their services. See "*Government Regulation and Tariffs*". However, the railway industry in Kazakhstan generally and the Group specifically have undergone and continue to undergo reforms and restructuring. See "*Ongoing Restructuring*". Pursuant to the Company's Development Strategy, which sets forth the development strategy of the Group through 2020, and within the framework of the Government's railway infrastructure Development Programme for the years 2010-2014, which was approved by Government decree on 30 September 2010, the Company aims to retain its leadership as Kazakhstan's railway operator and service provider. As part of this process, the Development Programme envisages the deregulation of freight tariffs, with the exception of mainline freight tariffs, which is expected to result in the deregulated freight tariffs becoming subject to market pricing by 2014.

The Government exercises indirect control over the Group through its regulatory and legislative powers. As the Company's sole shareholder, Samruk-Kazyna has the exclusive right to, among other things, determine when dividends are paid by the Company and elect the Company's Board of Directors. In addition, since Samruk-Kazyna is wholly owned by the Government, the Government has the right to determine general policy with respect to the Group's activities and corporate governance matters, including by passing resolutions with respect to sales of the Company's shares and its reorganisation, but it may not interfere in the day-to-day operations of Samruk-Kazyna or the Group, except as provided by law or as decreed by the President of the Republic of Kazakhstan.

Key Strengths

The Company believes that it benefits from the following key strengths:

- **Status as National Railway Company of Kazakhstan**. The Company owns and operates Kazakhstan's national railway system and related infrastructure. Consequently, the Group has a dominant role in Kazakhstan freight and passenger transportation, plays a strategic role in the overall Kazakhstan economy, and is among the highest rated Kazakhstan issuers. According to NSA data, the Group's freight turnover for 2011, which includes freight transported in third party wagons hauled by the Group, accounted for 49.8% of all freight turnover in Kazakhstan by all modes of transportation for that period. The Group also provides significant domestic passenger transportation services in Kazakhstan, with an overall passenger turnover of 14.6 billion passenger-kilometres in 2011.

- **Strong Relationship with the Government**. The Group has historically received and continues to receive strong support from the Government through its sole shareholder, Samruk-Kazyna. This support includes capital contributions to finance the Group's operations, railway infrastructure development and capital expenditures, government grants for its passenger transportation business and other financial support, such as below-market loans. The Group also plays a significant role in implementing the Government's plans to develop Kazakhstan's railway infrastructure and in its transport policy. For example, through its Development Strategy and as Kazakhstan's national railway operator and service provider, the Group cooperates closely with the Government in implementing the Government's Development Programme and in developing Kazakhstan's railway infrastructure. In addition, as the Government appointed national transportation and logistics operator, the Group is responsible for promoting the development of Kazakhstan's transportation and logistics capacity.

- **Proximity to China**. The Company believes that Kazakhstan's geographic position relative to China affords Kazakhstan unique opportunities to capitalise on China's economic growth by facilitating both China's import of raw materials and export of finished goods to countries in Europe as the volume of trade between the EU and China continues to increase. Kazakhstan currently accounts for less than 0.5 percent of total trade between these trading partners, and the Government's objective is to provide railway services that will promote an increase in volume between China and EU that travels overland through Kazakhstan. The Company believes the transit route from China to Europe through Kazakhstan has several advantages, including that it is faster than the current sea route through the Suez Canal or competing rail routes through other countries, and is cheaper than transporting by air freight, which in the future could lure an increasing amount of freight traffic from these alternative routes.

An additional development that the Company believes will increase the flow of transit freight traffic between China and the EU through Kazakhstan is the significant number of initiatives that the Chinese government is currently undertaking to develop the Xinjiang Uygur Autonomous Region ("**XUAR**") adjacent to the Kazakhstan-China border. The current Chinese integrated transport strategy and the "Go West" programme for accelerated development of the western provinces of China are designed to bridge the gap between the economically developed coastal areas of China and the less developed western regions of that country. The Company believes that the implementation of these programmes will create preconditions for the creation of additional export-oriented industries and an increased cargo base in the immediate vicinity of Kazakhstan. During the spring of 2012, the Company entered into memoranda of cooperation with the respective Chinese entities to further increase freight transportation along the China-Europe route. Through the creation of favourable conditions for transit and the elimination of existing physical and nonphysical barriers to trade, the Company believes these programmes will help increase the Kazakhstan railway's role in acting as a land bridge between East and West, paving the way for increases in the transit of goods from the western part of China to Europe.

- **Geographic Reach and Flexibility of Services**. The geographic reach of the railway system allows the Group to take advantage of evolving regional economic centres, as the Group can divert resources and route traffic to areas with increasing transportation demand. The Company believes that this geographic reach will allow it to grow and evolve simultaneously with the development of the Kazakhstan economy and new trade routes, which will allow it to expand the railway system's throughput capacity, while increasing efficiencies by reducing the frequency of empty runs. The Company believes this strength is particularly significant due to the Kazakhstan economy's heavy dependence on commodity exports and freight transportation, as well as Kazakhstan's limited access to navigable water routes and underdeveloped road infrastructure.

- **Broad Range of Services**. The Group's principal activities involve providing a broad range of field-oriented services, such as operating the mainline railway network, freight and passenger traffic, logistics, infrastructure services, as well as services that are ancillary to field-oriented services. The Group's ability to offer customers a large array of transportation services enables it to realise efficiencies and economies of scale, which the Company believes give it an advantage over prospective competitors.

Ongoing Restructuring and Initiatives

After the break-up of the former Soviet Union, the Kazakhstan railway industry was consolidated by combining three separate railway entities into one railway entity to facilitate more efficient management of all operations. Since this time, the Government has continued to implement changes to the railway industry to create conditions in which railway transport can adapt to economic growth, develop competition and attract investments, while preserving the Government's control over the system.

As part of these changes, the Company was appointed the sole operator of Kazakhstan's mainline railway network, which vested in the Company the power to grant or deny, in accordance with Government legislation, access to Kazakhstan's mainline railway network to private freight operators, thereby creating the Company's monopoly over Kazakhstan's mainline railway network. In its role as sole operator, the Company enters into separate agreements with each private operator for the provision of services. In addition, the Company must ensure non-discriminatory access to, and provide carriers with an equal right to use, the mainline railway network. In cases where railway capacity is limited, such as with regard to passenger transportation, this must be done on a competitive, non-discriminatory basis in accordance with the terms of use of the mainline railway network. In addition, the Company was permitted to divest itself of various social welfare facilities and other non-core operations, and several support activities (for example, repair and maintenance of the railway track, repair of railcars and locomotives, supply of water and heat to the units, and provision for the supply of communication services) were transferred from the Company to certain subsidiaries of the Company. The freight transportation tariff was also modified to distinguish among transportation categories, including the destination and type of freight, which allowed the Company to approach different customer categories individually depending on their operational needs and financial position.

Development Strategy

In May 2010, the Board of Directors of the Company approved the Development Strategy in light of ongoing Government reform measures, in particular the Development Programme. Under the Development Strategy, the Company intends to pursue the following strategies:

- **Create a more efficient holding company structure**. Through the reorganisation, merger and liquidation of certain subsidiaries, potentially including Kaztemirtrans and Lokomotiv, the Company will ultimately become a holding company focusing primarily on strategic development decisions in respect of the Group, including controlling the business efficiency of the Group as a whole and coordinating the distribution of assets and personnel within the Group.

- **Redistribute assets, personnel and functions to isolate the four principal business lines by 2015**:

  - **Mainline railway infrastructure**. The Company plans to create a wholly owned subsidiary that will manage the mainline railway network for the Group and private carriers and related repair and maintenance functions for the Group. This subsidiary will have the power to provide direct access to the mainline railway network to the Group's operating companies and private operators. The Company currently believes that the ongoing Government reforms of the railway industry will result in only tariffs for access to the mainline railway network remaining subject to Government regulation, while tariffs for transportation of freight and passengers will be determined by market competition.

  - **Freight transportation**. The Company intends to establish a wholly owned subsidiary, created by combining Kaztemirtrans, Lokomotiv and certain assets of the Company, that will be responsible for the Group's freight transportation operations. The Company plans for this subsidiary to obtain the status of the national freight operator and to own and operate freight cars, freight locomotives, containers and associated facilities and equipment. The Company currently intends to sell a minority stake in the newly formed freight transportation subsidiary to private investors as part of the "The People's IPO" programme, a Government privatisation programme.

  - **Passenger transportation**. The Company anticipates that JSC Passenger Transportation will retain its status as the national passenger transportation operator. The Company plans for JSC Passenger Transportation to own and operate the Group's passenger locomotives and passenger cars and to render a full range of passenger transportation services. The Company believes that in order to create an efficient system for the railway transportation industry, passenger transportation losses will need to be fully and directly covered by the Government's budget. This is expected to allow the Group to eliminate the existing system of indirect subsidisation of passenger transportation by freight transportation that is currently in place.

  - **Locomotive and rolling stock assembly and repair**. The Company has entered into joint ventures with foreign railway operators and companies which have expertise in locomotive and rolling stock assembly and repair with an aim to provide such services for the Group. The Company envisages that these strategic partnerships will allow it to update its fleet with locomotives with improved haulage performance and implement best practices for locomotive and rolling stock maintenance and repair, thereby increasing productivity and decreasing operating costs.

  - **Improve efficiency within the Company**. The Company is in the process of overhauling its expense-oriented policy with a view of achieving greater efficiency with respect to the manner in which it utilises its resources and the processes which are involved in the Company's operations. In addition, in order to improve the competitiveness of the services that it provides, the Company has been implementing measures aimed at decreasing production and administrative costs and increasing efficiency. The primary activities that the Company has implemented in this regard include:

    - restructuring assets through the merger and liquidation of servicing subsidiary companies;

- establishing new joint ventures, manufacturing railway industry oriented products (locomotives, passenger cars, molded and other pieces) to decrease service costs for maintenance and repair of fixed assets;
- selling non-core and inactive assets, including buildings, siding tracks, machines and equipment;
- actively managing materials;
- revising previously approved, and formulating of new, staff numbering standards aimed at the more efficient use of labour resources and improvements in staff quality;
- optimising employee, administrative, training and entertainment expenses;
- increasing labour productivity;
- modernising and increasing the efficiency of production processes and optimising production assets, while maintaining production at the required technical levels;
- automising and implementing process and repair works controls; and
- introducing energy-saving technologies.

- **Retain leadership in the freight transportation market**. The Government's Development Programme envisages the deregulation of transport activities in Kazakhstan, which will include the opening of the freight market to competition and the appearance of new market participants. In order to maintain its leadership in the freight transportation market and compete effectively with new entrants in the freight transportation market, as part of its Development Strategy, the Company is introducing a customer-oriented approach to its business, establishing a full range of integrated transport and logistics services with the necessary corresponding infrastructure assets, such as transport and logistics centres, car parks and port infrastructure, and undertaking other efforts to increase demand for the services that the Group provides.
- **Improve management of operations**. The Company will take steps to improve the managerial side of its activities. In particular, it is looking to increase transparency in its decision-making processes, improve accountability and take a more efficient approach to management.

The plan to implement the Development Strategy has received all requisite corporate approvals and is being implemented in conjunction with the Government's Development Programme.

Restructuring steps and projects

As of the date of this Prospectus, the following restructuring steps and projects have been undertaken as part of the Development Strategy and Development Programme:

- *Repair Corporation Kamkor LLP ("Kamkor")*: In April 2011, in accordance with the Development Programme and through a resolution of its board of directors, Samruk-Kazyna contributed 100% of Kamkor to the Company. It is currently anticipated that Kamkor will later be restructured into one of the Group's four main business lines that will carry out the repair and modernisation of fixed assets;
- *JSC Temirzholsu*: For cost optimisation purposes, JSC Zheldorvodoteplosnabzhenie (utilities services) has been merged into JSC Temirzholsu (utilities services), with the expectation that JSC Temirzholsu will later form one of the Group's four main business lines that will operate mainline infrastructure;
- *JSC Vokzal-Servis*: To provide non-discriminatory access for all railway companies to the railway stations and to ensure proper maintenance of railway stations, the Company acquired a 100% share in JSC Vokzal-Servis (Railway stations activities) from JSC Passenger Transportation;
- *New rail lines*: In 2011 the Company completed the construction of the first phase of new rail lines between Uzen and the border of Turkmenistan and between Khorgos and Zhetygen, and in the first half of 2012 commenced the construction of new lines between Zhezkazgan and Beyneu and between Arkalyk and Shubarkul.

- *Patentes Talgo Factory*: In 2011, the Company had completed the construction of the factory for the manufacturing of passenger cars in accordance with "Patentes Talgo" technology, which has a projected volume of 150 passenger cars a year.
- *Railway Electrification Projects*: In 2011 JSC Remlocomotive jointly with Siemens AG (Germany) established Temir Zhol Electrification LLP, whereby JSC Remlocomotive owns a 51% share. The primary activity of this entity is the implementation of railway electrification projects.
- *Ansaldo joint venture*: In 2010 JSC Remlocomotive jointly with Ansaldo STS S.p.A established Kazakhstan TZ Ansaldo STS Italy LLP, whereby JSC Remlocomotive owns a 51% share. The primary activity of this entity is providing research, development, construction and assembly services, as well as producing goods for railway transport.

Development of transport logistics

The Government has appointed the Company the national transportation and logistics operator responsible for promoting the development of Kazakhstan's transportation and logistics capacity. As part of this function, in July 2011 the Group reorganised its subsidiary JSC Remwagon into a new entity, JSC National Centre on Development of Transport Logistics (formation of transport and logistics), whose strategic objective is to promote transportation and logistics capacity through information and analytical support, maintenance and development of practical recommendations for decision-making in transport policy.

Since 2005, the governments of Kazakhstan and China have been cooperating on an international project of cross-border cooperation called "Khorgos" that, among other things, allows visa-free visits for up to 30 days for citizens of certain countries in order to facilitate trade. As part of this project, the Government placed 100% of the shares of JSC International Centre for Cross-Border Cooperation Khorgos under trust management of the Company with the objective of facilitating trade with China, developing transit opportunities between China and Kazakhstan, and implementing the development of the transcontinental corridor project between Western Europe and Western China. In November 2011, the Government established a free economic zone called "Khorgos East Gate", which is a tax-free and customs-free zone with simplified customs clearance procedures that will include an industrial zone and an international logistics centre for the transshipment of goods from and to China by road, rail and air transport. In its role as the national transportation and logistics operator, at the end of 2011 the Company initiated work on the development of an industrial and logistics hub, which will include the development of the "Khorgos East Gate" free economic zone, the Zhetygen-Khorgas railway line, a "Western Europe-to-Western China" highway, local facilities for storage, customs clearances and housing, bus stations and, at a future date, an airport.

In the future, the Government also plans to place the Sea Port Aktau under trust management of the Company with the objective of facilitating the management of transportation and logistics through that port.

Internal organisational and operational measures

The Company has undertaken internal measures to improve its organisational and operational efficiency and effectiveness, including:

- undertaking a KZT 560 billion investment programme to modernise and renew the Company's principal assets, including passenger and freight cars, locomotives and spare parts for assembly of locomotives;
- introducing an integrated management system, which allows the Company to link its key service management processes through a single process model;
- adopting an internal corporate ideology and business policy;
- introducing improvements to its customer services and transport, operational and maintenance processes, including adopting a "MULTIRAIL" automated system for planning the transportation processes that has permitted the Company to switch from the "tonnage" model to the "cruise" model of organising freight traffic;
- commencing the operation of an automated system of contractual and commercial work (ASU DKR) that allows for paperless and automatic processing of applications of consignors, which has significantly simplified customs applications and significantly reduced their processing times;

- introducing measures to reduce its delivery cycle length, including through the automisation of supply planning to improve the processes of supply and logistics; and
- commencing implementation of large-scale measures to improve productivity and lower service costs.

The Company has also developed a plan aimed at improving the efficiency of the Group's production processes over the course of the period from 2012 to 2015 through the implementation of certain projects and progressive technologies, as well as engineering and technical measures designed to reduce costs, increase productivity and increase overall efficiency, including through the optimisation of headcount and increased labour productivity standards; the reduction of inventory levels and the need for volume purchases through better materials management; more economical increases in overhaul; and increased savings on fuel and energy resources. As part of these initiatives, the Company has also formulated and proposed draft laws for consideration by the Ministry of Transport of Kazakhstan that are aimed at improving how railway transport is organised in Kazakhstan. See "*Risk Factors – Risk Factors Relating to the Group – Each of the Group and the railway industry in Kazakhstan has undergone and is continuing to undergo significant restructuring that will require the Group to adapt and will likely result in a more competitive environment*".

The Company

The legal name of the Company is Joint Stock Company National Company Kazakhstan Temir Zholy. The Company is a Kazakhstan joint stock company as defined in the Civil Code of the Republic of Kazakhstan, Joint Stock Companies Law of the Republic of Kazakhstan and other legislative acts of the Republic of Kazakhstan operating under state re-registration number 11867-1901-AO issued by the Astana City Department of Justice on 2 April 2004. The Company is wholly owned by the Government through Samruk-Kazyna. See "*Share Capital and Principal Shareholders – Samruk-Kazyna*". The Company was first established pursuant to Government Resolution No. 310 dated 15 March 2002, as amended by Government Resolutions No. 313 dated 15 March 2002, No. 479 dated 27 April 2002, No. 1051 dated 25 September 2002, No. 1404 dated 28 December 2002 and No. 1389 dated 25 December 2004, and is listed in the Register of Industries Having Strategic Importance and Falling under State Monitoring of Ownership pursuant to the Government Resolution No. 810 dated 30 July 2004 and in the Register of Dominant (Monopolistic) Companies in Kazakhstan.

The business address and registered office of the Company is 6 Kunayev Street, Esil District, Astana, 010000, the Republic of Kazakhstan and its telephone number is +7 (7172) 60 47 77.

The Rail System

Overview

Kazakhstan's railway system, which is wholly owned and operated by the Group, consists of mainline railway network, also known as corridors, which connect to rail networks in the Russian Federation, Kyrgyz Republic, Uzbekistan, Turkmenistan and China, as well as ancillary tracks. As at 31 December 2011, the railway system had an operational length of 14,319.4 kilometres, of which 4,170.6 kilometres were electrified tracks.

Kazakhstan railways, according to the World Bank, are some of the busiest railways in terms of traffic volume among the countries in the Eastern Europe and Central Asia region. The Kazakhstan railway system covers the majority of Kazakhstan and connects all 14 regions (oblasts) and offers service to Kazakhstan's biggest cities, such as Almaty, Astana, Pavlodar, Kostanay, Kokshetau, Semey, Taraz, Shymkent, Kyzylorda, Aktobe, Atyrau, Karaganda and Ustkamenogorsk. The railway system is an integrated national passenger and freight railway track, meaning that passenger trains and freight trains operate on the same lines.

As at 31 December 2011, there were 1,295 locomotives (excluding shunting locomotives) operating on the mainline railway network, of which 1,261 are owned and operated by the Group. The remaining 34 locomotives are leased or subcontracted by the Group from private companies.

The following map gives an overview of the reach of the Kazakhstan railway as at the date of this Prospectus:

- Oil field
- Oil and gas field
- Coal
- Stations
- Cities and key stations
- Astana, capital of Kazakhstan
- Capitals of CIS countries

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* Source: Based on the Company's internal data.

The following table sets forth certain information in respect of the nine mainline railway networks as at and for the year ended 31 December 2011:

Mainline Network	Brief Description	Freight Turnover	Length*
		(billion tonne-km)	*(km)*
Mangyshlak – Beineu – Makat – Kandyagash – Arys – Lugovaya – Almaty – Aktogay – Dostyk	Connects Western Kazakhstan to the Kazakhstan-China border through the southern regions of Kazakhstan	28.3	4,121
Presnogorkovskaya – Kokshetau – Astana – Dostyk	Connects the Kazakhstan-Russia border to the Kazakhstan-China border	23.7	2,043
Petropavlovsk – Astana – Dostyk	Connects Northern Kazakhstan to the Kazakhstan-China border	23.7	1,902
Tobol – Astana	Connects Northern Kazakhstan to the capital of Kazakhstan	14.4	665
Iletsk – Aktobe – Kandyagash – Arys – Saryagash	Connects Russia to Southern Kazakhstan	15.7	1,754
Ozinki – Kandyagash – Ayrs – Lugovaya – Almaty – Aktogay – Dostyk	Connects Western Kazakhstan-Russia border to the Kazakhstan-China border	27.1	3,708
Saryagash – Arys – Lugovaya – Aktogay – Dostyk	Connects Southern Kazakhstan to the Kazakhstan-China border	12.9	1,824
Diny Nurpeisovoy – Makat – Beineu – Oasis	Connects Western Kazakhstan-Russia border to the Kazakhstan-Uzbekistan border	6.1	790
Makat – Kandyagash – Nickeltau	Connects Western Kazakhstan to the northwest portion of the Kazakhstan-Russia border	2.3	527

* Several of the mainline networks overlap and share common tracks. As at 31 December 2011, the Kazakhstan railway system had 14,319.4 kilometres of operational rail track.

Kazakhstan's railway system provides rail access throughout most of the country for transportation of freight within Kazakhstan ("**domestic**"), transportation of freight from within Kazakhstan to destinations outside of Kazakhstan ("**export**"), transportation of freight from outside of Kazakhstan to destinations within Kazakhstan ("**import**"), and transportation of freight that originates outside of Kazakhstan and passes through Kazakhstan en route to its final destination outside of Kazakhstan ("**transit**"). Kazakhstan's railway system also includes an extensive passenger network, providing intercity and suburban, inter-regional and international passenger services throughout Kazakhstan. Kazakhstan's rail networks constitute a significant part of several international railway networks including the Trans-Asian railroad. See "*International Transit Corridors*".

The Company is responsible for building, maintaining and modernising Kazakhstan's railway system. In accordance with the Law on Railway Transport dated 8 December 2001, the Company shall implement the construction, maintenance and modernisation of the mainline railway network pursuant to a programme approved by the Government. The Civil Code of Kazakhstan dated 27 December 1994 and the Law on Railway Transport sets forth that the mainline railway network is a strategic asset that is not subject to privatisation. The Group provides private carriers with access to the mainline railway network in exchange for collection of approved tariffs. See "*Government Regulation and Tariffs – Freight Tariff Regulation and Pricing*".

Network Specifications and Land Leases

As at 31 December 2011, Kazakhstan's railway system had an operational length of 14,319.4 kilometres, of which 4,170.6 kilometres were electrified tracks. The operational length includes 4,885.6 kilometres of double tracks and 14.7 kilometres of triple tracks. The Kazakhstan railway network uses type P65 tracks, certain categories of which are thermally reinforced. The tracks are laid on wooden and concrete rail sleepers, also known as rail ties. As at 31 December 2011, wooden and concrete rail sleepers comprised 46% and 54%, respectively, of the total rail sleepers in Kazakhstan. As at 31 December 2011, the Kazakhstan railway system has 6,378.9 kilometres of tracks at rail yards and special tracks that facilitate yard operations, three tunnels, 3,511 bridges, 16 interstate border stations and one sea port.

Electrified tracks are used in districts which require electric haulage in order for freight and passenger trains to move at the required speeds. Freight turnover by electric locomotives on electrified tracks constituted 54.6% and 53.8% of total freight turnover of the Group for the years ended 31 December 2011 and 2010, respectively, while the balance of freight turnover was by diesel locomotives on non-electrified tracks. Electricity for electrified tracks is supplied by various electricity supply companies but is primarily provided by Temirzholenergo LLP, a subsidiary of the Group. The supply of electricity is sometimes subject to interruptions that may result in a cutoff or under voltage of power lines. The delays caused by such interruptions are generally minimal. The Company monitors interruptions in the supply of electricity and for each interruption it generates a report documenting the reasons for such interruption, the actions to be taken to ensure a reliable supply of electricity and any damages to be recovered from the electricity provider.

The Company is the only entity authorised to operate and manage the mainline railway network in Kazakhstan. Pursuant to Article 26 of the Land Code of the Republic of Kazakhstan dated 20 June 2003 No. 442-II (the "**Land Code**"), the land underneath the mainline railway tracks is the property of Kazakhstan and is not subject to privatisation. The Company has entered into a number of land lease contracts with local executive authorities in Kazakhstan so that it may use the land underneath its railway tracks. Lease payments are determined in accordance with the 2009 Tax Code, which makes certain distinctions based on region, location and soil type. The term of the land lease contracts is typically five years but is renewable upon agreement of the parties. According to the Land Code, the Company has a priority right to renew, typically for five years, and the local executive authorities may not unilaterally terminate the land lease contracts. In addition, the local executive authorities may not transfer the land lease rights to any third person unless and until the Group transfers the legal title to the immovable property located on the land, including, but not limited to, the railway track, to such person. As at the date of this Prospectus, the Company owns all of the mainline railway tracks in Kazakhstan and, as a result, it is the only entity leasing land underneath such railway tracks from local executive authorities.

Existing Infrastructure, Investment Projects and Expansion

In addition to the railway tracks and stations, as at 31 December 2011, the Group owned all of the rail terminals, signals and other technology and property it uses to provide logistical and operational support for freight and passenger transportation services, including 9,269 buildings (primarily transformer stations), 99 maintenance depots, 24 control-maintenance depots, 259 inspection stations, 33,436 kilometres of power lines, 12,052 kilometres of aerial communication lines, 18,771 kilometres of cable communication lines and 7,518 kilometres of fibre-optic communication lines.

During the year ended 31 December 2011, the Company made KZT 353.2 billion in expenditures for construction, modernisation and renewal of railway infrastructure, and renewal of rolling stock fleet.

The Group recognises the importance of developing its infrastructure in order to further adapt the Kazakhstan railway system to meet international rail standards and meet future transportation demand. Accordingly, in connection with the Development Strategy and the Government's Development Programme, the Group intends to invest a significant amount over the next several years to:

- develop further the Dostyk border station, located on the eastern border with China, and strengthen the Aktogai-Dostyk rail section;
- construct, develop, maintain, upgrade and modernise its rail lines;
- acquire new locomotive and modernise existing locomotives;
- acquire freight and passenger wagons; and
- develop information, automation and telecommunication systems.

See "*Risk Factors – Risk Factors Relating to the Group – Maintenance and modernisation of the Group's railway infrastructure requires significant ongoing investment, and there can be no assurance that the Group will receive the funding necessary to make such investments*".

The Company is currently in the process of constructing new rail lines between Khorgas and Zhetygen, and Uzen and the Turkmenistan border in eastern Kazakhstan. Construction of the new rail line between Zhetygen and Khorgas (totalling 293 kilometres in length) is expected to open another railway border point with China, which is expected to lessen the burden on the Dostyk station and establish a new route by which China may transport goods through Kazakhstan and access European markets. Construction of the first phase of this rail line has been completed, and construction of the second phase of the rail line is expected to commence in September 2012. The final phase of the rail line is currently scheduled to be constructed in 2013.

The new rail line between Uzen and the Turkmenistan border (totalling 146 kilometres in length) will form part of an international corridor that is expected to facilitate direct transportation between Kazakhstan, Turkmenistan and other regional destinations. Construction of the line between Uzen and the Turkmenistan border has commenced and the first phase of this rail line has been completed, and the second and final phase of construction is scheduled to occur in the second half of 2012.

The Group is currently in the process of constructing new rail lines between Zhezkazgan and Beyneu and between Arkalyk and Shubarkul. Construction of the new rail line between Zhezkazgan and Beyneu (totalling approximately 988 kilometres in length) is aimed at providing a direct route for trains between central and western parts of Kazakhstan, as well as reducing the distance of freight delivery to Aktau port by more than 500 kilometres and the costs associated with shipping to that port. The new rail line between Arkalyk and Shubarkul (totalling approximately 214 kilometres in length) is expected to provide better access to mineral mines in Central Kazakhstan to facilitate delivery of minerals from those mines to customers, as well as ensuring shorter inter-regional connections.

The Group owns or leases all the buildings, equipment and other assets necessary for the Group to conduct its business as it has historically been conducted and such buildings, equipment and other assets are generally in good operating condition and repair. However, the Group's existing infrastructure still requires significant ongoing investment and the value of the principal types of the Company's fixed assets (for example, track, electricity supply equipment, alarm systems and connections, and rolling stock) have depreciated significantly in the past. Pursuant to investment programmes in 2010-2011, the Company made investments to maintain, develop, upgrade and modernise its locomotives, freight and passenger cars, and railway track. See "*Risk Factors – Risk Factors Relating to the Group – Maintenance and modernisation of the Group's railway infrastructure requires significant ongoing investment, and there can be no assurance that the Group will receive the funding necessary to make such investments*" and "*Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group – Liquidity and Capital Resources – Capital Expenditures*".

International Transit Corridors

Kazakhstan's railway system forms part of the following five international transport corridors, which facilitate the delivery of freight between Asia to Europe:

- **Northern corridor of the Trans-Asian Railroad**. The Northern corridor connects Western Europe with the Korean peninsula and Japan through the Russian Federation and Kazakhstan. In Kazakhstan, the Northern corridor is approximately 1,910 kilometres long and includes the cities of Dostyk, Aktogay, Astana and Petropavlovsk.

- **Southern corridor of the Trans-Asian Railroad (Central)**. The Southern corridor connects Southeast Europe with China and Southeast Asia through Turkey, Iran, Central Asian countries and Kazakhstan. In Kazakhstan, the Southern corridor is approximately 1,831 kilometres long and includes the cities of Dostyk, Aktogay, Almaty, Shu and Saryagash.

- **Mid-Asian corridor of the Trans-Asian Railroad**. The Mid-Asian corridor is approximately 2,147 kilometres long and plays an important role in the support of regional transit transportation through the cities of Saryagash and Kandyagash.

- **Transport Corridor Europe – Caucasus – Asia ("TRACECA")**. The TRACECA links Eastern Europe to Central Asia through the Black Sea, Caucasus and the Caspian Sea. In Kazakhstan, the TRACECA is approximately 3,836 kilometres long and includes the cities of Dostyk, Almaty and Aktau.

- **North-South corridor**. The North-South corridor connects Northern Europe with the Middle East through the Russian Federation and Kazakhstan. In Kazakhstan, the North-South corridor is approximately 838 kilometres long and includes the cities of Aktau, Uralsk and Atyrau.

The OSJD facilitates the development of international railway routes between Europe and Asia. As at the date of this Prospectus, there are 13 such routes, nine of which, including the five discussed above, cross through the territory of Kazakhstan.

Business Operations of the Group

Overview

The Group provides the following services:

- transportation services, which include freight and passenger transportation;
- infrastructure services, which include selling access to the mainline railway network and logistic and infrastructure services, such as provision of armed security, flushing and steaming of wagons, loading and unloading wagons and other activities; and
- support services, which are services that support transport services and infrastructure services and which include, among others, telecommunication services, provision of heat, water and electricity, and wagon repairs.

The Company's most significant subsidiaries are Kaztemirtrans and Lokomotiv, each of which is wholly owned by the Company and which, together with the Company, comprise all of the Guarantors. Kaztemirtrans owns the Group's freight railcar fleet, which is primarily contracted to the Company, and provides freight railcars and other services such as arranging for transportation 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. Lokomotiv owns the Group's locomotives, provides locomotive haulage services for the Company's freight and passenger lines, and provides shunting operations, which involve sorting of rolling stock into trains.

Transport Services

Freight Transportation

Freight transportation plays a key role in the Group's business operations. Overall freight turnover for the Group was 223.6 billion tonne-kilometres and 213.2 billion tonne-kilometres for the years ended 31 December 2011 and 2010, respectively. Freight transportation revenue was KZT 603.7 billion and KZT 501.6 billion, which represented 85.9% and 86.1%, of total consolidated revenue for the years ended 31 December 2011 and 2010, respectively.

The following table provides a breakdown of the Group's freight tariff revenue, freight transportation volume, freight transportation turnover and average freight transportation distance by type of transportation activity for each of the periods indicated:

	For the year ended 31 December							
	2011				2010			
	Freight Tariff Revenue	Volume	Turnover	Average Distance	Freight Tariff Revenue	Volume	Turnover	Average Distance
	(KZT in thousands)	*(millions of tonnes)*	*(billions of tonne-km)*	*(km)*	*(KZT in thousands)*	*(millions of tonnes)*	*(billions of tonne-km)*	*(km)*
Export	200,624,715	97.9	90.0	919.6	186,872,345	96.0	87.9	915.4
Domestic	156,755,104	148.7	88.4	594.6	125,387,881	140.9	82.9	588.4
Transit*	126,447, 974	15.1	25.4	1,686.5	91,128,037	14.0	24.2	1730.4
Import	73,062,239	17.9	19.7	1,099.3	58,659,167	16.9	18.2	1080.9
Other**	46,766,371	—	—	—	39,508,145	—	—	
Total	603,656,403	279.6	223.6	799.7	501,555,575	267.8	213.2	796.2

* Transit freight tariffs are subject to controls under the CIS Tariff Policy and are not regulated by the Anti-Monopoly Agency. Transit freight tariffs are set in Swiss Francs and re-calculated in U.S. dollars for settlement purposes.

** Includes revenue for use of freight cars by third parties, revenue for locomotive haulage services rendered to third parties in freight traffic, and additional charges.

Despite the relatively low volumes of transit freight, transit freight continues to be an important part of the Group's business because tariffs on transit rates are not subject to the Anti-Monopoly Agency's approval and are on average higher than rates that are subject to approval by the Anti-Monopoly Agency. See "*Government Regulation and Tariffs – Freight Tariff Regulation and Pricing – Transit Freight Tariffs*" and "*Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group – Consolidated Results of Operations for the Years Ended 30*

December 2011 and 2010 – Revenue – Freight Transportation" for more information on the Group's freight transportation revenue by transportation type.

Over the last decade, coal has been the main product transported by rail and is the main source of energy in Kazakhstan for generation of electric energy and heating. However, transportation of oil and oil products generated more revenue for the Group than coal due to higher tariff rates on these items.

The following tables provide a breakdown of the Group's freight tariff revenue, freight transportation volume, freight transportation turnover and average freight transportation distance by type of freight for each of the periods indicated:

	For the year ended 31 December							
	2011				2010			
	Freight Tariff Revenue	Volume	Turnover	Average Distance	Freight Tariff Revenue	Volume	Turnover	Average Distance
	(KZT in thousands)	*(millions of tonnes)*	*(billions of tonne-km)*	*(km)*	*(KZT in thousands)*	*(millions of tonnes)*	*(billions of tonne-km)*	*(km)*
Coal	69,097,106	104.8	60.0	572.4	59,337,198	99.0	53.8	542.7
Iron ore	37,109,104	45.2	31.7	700.7	37,967,049	46.1	33.3	721.8
Construction materials	24,417,221	20.2	11.6	572.0	21,327,553	18.8	10.9	580.3
Oil and oil products	146,781,285	36.7	33.1	900.9	114,897,178	34.9	31.6	906.0
Grain and grain products	17,816,322	10.2	15.4	1,520.8	19,746,473	12.1	17.8	1,468.2
Ferrous metals	42,821,590	9.6	14.1	1,469.4	36,906,119	9.0	12.8	1,425.2
Other*	218,847,404	52.9	57.7	1,091.8	171,865,860	47.8	53.0	1,109.0
Other revenue**	46,766,371	—	—	—	39,508,145	—	—	—
Total	603,656,403	279.6	223.6	799.7	501,555,575	267.7	213.2	796.2

* Includes revenue for transportation of other freight (ferrous scrap, chemical and mineral fertilisers, chemicals and sodium carbonate, nonferrous metals, among other things).

** Includes revenue for use of freight cars by third parties, revenue for locomotive haulage services rendered to third parties in freight traffic, and additional charges.

See "*Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group – Consolidated Results of Operations for the Years Ended 31 December 2011 and 2010 – Revenue – Freight Transportation*" for more information on the Group's freight transportation revenue.

Due to the country's limited access to navigable water routes, Kazakhstan has entered into several bilateral treaties in order to facilitate access to sea ports. In order to avoid having to transfer freight from ship containers to train wagons or containers, container trains are used. These container trains expedite freight transportation to and from sea ports and make additional routes available for imports and exports because such freight is carried in uniform, sealed, movable containers whose contents do not have to be unloaded at each point of transfer.

As at the date of this Prospectus, container transportation accounts for approximately 1.4% of all railway freight turnover of the Group. Container transportation continues to be one of the fastest growing segments of the Group's freight transportation business.

The Group is actively involved in organising container train routes from the Baltic states and from South-Eastern Asia and China to Central Asia. In order to develop these routes, a Work Plan on Containerisation of Freight Carriage on the Railway Transport for 2007-2012 was formulated by the Company and approved by the Ministry of Transportation on 12 June 2007. As a result, the Company is currently drafting a programme of development for container transportation, which is expected to be approved by the Government in 2012.

Passenger Transportation

Overall passenger turnover for the Group was 14.6 billion passenger-kilometres and 13.9 billion passenger-kilometres for the years ended 31 December 2011 and 2010, respectively. Passenger transportation revenue was KZT 54.9 billion and KZT 50.9 billion for the years ended 31 December

2011 and 2010, representing 7.8% and 8.7% of the Group's total revenue, respectively. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group – Consolidated Results of Operations for the Years Ended 31 December 2011 and 2010 – Revenue – Passenger Transportation*" for details of the Group's passenger transportation revenue.

The Group provides intercity and suburban, inter-regional and international passenger services throughout Kazakhstan. The following table provides a breakdown of passenger turnover and number of passengers transported by the Group by route for the periods indicated:

	Year ended 31 December			
	2011		2010	
	Turnover	Number	Turnover	Number
	(billions of passenger-km)	*(millions)*	*(billions of passenger-km)*	*(millions)*
Inter-regional	10.6	11.1	9.4	9.6
International	1.2	1.2	1.3	1.2
Intercity and suburban	0.5	3.7	0.4	3.4
Trains of foreign railway administrations	2.3	0.6	2.8	0.8
Total	14.6	16.6	13.9	15.0

The following table provides a breakdown of passenger revenue generated by the Group by route for the periods indicated:

	For the year ended 31 December	
	2011	2010
	(KZT in thousands)	
Interregional	25,822,806	24,432,887
International	22,383,113	20,213,855
Intercity/Suburban	1,028,022	868,152
Other*	5,679,612	5,399,753
Total	54,913,553	50,914,647

* Includes revenue for baggage transportation, passenger service and other services.

The Company participates in passenger transportation through its subsidiary JSC Passenger Transportation, which as at the date of this Prospectus had 51 international and inter-regional routes. A subsidiary of JSC Passenger Transportation, JSC Suburban Transportation, had 61 inter-regional and intercity and suburban routes as at the same date.

The Group's passenger transportation business is not profitable. The Group's losses on passenger transportation are mitigated by Government grants. Beginning in 2005, the Government introduced a competitive open tender system to issue grants for passenger transportation routes that are important to the public. Open tenders are held on an annual basis by the Ministry of Transportation and by local municipalities for the inter-regional and intercity and suburban routes, respectively. Open tenders are not held for international routes because international routes are operated exclusively by the Group. The grants for inter-regional and international routes (for the parts of the routes that are within Kazakhstan) are funded from the Government's budget, while the grants for intercity and suburban routes are funded from the budgets of local municipalities. The grant contracts obtained through the open tender process are for a fixed term of one year, with the right to extend up to three times, each for a period of up to one year. The amount of the grant under any extension shall not exceed the amount granted for the relevant year. In addition, the grant contracts require the carrier receiving the grant to own or lease at least half of the passenger cars needed for the relevant route and meet certain scheduling demands in order to ensure due and timely transportation for passengers. The Group submits applications and participates on equal terms with all other participants. For the years ended 31 December 2011 and 2010, the Group received Government grants totalling KZT 18.5 billion and KZT 15.4 billion, respectively. As at the date of this Prospectus, approximately 96.4% of passenger routes in Kazakhstan are operated by the Group and the remainder are operated by private operators.

The Development Programme envisages improvements with respect to passenger transport organisation in Kazakhstan and the issuance of grants for passenger transportation routes that are important to the public for purposes of covering carriers' losses, whereby long-term concession agreements ("**PPP franchises**") will be entered into between the State and a qualified carrier on a competitive basis. The target model passenger transportation companies will have full control and responsibility for the transportation assets (cars and locomotives), their maintenance and renewal, as well as the optimisation of costs in providing passenger transportation. The Development Programme envisages integration of passenger locomotives into passenger carriers. In order to improve the efficiency of passenger transport coverage and organisation, the system of routes will be reviewed using a new logistics model for passenger traffic, which will provide for long-distance high-speed communications between nodes (hubs) in all regions of Kazakhstan and the traffic on the short-distance coverage areas of large hubs. It also envisages provision of intermodal services through the integration of rail and road transport.

Infrastructure Services

In addition to selling access to the mainline railway network, the Group's infrastructure services include the following activities:

- **Local Rail Line Operations**. The Group provides access to rail lines for various purposes, such as to allow trains to pass each other, for shunting operations, loading and discharging and layovers. In addition, the Group rolls out wagons and provides specialised mechanical equipment. The Group also arranges for various transportation services, which include customs clearance, warehousing, car and container supply and rebooking freight.
- **Repair Services**. The Group provides repair services for its railcars and the railcars of third parties. The Group also repairs locomotives and railway lines and prepares locomotives for use during the winter and summer seasons.
- **Assembly of Locomotives and Passenger Cars**. The Group assembles locomotives, provides spare parts, and facilitates the planning and protection of locomotives and their technical maintenance and support; however, the Group is currently considering the possibility of selling its stake in the locomotives assembling plant to CJSC Transmasholding (Russia). The Group also started assembling passenger cars using "Patentes Talgo" technology through its joint venture with Patentes Talgo S.L. (Spain).
- **Flushing and Steaming of Wagons**. Flushing and steaming services are provided by the Group in order to prepare wagons for the loading of bulk oil. This activity is performed by the Group in the South Kazakhstan and Pavlodar regions (oblasts). The Group has installed purification facilities where it flushes wagons in order to minimise the environmental impact of the activity. The Group's flushing activity is subject to annual inspection by the department of ecology of each of the South Kazakhstan and Pavlodar oblasts.

Support Services

Support services include providing locomotive supplies, water, heating, electricity, and communication services. The Group also provides fuel oil and lubricants for the locomotives, as well as locomotive haulage services and arranges for locomotive brigades. Communication services provided include providing local, inter-regional and international communication, data transmission, audio/visual conferences, Internet access, circuit line rentals and mobile communication services. The Group creates integrated communication networks, fibre-optic and traditional wire communications networks and satellite and radio relay systems for use by rail operators. In addition, the Group collects and disposes of waste water and maintains water supply systems.

Government Regulation and Tariffs

Government Regulation

As Kazakhstan's national railway company, the Company has a monopoly over providing services on the mainline railway network of Kazakhstan and is a dominant provider of freight transportation services and, as such, is regulated by the Anti-Monopoly Agency and the Agency for Competition Protection under the Competition Laws. The Competition Laws impose a number of significant restrictions on the Company's operations, including prohibiting the Company from conducting business not related to the provision of services on the mainline railway network with freight and passenger rail transportation and other related activities, owning shares in commercial organisations (other than non-State owned pension funds and certain permitted commercial organisations) or otherwise participating in the activities of commercial organisations, and from selling or disposing of assets without the consent of the Anti-Monopoly Agency. Additionally, the Competition Laws, among other laws applicable to the Company, regulate all the Company's tariffs, except for transit tariffs, which are subject to controls under the CIS Tariff Policy, the Uniform Transit Tariff, and the International Railway Transit Tariff.

Two of the Guarantors, Kaztemirtrans and Lokomotiv, are dominant providers of railcars and locomotive haulage services, respectively. As dominant entities under the Law on Competition (defined as entities holding market share in respect of a service in excess of 35%), Kaztemirtrans and Lokomotiv are subject to Government oversight. Kaztemirtrans and Lokomotiv must notify the Anti-Monopoly Agency of any changes in tariffs for their respective services. If the Anti-Monopoly Agency determines that the proposed tariff changes jeopardise free market competition, the Anti-Monopoly Agency can disallow the proposed changes.

See "*Risk Factors – The position of the Company as a monopoly and a dominant entity and the position of the other Guarantors as dominant entities may result in adverse regulatory interference in the Group's operations*".

Freight Tariff Regulation and Pricing

The primary freight tariffs that are applicable to the Group's operations are:

- freight tariffs charged by the Group for freight transported within, imported into or exported from Kazakhstan ("**freight tariffs**"); and
- transit freight tariffs charged by the Company for freight transported from outside of Kazakhstan using the Group's locomotives, freight cars or containers in respect of freight that passes through Kazakhstan to its final destination outside of Kazakhstan ("**transit freight tariffs**").

Freight Tariffs

Freight tariffs comprise (i) the mainline railway tariff, (ii) the locomotive haulage tariff, (iii) the freight and commercial services tariff and (iv) the tariff for the use of the Group's freight cars and containers, if applicable. Freight tariffs for domestic, export and import transportation vary depending on the type of freight being transported, the length of the delivery and the type of the rolling stock used. As at 31 December 2011, tariffs for both domestic and import freight transportation (excluding VAT) ranged from approximately KZT 1,087 per tonne per 1,000 km (for coal) to KZT 4,505 per tonne per 1,000 km (for iron and steel scrap) and tariffs for export freight transportation (excluding VAT) ranged from approximately KZT 1,536 per tonne per 1,000 km (for coal) to KZT 17,740 per tonne per 1,000 km (for crude oil). As at 31 December 2011, the tariff for the use of the Group's freight cars and containers, which is one of the four component tariffs of the total freight tariff and the only one with respect to which the Group currently faces competition from private carriers, on average accounted for only 22.3%, 24.7% and 24.2% of the total freight tariff for domestic, export and import transportation, respectively.

As part of the SES established by Belarus, Kazakhstan and Russia, an agreement provides for the unification of tariffs by 1 January 2013, across domestic, export and import freight tariffs within each of these countries and permits rail transportation operators, at their discretion, based on certain economic factors, to change those tariffs. In addition, starting from 1 January 2015, each of these countries must provide access to their respective railway infrastructures to the transportation operators from the other countries within the SES. In accordance with the Development Programme, the Company plans to unify its tariffs across the different types of freight it transports by 2015, provided this is economically expedient.

Freight tariffs increased by an average of 17.6% in 2010 and by an average of 15% in 2011. Effective 1 April 2012, freight tariffs increased by an average of 15% for 2012, and based on the Government's Development Programme, the Company currently expects freight tariffs to increase by an average of 15% for 2013 and 2014, with future annual increases being determined based on the then applicable rate of inflation. See "*Risk Factors – Risk Factors Relating to the Group – The position of the Company as a monopoly and a dominant entity and the position of the other Guarantors as dominant entities may result in adverse regulatory interference in the Group's operations*".

Increases in the overall freight tariffs result from increases in one or more of the Group's mainline railway tariffs, locomotive haulage tariffs, freight and commercial services tariffs or the tariffs for use of the Group's cars and containers. Mainline railway tariffs, which are proposed by the Company and must be approved by the Anti-Monopoly Agency for a period of not less than one year (the Company is entitled to extend or increase the tariff after one year upon approval), vary depending upon the type of transportation, such as domestic, export or import. The Company calculates the proposed mainline tariffs taking into account the level of income the Group will need to generate in order to cover the costs and expenses the Group will incur in providing the service and making any related investments, as well as the volumes of the service the Group is expected to provide, and submits its determinations to the Anti-Monopoly Agency for approval.

The Anti-Monopoly Agency's procedure for approving mainline railway tariffs is articulated in Anti-Monopoly Agency order No. 82-OD, dated 19 March 2003. When determining whether to approve the Group's freight tariffs, the Anti-Monopoly Agency must consider a number of factors including the income and investment needs of the Group, as well as operational considerations. In order to obtain the Anti-Monopoly Agency's approval, the Group must provide documentation confirming that the relevant costs of the Group associated with providing the relevant mainline railway services comply with the applicable Anti-Monopoly Agency regulations. Additionally, a public hearing must be held for any proposed tariff increase. Members of legislative bodies, state authorities, customers, public associations, independent experts and members of the media, among others, are permitted to attend public hearings. At a public hearing the Group presents a detailed explanation and rationale for its requested level of tariffs. Other participants at the hearing are invited to present their opinions on whether they feel the Group's proposed tariff rates should be approved or rejected by the Anti-Monopoly Agency and are taken into account by the Anti-Monopoly Agency in rendering its decision.

In certain cases the Group provides discounts to the mainline railway tariff. Any customer that seeks a discount to the mainline railway tariff must submit an application to the Company, the Transportation and Communication Ministry, the Tax Committee of the Ministry of Finance and the Anti-Monopoly Agency. The customer must also submit to the Anti-Monopoly Agency documentation evidencing a need for such discount. The Company, the Transportation and Communication Ministry and the Tax Committee of the Ministry of Finance consider the request for the mainline railway tariff discount and give their opinion on whether the discount should be granted or not to the Anti-Monopoly Agency. When considering the request for a discount, consideration may be given to a variety of factors, including the volume of freight being shipped, the extent to which the freight transportation will utilise the mainline railway network and whether the customer is a new or an existing customer of the Group. The Anti-Monopoly Agency makes the final decision on whether the discount is granted. For the years ended 31 December 2010 and 2011, no discounts for freight transportation were granted.

In addition to its mainline railway tariffs, freight tariffs also consist of the Group's locomotive haulage tariffs, freight and commercial services tariffs and tariffs for use of the Group's freight cars and containers. If a customer uses freight cars or containers other than those owned by the Group, the Group charges only the mainline railway tariff, the locomotive haulage tariff and the tariff for freight and commercial services.

Tariffs for locomotive haulage services, freight and commercial services, and the use of the Group's freight cars and containers are initially calculated by the Group and are subsequently subject to the consent of the Anti-Monopoly Agency. Compared to the process for approving mainline railway tariffs, obtaining the Anti-Monopoly Agency's consent in respect of these other tariffs requires fewer documents and the process is generally less onerous. Unlike the mainline railway tariff approval process, the consent process for these other tariffs does not require a public hearing. The Group must notify the Anti-Monopoly Agency of any proposed increases in tariffs for locomotive haulage services, freight and commercial services or the use of the Group's freight cars and containers at least 30 calendar days prior to the proposed increase.

Transit Freight Tariffs

Freight tariffs for transit transportation vary depending on the type of freight being transported. As at 31 December 2011, tariffs for transit freight transportation (excluding VAT), which are set in Swiss Francs and re-calculated in U.S. dollars for settlement purposes, ranged from approximately U.S.$38.11 per tonne per 1,000 km (coal) to U.S.$76.21 per tonne per 1,000 km (non-ferrous metals). Freight tariffs for transit transportation of all freight have not changed in 2010 and increased on average by 13.7% in 2011 and on average by 10.5% in 2012.

Kazakhstan is party to the Tariff Agreement between the railway administrations of the CIS, which was approved on 17 February 1993, the Concept of Concurrence of Railway Tariff Policies of the CIS dated 18 October 1996, and the Agreement of Mutual Policy on Tariffs dated 17 January 1997 (collectively, the "**CIS Tariff Agreement**"). The parties to the CIS Tariff Agreement meet annually to approve the Tariff Policy of Railways of CIS Countries for International Cargo Transportation ("**CIS Tariff Policy**"), which establishes the framework for tariffs that CIS member states have agreed to follow. The CIS Tariff Policy that is approved annually is based on International Railway Transit Tariffs and Unified Transit Tariffs, each of which has been approved under the Agreement on International Goods Transport by Rail. The Agreement on International Goods Transport by Rail, effective as of 1 November 1951, establishes unified regulations for the international transportation of freight between member states. As at the date of this Prospectus, 23 countries, including Kazakhstan, are party to this agreement. The rates provided by the CIS Tariff Policy determine the maximum tariff rate for the corresponding year. However, the railway administration of each country may decrease the tariff rate by providing discounts or may increase the rate not more than twice per year. If the rate is increased by a country's railway administration, the CIS Tariff Agreement requires it to provide one month advance notice of such increase to the other parties to the CIS Tariff Agreement. Although the CIS Tariff Policy does not compel Kazakhstan to adopt specific transit freight tariffs, Kazakhstan's transit freight tariffs are typically set by the Company on the basis of the CIS Tariff Policy.

Passenger Tariff Regulation and Pricing

Basic rates for international tariffs for passenger, cargo and baggage transportation by rail were approved in Kazakhstan in 1995 ("**Basic Rates**"). Kazakhstan adopted the tariffs suggested by the Board for Railway Transportation of CIS Country Members, a body promulgated under the Agreement on International Passenger Transportation, which became effective in 1951. As at the date of this Prospectus, 23 countries, including Kazakhstan, are party to this agreement. The main focus of this agreement is to adopt unified rules among member states that are applicable to the international transportation of passengers.

Kazakhstan has not amended the Basic Rates since their adoption; however, current international and domestic tariffs for passenger, cargo and baggage transportation by rail are determined by multiplying the Basic Rates by multipliers that are revised from time to time. The international and domestic passenger transportation multipliers vary based on the length of time travelling, the distance travelled, the number of tariff zones crossed and the type of train and passenger car. These multipliers are subject to Anti-Monopoly Agency consent generally in the same manner as tariffs for locomotive haulage services, freight and commercial services, and the use of the Group's freight cars and containers. See "*Freight Tariff Regulation and Pricing – Freight Tariffs*". The currency used for international and domestic passenger transportation tariffs is the Swiss Franc.

The Anti-Monopoly Agency, pursuant to its notification dated 24 December 2010, consented to a 10% increase in passenger tariffs in January 2011 on international routes for all types of cars and on domestic inter-regional for luxury cars, except for certain inter-regional routes that are subsidised by the Government. Through its notification on 16 March 2012 the Anti-Monopoly Agency consented to an additional 10% tariff increase for international and domestic inter-regional passenger transportation, effective as of 1 April 2012. See "*Risk Factors – Risk Factors Relating to the Group – The position of the Company as a monopoly and a dominant entity and the position of the other Guarantors as dominant entities may result in adverse regulatory interference in the Group's operations*".

Customers and Suppliers

Freight Customers

The Group had approximately 30,000 customers for freight transportation during 2011. The largest freight shippers are suppliers of coal, oil and oil products, metals, chemicals, sodium carbonate and agricultural products. For the year ended 31 December 2011, no single customer accounted for more than 10% of the Group's freight transportation revenue.

The following table identifies the Group's top five customers (together comprising more than 40% of the Group's services) by volume of freight loaded:

		Year ended 31 December	
Customer	**Product**	**2011**	**2010**
		(millions of tonnes)	
Bogatyr Komir LLP	coal	39	38
EEC JSC	coal and coal ash	20	20
SSGPO JSC	iron ore and ferrous metals	20	20
Tengizchevroil LLP	oil and oil products, chemicals and sodium carbonate	15	14
Kazakhmys Corporation LLP	coal, nonferrous metal ores, chemicals and sodium carbonate, nonferrous metals, ferrous metals, iron ore	13	14
Total for top five customers		107	106
Other customers		138	130
Total		245	236

Transit freight transportation payments are made in advance upon entrance of the freight to the territory of Kazakhstan. The payment for inter-city, inter-regional and international export transportation is made in advance, while payment for international import is made upon arrival of the freight. Payments can be made in cash at the freight pay offices of railway stations or by electronic funds transfers. The waybill is executed with a consignor for each freight transportation which, according to Kazakhstan law is regarded as a transportation agreement.

The Group contracts with freight forwarding companies for one year with advance payment conditions.

The Group is responsible for damage or loss of freight during its transportation, unless it can prove that such damage or loss was not the fault of the Group. Any shipping customer wishing to make a claim for damages or loss must do so in accordance with the procedural requirements set forth under the Agreement on International Goods Transport by Rail Instruction on Acts and Claims Activity at Railways of the CIS and Baltic States and Order of the Company No. 107-143 dated 9 June 2006. See "*Risk Factors – Risk Factors Relating to the Group – The Group faces numerous operating risks that may result in loss and additional expenditures, which may not be fully covered by insurance*". The Group is required to provide security services for transportation of certain goods, such as food products, alcoholic and non-alcoholic beverages, tobacco and industrial tobacco substitutes, pharmaceuticals, fuels, fertilisers, various chemicals, wood, paper and paper products, cotton and glass.

Suppliers

Because the Company is a wholly owned subsidiary of Samruk-Kazyna, the Group conducts its procurement of goods, works and services in accordance with the Rules for the Procurement of Goods, Works and Services by Samruk-Kazyna and Organisations of Which 50% or More of Shares (Participatory Interest) Is Owned or Trust Managed by Samruk-Kazyna, adopted by the Board of Directors of Samruk-Kazyna dated 18 November 2009 No. 32, which is Samruk-Kazyna's rules for companies directly or indirectly majority owned or trust managed by Samruk-Kazyna (the "**Procurement Rules**").

The Procurement Rules provide for the regulation of procurement procedures using various methods: holding tenders; sending requests for proposals; making purchases through electronic trades; commodity exchanges and procurement from single sources; entering into procurement agreements; and monitoring and reporting by potential suppliers of the amount of content in proposals that is of Kazakhstan origin in order to increase the use of locally sourced goods and services.

Contracts with suppliers are entered into on an annual basis at set prices. However, according to the Procurement Rules, the prices may be adjusted when the market price for the relevant goods decreases (but not if such price increases) by 5% or more from the contracted price. The Group's contracts often include a similar provision regarding adjustments for the quantity of goods to be purchased during the term. However, price and quantity terms are not always subject to immediate adjustment by the Group. See "*Risk Factors – Risk Factors Relating to the Group – The Group is subject to commodity price risk and foreign currency exchange rate risk, each of which the Group has a* *limited ability to manage*". The Group's contracts with suppliers do not typically require the Group to make payment in advance, except for local producers of procured goods, which are paid 30% in advance. The Group's suppliers are generally required to submit security for the performance of the contract, which security is retained by the Group if the supplier defaults in its performance. The security is usually provided in the form of a bank guarantee, unless the Group decides otherwise, and it shall not exceed 3% of the sum designated for the goods, works or services procured.

The Group's principal purchases from suppliers are fuel and lubricants, electricity, and various non-core materials and supplies. The Group acquires petrol and diesel fuel for its locomotives primarily by holding open tenders. Fuel and lubricants comprised 16.6% and 16.2% of the Group's total cost of sales for the years ended 31 December 2011 and 2010, respectively. According to the Order of the Company No.806-Ц dated 24 December 2009, electricity is purchased from Temirzholenergo LLP, a subsidiary of the Group, through a single-source procurement procedure. This procedure is used when a competitive tender reveals that there is only one supplier conforming to the tender requirements or, due to specifics of the goods procured or the supplier, the holding of a tender is impossible or commercially unreasonable. Tariffs for electricity are dependent on certain factors, which include caps on rates that are established by the Government, tariffs for transmission services rendered by JSC Kazakhstan Electricity Grid Operating Company "KEGOC" and regional energy companies, and losses resulting from energy transfers, among other things. Electricity comprised 5.4% and 5.6% of the Group's total cost of sales for the years ended 31 December 2011 and 2010, respectively. Non-core materials and supplies include primarily rail lifters, which are supplied by JSC Petropavlovsk Heavy-Engineering Plant; connectors, which are supplied by JSC Plant Named after S.M. Kirov; anti-creep angles, which are supplied by Karaganda Machinery Plant Named after Parkhomenko LLP; wooden sleepers, which are supplied by Semey Sleepers LLP; cabling and wiring products, which are supplied by Kazcentrelectroprovod LLP; pumps, which are supplied by JSC Kelet; and package transformer substations (PTS), which are supplied by JSC Kentau Transformer Plant. Materials and supplies comprised 12.6% and 15% of the Group's total cost of sales for the years ended 31 December 2011 and 2010, respectively.

Armed security services, repair services, freight transportation fleets, passenger car and locomotive haulage, Internet access, telecommunication services and water for the Kazakhstan railway network are supplied by members of the Group.

International Joint Ventures and Projects

The Group is actively involved in bilateral cooperation with foreign railway operators and companies. The main partners of the Company in joint projects are OJSC Russian Railways (Russian Railways Operator), Finmeccanica S.p.A (Italy), Alstom Transport (France) and GE Transportation (United States). The Group's major ongoing and planned projects include the following:

- In November 2011, Tulpar-Talgo LLP, a joint venture between the Company and Patentes Talgo S.L. (Spain), undertook the commissioning and start-up of a plant to manufacture passenger cars under "Patentes Talgo" technology. As at 31 December 2011, the plant had manufactured 17 passenger cars, all of which have been undergoing factory testing since their release. The aggregate amount of investments contributed to the project by the Group in 2010 and 2011 totalled KZT 7.3 billion; however, the Group currently expects a certain portion of this amount to be reimbursed by Patentes Talgo S.L. and, as at the date of the Prospectus, the two parties were holding negotiations as to the terms and extent to which any amount will be reimbursed. The plant is expected to have the capacity to produce 123 passenger cars in 2012, increasing to 150 cars per year at full capacity by 2015. JSC Passenger Transportation and Tulpar-Talgo LLP entered into an agreement for the procurement of 420 passenger cars from 2011 to 2014. The Company currently expects that 56% of the joint venture's production will be sourced locally by 2015.
- In June 2011, Kaztemirtrans entered into an agreement with Rusagrotrans CJSC (Russia) in connection with the establishment of a joint venture, in the form of a Kazakhstan joint stock company, with equal contributions of U.S.$1.34 million being made by each party. The purpose of the project is to create a company dealing with transportation of agricultural products and will involve the acquisition, possession and management of grain-carriers; car operator services; maintenance of the car fleet; provision of information services for railway transport; and the leasing of temporarily vacant cars. The joint venture's fleet is expected to comprise cars transferred to it by the two joint venture partners. According to the joint venture agreement, Kaztermitrans and Rusagrotans CJSC

agreed to transfer 5,219 cars each, with a possible recalculation if the value of the cars provided by either party is lower than the value of the counterparty's cars. As at the date of this Prospectus, the project was undergoing review by the Agency of the Republic of Kazakhstan for Competition Protection, whose consent for the establishment of the joint venture is currently pending.

- In May 2011, the Company entered into the Memorandum of Understanding on the Creation of Joint Venture for the Production of Electric Point Machines in the Republic of Kazakhstan, according to which the parties agreed to establish a 50/50 joint venture which would be engaged into the production of electric point machines.
- In March 2011, the Company entered into the Agreement on Development of Cooperation in Production Cooperation with the State Enterprise "Belorusian Railway", according to which the parties agreed to develop production and scientific technical cooperation on a mutually beneficial basis.
- In February 2011, the Company signed a Memorandum on Cooperation in Construction of the "Astana-Almaty" High Speed Railway with the Ministry of Railways of the People's Republic of China, according to which the parties intend to jointly implement the construction of the high speed railway between Astana and Almaty. The project includes the development of the technical economic feasibility study, designing, construction, delivery of the rolling stock and equipment. It was agreed that the project will be implemented by the Chinese general contractor using technologies provided by the Chinese side.
- As part of the growing trend toward electrification of the railways in Kazakhstan that has resulted from the Group's efforts to reduce its energy costs and its environmental footprint, as well as to facilitate the supply of electricity to certain areas in Kazakhstan that are adjacent to railways, in October 2010, the Company and Siemens AG (Germany) signed an agreement to set up a joint venture. As part of this joint venture, a company was established on 1 April 2011 under the name of Temir Zhol Electrification LLP, of which 49% is owned by Siemens AG through a contribution by it of KZT 19.6 million and the remaining 51% is owned by JSC Remlocomotive through a contribution by it of KZT 20.4 million. Each partner to the joint venture has a put option to acquire the other party's interest upon the occurrence of certain conditions. In respect of Siemens AG, it has the right to acquire JSC Remlocomotive's participation, *inter alia*, upon the failure of the joint venture to reach 30% of order quantity as stipulated in the business plan; if the joint venture incurs losses exceeding 50% of its charter capital; or upon a default by the joint venture in paying its debts which continues for a period of more than 60 days. In respect of JSC Remlocomotive, it has the right to acquire Siemens AG's participation, *inter alia*, if the joint venture exceeds 80% of order quantity specified in the business plan; where total losses of the joint venture do not exceed 50% of its charter capital; and if Siemens AG defaults on local content requirements. In order for JSC Remlocomotive's put option to arise, all conditions must occur simultaneously. Temir Zhol Electrification LLP is engaged in the process of modernising the infrastructure of Kazakhstan's electric railways, and the Company expects that it will be actively involved in the implementation of the Programme for Modernisation of Tracking Substations of Kazakhstan Railways, which is expected to commence in 2012. As at the date of this Prospectus, the design and budgeting documentation for the modernisation of railway tracking substations was undergoing Government review. According to a framework agreement covering the period 2012 to 2020 that has been entered into by the Company, Temir Zhol Electrification LLP and Siemens AG, investments in the equipment necessary for the modernisation of railway tracking substations and all associated works and services are currently expected, subject to adjustments pursuant to procurement agreements concluded under the Procurement Rules, to amount to approximately KZT 46 billion. The Company currently expects that by 2015, 55% of the joint venture's production will be sourced locally from local producers acting as subcontractors, which will involve the training of local specialists.
- In June 2010, the Company signed a Memorandum on Mutual Cooperation with CJSC Transmasholding (Russia) and Alstom Transport (France), according to which the parties intend to establish production of modern mainline electric locomotives to satisfy the Company's demands for traction rolling stock. To implement the project, a joint venture named Electrovoz Kurastyru Zauyty LLP was established by the parties, of which 50% is

owned by JSC Remlocomotive, a 100% subsidiary of the Company, 25% is owned by Alstom Holdings (France), and 25% is owned by CJSC Transmasholding (Russia). Although the parties had originally intended to construct the plant in Atbasar, Akmola oblast, it was subsequently decided to locate the plant in the free economic zone of Astana at the existing facilities of Lokomotiv Kurastyru Zauyty JSC, a 100% subsidiary of the Company, in order to reduce investment expenditures. The total cost of the project is estimated to be approximately KZT 19.8 billion, which will cover the expenditures for construction of the plant, the transfer of technologies, the acquisition of licenses, among other things. This amount includes KZT 8.1 billion contributed by the parties based on their ownership interests in the joint venture, with the remainder representing pre-payments by clients of the joint venture. It is currently intended that the joint venture will raise future capital through loan financings. Construction of the plant commenced in October 2011 and is currently expect to be completed in September 2012. The anticipated production capacity of the plant is currently expected to be 50 electric locomotives per year.

- In May 2010, the Company and Ansaldo STS S.p.A. (Italy), a subsidiary of Finmeccanica S.p.A. (Italy), formed a joint venture named Kazakhstan TZ Ansaldo STS Italy LLP, of which 51% is owned by JSC Remlocomotive and the remaining 49% is owned by Ansaldo STS S.p.A. Under the joint venture, JSC Remlocomotive made capital contributions of KZT 11.2 million and Ansaldo STS S.p.A. made capital contributions of KZT 10.8 million. Kazakhstan TZ Ansaldo STS Italy LLP is focused on projects that involve the construction and modernisation of electrical, signalling and communication systems, the creation of automated transportation control systems and maintenance and technical support, among other things. The Company is currently operating and focusing on selling its production domestically.

- In July 2009, the Company, through its 100% subsidiary JSC Lokomotiv Kurastyru Zauyty, and GE Transportation (USA) established the Lokomotiv Assembling plant in Astana, which produces Evolution series diesel locomotives out of kits supplied by and under licenses purchased from GE Transportation. The plant is operational and announced production of its first locomotive in December 2009. The total cost of the project is U.S.$141 million and commenced in 2007. The full amount of the project cost was received as a loan from ABN Amro Bank N.V. (now, The Royal Bank of Scotland plc). The loan was fully repaid in the year ended 31 December 2011. The companies intend for the plant to assemble 100 mainline locomotives per year, some of which are designated for export. As at 1 February 2012, the plant had manufactured 102 diesel locomotives. GE Transportation and the Company have also been working together on the rollout of a new generation of diesel passenger locomotives, with a prospective pilot run of the locomotive scheduled for 2014, and on arranging for the provision of diesel locomotive maintenance services. In September 2011, Lokomotiv and GE Transportation entered into an agreement with respect to the maintenance of TE33A (Evolution) Series Locomotives. To this end, service centres for maintaining the locomotives have been organised at locomotive repairing depots in Almaty and Ayagoz. Currently, the Company is analysing the possible sale of its stake in JSC Lokomotiv Kurastyru Zauyty to CJSC Transmashholding (Russia).

- In May 2009, the Company and OJSC Russian Railways executed an Agreement on Cooperation in Terminal Freight Handling, which was aimed at equal 50% ownership interests of the Company and OJSC Centre for Transportation of Freights in Containers "Transcontainer", a subsidiary organisation of OJSC Russian Railways, in JSC Kedentransservice, in which the Company currently holds a 33% participatory interest. The business of JSC Kedentransservice includes the sale of transportation, logistics and related services, operation of freight handling terminals, railcar platforms for carriage of containers in Kazakhstan and containers; technical servicing of the terminals and sale of services; and the ownership and leasing of locomotives, among other things. In March 2011, the parties concluded a Joint Venture Cooperation Agreement outlining steps for the increase of the Company's ownership interest in this joint venture through the creation of a holding company that will be jointly owned by the joint venture partners. The Joint Venture Cooperation Agreement also provides certain triggering events for a put option that would permit OJSC Transcontainer to demand the purchase by the Company of its shares in the joint venture, and other options stipulating different scenarios for the transfers of shares.

The Group has plans for the establishment of other joint ventures with foreign partners, and to this end, it has already signed certain preliminary documents, including a framework agreement with China South Locomotive and Rolling Stock Corporation Limited (CSR) on cooperation in establishment of a plant producing shunting locomotives in Zhambyl oblast of Kazakhstan, and a memorandum of understanding with GE Transportation (USA) and Transmashdiesel LLC (Russia) on foundation of a company in Astana manufacturing diesel engines "GEVO" and spare parts under General Electric technologies, among others.

International Cooperation

Kazakhstan, and the Company, as the case may be, is a member of various international transportation organisations such as the Economic Cooperation Organisation (the "**ECO**"), the International Union of Railways (the "**UIC**"), the OSJD, the Board for Railway Transportation of CIS Country Members (the "**BRT CIS**"), the Customs Union and the EBRD.

The ECO

In 1992, Kazakhstan became a member of the ECO. The ECO was founded in 1985 as a successor to the Organisation of Regional Cooperation for Development and is aimed at securing cooperation for assistance in social, economic, technical, scientific and cultural spheres. Kazakhstan's priorities within the ECO include the development of transportation and communications, trade, energy, and the fight against drugs. The Company is actively involved in developing an international passenger and container transportation line through Almaty, Tashkent, Tehran, and Istanbul using the Trans-Asian Railroad, as well as constructing a railway line through Kazakhstan, Turkmenistan and Iran.

The UIC

The Company has been a member of the UIC since 2003. The UIC is a Paris-based organisation uniting railway operators from more than 90 countries and five continents. The UIC's principal purpose is to promote the improvement of technical means and operation of the railways. The Company is an active member of the UIC's Executive Council and its Asian Regional Assembly. The President of the Company is a Deputy Chairman of the Asian Regional Assembly.

The OSJD

The OSJD was established in 1956 and unites transportation ministries and central state agencies administering railway transportation in countries across Europe and Asia. The OSJD is dedicated to developing and improving international rail transportation between Europe and Asia. The OSJD also encourages cooperation on issues related to economic, informational, scientific, technological and environmental aspects of rail transportation.

The BRT CIS

The BRT CIS is a cooperation organisation between railway administrations in the CIS and Baltic states. The BRT CIS was created in 1992 with the purpose of coordinated performance of railway operations on an international level. The BRT CIS retains and develops common information, provides unified tariff policy and implements legal bases which support interstate railway communication.

The Customs Union

The Customs Union was established by Russia, Kazakhstan and Belarus and envisages three main changes to be implemented within the unified customs territory:

- Implementation of a common customs tariff;
- Elimination of customs duties; and
- Elimination of any economical limitation except for certain protective, antidumping and compensational measures.

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 within the Customs Union. According to the World Bank, average customs tariffs have increased from 6.7% before establishment of the Customs Union to 11.5% after incorporation of unified tariffs within the Customs Union and led to a displacement of imports from third countries and a higher cost of imports, but has also led to increased revenues from tariffs.

The Company believes that the Customs Union will provide stability to customs tariffs and will also reduce the time needed for customs clearance in Kazakhstan. The Company believes that it may also enable railways to compete more effectively with sea transport, since trade in international goods between China and the EU will encounter fewer customs barriers.

See "*Government Regulation and Tariffs – Freight Tariff Regulation and Pricing – Transit Freight Tariffs*".

The EBRD

Several of the Group's projects are carried out through involvement with the EBRD. As at the date of this Prospectus, the EBRD has provided three loans to finance certain projects being undertaken by subsidiaries of the Group. In March 2010, Kaztemirtrans and the EBRD entered into a U.S.$50 million loan agreement for the acquisition of up to 1,000 freight wagons, while in December 2010 Kaztemirtrans and the EBRD entered into another U.S.$200 million loan agreement to finance the purchase of up to 4,000 freight wagons. In addition, the Group has a credit line agreement with the EBRD to finance the construction of a central transportation communication line through Kazakhstan. Pursuant to this credit line agreement, JSC Transtelecom, a 100% subsidiary of the Company, also received a KZT 12.5 billion loan in 2010.

Competition

Competition with Private Operators

As the sole operator of Kazakhstan's railway system and as the primary provider of freight and passenger rail transportation in Kazakhstan, the Group is not generally subject to competition from other rail operators.

As independent operators do not have access to the mainline railway network, private participation in the Kazakhstan rail industry is currently limited to ownership, leasing and operation of railcars and containers. Due to lack of available rolling stock, some major freight companies have invested in their own railcar fleets or entered into contracts for long-term railcar leases with private owners. As at 31 December 2011, private operators owned 48.3% of all the railcars operating in Kazakhstan. Private railcar owners include Transcom LLP, Eastcomtrans LLP, Bogatyr Trans LLP, Petroleum LLP, PRO Trans Logistics LLP, MEK Transsystem LLP and GE Logistics LLP, among others. Many of these limited liability partnerships are affiliated with the largest customers of the Group and use their railcars and containers for the needs of such customers. In circumstances where privately owned railcars or containers are used, the Group charges its standard freight tariff but excludes the tariff for the use of the Group's freight cars and containers. See "*Government Regulation and Tariffs – Freight Tariff Regulation and Pricing – Freight Tariffs*". According to NSA data, the Group's freight turnover for 2011, which includes freight transported in third party wagons hauled by the Group, accounted for 49.8% of all freight turnover in Kazakhstan by all modes of transportation for that period.

As at the date of this Prospectus, a total of 10 companies, including JSC Passenger Transportation and JSC Suburban Transportation, which are members of the Group, and eight private carriers provided passenger transportation in Kazakhstan. These private carriers are Passenger Company Turan Express LLP, Maral Nur LLP, Shygys Zhol Serik LLP, Sunkar 1 LLP, Kunan Trans LLP, Arlan Trans-Astana LLP, Zhel Dor Trans Aktobe LLP, and JSC Kazakhstan Transport Group.

As at the date of this Prospectus, approximately 96.4% of passenger routes in Kazakhstan are operated by the Group. In addition, the Group comprised 88.3% and 90.6% of the total passenger turnover by rail transportation in Kazakhstan for the years ended 31 December 2011 and 2010, respectively. As at 31 December 2011, the Group operated on 108 international, inter-regional, intercity and suburban routes, while private carriers operated on 10 inter-regional, intercity and suburban routes. Because the Group's passenger transportation operations are not profitable, it receives grants in respect of its passenger transportation services from the Ministry of Transportation and local authorities. See "*Business Operations of the Group – Transport Services – Passenger Transportation*". Private carriers received 12.1% and 12.8% of the Government grants issued in 2011 and 2010, respectively.

See "*Risk Factors – Risk Factors Relating to the Group – Each of the Group and the railway industry in Kazakhstan has undergone and is continuing to undergo significant restructuring that will require the Group to adapt and will likely result in a more competitive environment*".

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 operates in spite of adverse weather conditions. Additionally, due to Government grants received for passenger transportation, passenger fares are kept low. The railway system ranks third behind that of air and road transportation with respect to the speed of freight delivery. The railway transportation system also ranks third behind water (river) and pipeline transportation in terms of freight transportation costs.

According to the NSA, freight turnover in Kazakhstan comprised the following for the year ended 31 December 2011:

Type of Transportation	Billion Tonne-Kilometres	Percentage
Railway	223.6	49.8
Pipeline	100.7	22.4
Road	121.1	27.0
Water	3.3	0.7
Air	*	*
Total	448.7	100.0

* Represents less than 1 billion tonne-kilometres and less than 1% of total freight turnover.

According to the NSA, passenger turnover in Kazakhstan comprised the following for the year ended 31 December 2011:

Type of Transportation	Million Passenger-Kilometres	Percentage
Railway	16,575	10.3
Bus	135,965	84.8
Air	7,839	4.9
Water (river)	1.9	0.0
Total	160,380.9	100.0

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

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 railroad, primarily towards China, has decreased, and shipments by almost all of the Group's customers who ship crude oil have decreased, with the exception of Tengizchevroil LLP, which was the Group's largest customer of oil shipments by volume for the year ended 31 December 2011. See "*Customers and Suppliers – Freight Customers*".

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. 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.

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 level of freight and passenger transportation in Kazakhstan has recently increased. In 2011, 4.1 million passengers travelled through Kazakhstan airports, which represented a 0.7 million increase in passengers compared to 3.4 million passengers in 2010. In that same period, the volume of freight transportation handled by Kazakhstan airports increased by 1% from approximately 29,000 tonnes in 2010 to approximately 29,300 tonnes in 2011. Despite faster delivery times, air transportation can be 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 World Bank, 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, as reported by the World Bank. 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 Kazakhstan 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 as 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 as 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.

Environmental Protection, Health & Safety

Environmental Policies

The Company believes that it is in compliance with all applicable Kazakhstan environmental protection regulations. In recent years, the Group has not been subject to any material fines. See "*Environmental Claims*" for environmental claims relating to the Group.

The Company monitors its production processes and hazardous emissions through the use of industrial ecological control and management systems. These controls enable the Company to make environmental management decisions and to formulate environmental and ecological policies associated with protecting the environment, regulating the production process, minimising the effect of the production process on the environment and public health, and increasing efficiency with respect to the use of energy and natural resources.

The Group annually reviews its environmental plans to minimise the impact that its business operations have on the environment. The Group's current environmental strategy includes, among other things, repairing and installing safeguards to protect groundwater, such as absorption fields and lay waste chutes, installing fly-ash, dust and gas collecting equipment at the Group's facilities, and installing emissions gauges on select Group equipment. The obligation to adopt such plans is imposed on subsidiaries of the Company by the Regulations on Environment Protection dated 5 June 2009.

In 2012, the Company, in assistance with SZS Kazakhstan LLP, intends to organise training of specialists and auditors of the Environmental Management Standard ISO 14001. In order to further adapt an integrated management system conforming to OHSAS 18001, ISO 9001 and ISO 14001 standards the Company in 2012 will arrange a pilot run of the system in the Karaganda Subdivision of the Railways.

The Company developed the 2010-2011 Action Plan to Eliminate Environmental Violations after receiving notification from the Sanitary Supervisory Authority regarding the potential contamination of the groundwater reservoir due to above-normal discharges from a wagon flushing unit at the Ush-Tobe station. In accordance with the action plan, the wagon flushing unit underwent capital repairs amounting to KZT 7.2 million. The action plan also provides for construction of processing facilities at the unit, reconstruction of waste treatment facilities and the installation of a sewage pumping station, which is currently expected to be completed by 2013.

During the years ended 31 December 2010 and 2011, the Group allocated KZT 307.6 million and KZT 352.1 million, respectively, to its environmental programme.

The Company is currently developing an environmental programme for 2013 through 2020 to improve environmental safety in the railway sector, and to reduce emission volumes, discharges of polluting substances, formation of processing waste, and any other damaging effects of transport on the natural environment.

Environmental Claims

On 19 January 2010, a state land plot allocated to the Ilyisky region of Kapshagay city was contaminated with 30 tonnes of oil products due to a collision between the tail car of a freight wagon and a locomotive of the following train.

On 15 April 2010, Balkhash-Alakolsky ecology department issued a claim in the amount of KZT 3.3 million against a subsidiary of the Company, JSC Almaty Exploitation Locomotive Depot, for the accidental pollution of the environment as a result of the above-mentioned train collision. Such amount was fully covered by the Group's insurance policy. Based on the Group's internal investigation, the Company believes that the accident was primarily the result of a manufacturing defect in the locomotive. The Group has requested KZT 30 million from General Electric International Inc., the manufacturer of the locomotive, as compensation for damages resulting from the collision, including the reconstruction and repair of the wagons, repair of the track and the locomotive, and costs associated with the delays of freight and passenger trains. As at the date of this Prospectus, despite several inquiries by the Company, General Electric International Inc. has not yet responded to the Company's request.

Significant Licences

The Company conducts its business operations under various licences which authorise it to carry out a full range of railway-related business activities. For example, the Company holds licences allowing it to transport hazardous materials and perform expert works and engineering services, including planning, surveying, building and installation services. The Company also holds a licence for the provision of communication channels and internet protocol telephony, environmental permits, licences relating to the transfer and distribution of heat and electric energy and for the exploitation of electric power plants, electric networks and electric power sub-stations. In March 2010, the Company was issued a licence allowing it to manufacture and repair weightlifting devices and a licence authorising activity in connection with the acquisition, storage, usage, distribution, transportation, realisation and utilisation of certain controlled chemicals, or "precursors". JSC Passenger Transportation holds a passenger transportation license and a licence to carry hazardous materials by rail. Except for licences for that transportation of precursors, which are issued for five-year periods, the Group's licences are generally of perpetual duration and are almost all subject to annual or quarterly reporting requirements with respect to the activities performed under the respective licences.

Insurance

The insurance market is still in the early stages of development in Kazakhstan. Similar to many other state-owned enterprises in Kazakhstan, the Group maintains limited insurance coverage. The Group holds the required statutory minimum insurance coverage with respect to automobile insurance, employer liability insurance, environmental insurance and passenger insurance for personal injury, death and loss or damage to passenger property. Insurance policies that are maintained by the Group are purchased from commercial insurance operators in Kazakhstan.

The Group maintains insurance coverage in accordance with rules of cooperation between the Company and its subsidiaries with respect to insurance coverage that were approved by the Company's Management Board on 5 March 2012 (the "**Insurance Rules**"). The Insurance Rules were drawn up on the basis of the insurance coverage rules of Samruk-Kazyna, and national development institutes, national companies and other legal entities in which Samruk-Kazyna holds at least, directly or indirectly, a 50% participatory interest, as approved by the Management Board of Samruk-Kazyna on 28 September 2011. Except for certain types of voluntary insurance that exceed KZT 150,000,000 per policy and are required to be included in a corporate reinsurance programme established by the Company that is agreed with Samruk-Kazyna, subsidiaries of the Group are authorised to purchase mandatory and voluntary insurance at their own discretion within their budgets, provided they meet the requirements set forth under the Insurance Rules.

Within the corporate reinsurance programme on 13 December 2011, the Company entered into agreement with JSC Nomad Insurance IC with respect to one-year voluntary property insurance of the administrative buildings of the Company in Astana in the amount of KZT 54,433,188,753 providing coverage on an all risk basis, which also included separate coverage for risks relating to terrorism.

When the Group transports freight it carries the risk of loss in respect of the freight, assuming the consignor has properly prepared the freight so that it can be transported safely and the consignee handles the freight properly upon delivery. The Group may also be responsible for the security of the freight it transports where it has been hired to provide security services in respect of the freight. The Group may also be exposed to potential liability to its customers if the freight it transports is not timely delivered.

See "*Risk Factors – Risk Factors Relating to the Group – The Group faces numerous operating risks that may result in loss and additional expenditures, which may not be fully covered by insurance*".

Litigation

The Group is occasionally subject to legal proceedings and other investigations in the ordinary course of business, which proceedings and investigations have not had, and are not expected to have, either individually or in the aggregate, a material adverse effect on the Group's business, operations and financial condition.

In June 2011 Kazakh Transit Telecommunications LLP (hereinafter – "**KT&T**") brought an action against JSC Transtelecom, a wholly owned subsidiary of the Company, for non-compliance with its obligations under the agreement on joint activity No. 61-1/16 dated April 27, 2006, and claimed a reimbursement of penalties of KZT 20 million (in terms of state fees paid) for failure to make timely payments for the use of KT&T's equipment. On September 13, 2011 the court of the first instance made a decision to recover from the Group the full claim amount. An appeal of the Group was dismissed in February 2012. In March 2012 the Group filed a cassation appeal. The total amount of penalty charges for late lease payments for the period from July 2008 to August 2009, calculated by KT&T is equal to KZT 1,281,478 thousand. Based on the history of relations between the Group and KT&T related to a number of previous trials, Group management have concluded that payment of the full penalty charges claimed by KT&T is not probable. The Group intends to work with KT&T towards a negotiated settlement. Based on the foregoing, as at 31 December, 2011 the Group has established a provision of KZT 500 million.

In March and June 2010, the Company entered into a number of agreements with Zhol Zhondeushi Company LLP with respect to the provision of services of capital repair of track bed structures. Zhol Zhondeushi Company LLP agreed to provide services in accordance with agreed design specifications and estimates furnished by the Company. The Company subsequently detected mistakes in the design specifications and estimates and decided to suspend acceptance of, and payment for, the works done by Zhol Zhondeushi Company LLP. Zhol Zhondeushi Company LLP objected to these actions of the Company, and in February 2012 commenced a court action against the Company in the Specialised Interdistrict Economic Court of Astana ("**SIEC**") requesting the works acceptance certificates be recognised as valid and for the recovery of debts in the amount of KZT 259,582,715, as well as court fees in the amount of KZT 7,809,324. As at the date of this Prospectus, this court case was still pending in the SIEC.

In November 2006, the Company entered into agreement with JSC Leasing Company Astana-Finance for the procurement of goods, pursuant to which the Company received from JSC Leasing Company Astana-Finance eight sets of passenger rolling stock. However, JSC Leasing Company Astana-Finance defaulted in execution of the agreement as a result of a resolution of the chief transportation sanitary officer, a state official that monitors compliance with environmental norms with respect to transport, which prohibited import of the rolling stock, including those to be delivered to the Company under the agreement. As a result, passenger rolling stock was delivered to the Company only after a significant delay. In response to the delay, the Company accrued and withheld a penalty in the amount of KZT 442,982,302 as a security measure, and reduced the amount payable to the leasing company by the same amount, not withstanding the objections of JSC Leasing Company Astana-Finance. In November 2011, JSC Leasing Company Astana-Finance filed a court claim against the Company with the SIEC seeking for judicial invalidation of the penalty accrual on the grounds that the default occurred because of the circumstances beyond control of JSC Leasing Company Astana-Finance. As at the date of this Prospectus, the SIEC was still considering the case. The Company believes that if the claims of JSC Leasing Company Astana-Finance are satisfied, JSC Leasing Company Astana-Finance could bring another law suit for recovery of KZT 442,982,302 thereafter.

On 13 April 2009, the Central Regional Transport Prosecutor's Office served an improvement notice on the Company, which instructed the Company to refund money in the amount of KZT 981,853,419 that it withheld from shippers for the provision of armed security services by the armed security service of the Company during the years 2006 to 2008. One of the shippers, NEC LLP assigned its right for the refund to an individual, Mr. Kazantsev, who filed a court claim for KZT 363,772,642 and reimbursement of a court fee amounting to KZT 3,307,726 with the Saryarka district court of Astana. On 12 July 2011, that court decided to adjudge the claimed amount in full to Mr. Kazantsev. The Company challenged the court decision in higher courts, and on 13 September 2011 the appeals panel of the City Court of Astana ruled to reverse the decision of the district court, and dismissed Mr. Kazantsev's claim in its entirety. The case was then sent for revision to the cassation panel of the City Court of Astana, which on 18 October 2011 upheld the ruling of the appeals panel. According to the civil procedure legislation of Kazakhstan ruling of the cassation panel can be challenged in the Supreme Court of the Republic of Kazakhstan within one year from the date of its issue. As at the date of this Prospectus, the Company was not aware of any filings having been made with the Supreme Court in this regard.

In December 2004, the Group entered into a 15 year lease agreement with TeleKRONA LLP totalling KZT 19.3 billion to lease telecommunication equipment. In April 2009, the Group and the lessor amended the original lease agreement whereby the total lease amount was reduced to KZT 14.5 billion, the amount of equipment called for by the original lease was reduced and the schedule of payments was revised. Additionally, the Company and the lessor agreed to waive all penalties resulting from obligations imposed under the lease agreement as at the date the amended lease agreement was signed. In December 2009, the lessor challenged the amended lease agreement on the grounds that the amended agreement had been signed on terms unfavourable to the lessor and that the Group's failure to comply with the amended schedule of payments resulted in the lessor's poor financial performance. After a series of appeals, the previous court decisions were set aside and a new trial was granted. During the court hearings in April 2011 the Group and the lessor reached an agreement on recognition of the amended agreement reducing the lease payments and quantity of the leased equipment as valid, according to which the lessor waived its right to demand payments for the period from April 2010 to April 2011 against the Group's obligation to make a single payment of KZT 3.5 billion and pay lease payments on a monthly basis. The Group paid out the debt in May 2011 and lease payments were made monthly thereafter.

In 2008, the State enterprise Tax Department of Astana city conducted a tax audit of the Group for fiscal years 2003 through 2006. As a result of the tax audit, the tax authorities assessed additional taxes, including fines and penalties, on the Group in the aggregate amount of KZT 14.3 billion. The Group challenged the tax assessment with the appellate tax authority and the additional tax amount was reduced to KZT 10.5 billion. After a series of challenges by the Group and appeals by the tax authorities in the Kazakhstan court system, the amount of additional taxes owed by the Group was further reduced to KZT 5.6 billion, comprising KZT 3.5 billion in taxes and KZT 2.1 billion in fines. However, the Group filed an appeal with the Supreme Court, which in December 2010, ruled in favour of the Group and resulted in a decrease of the assessed taxes and imposed penalties and fines by KZT 13.2 billion from the initially assessed amount, thus allowing the Group to reverse an amount of KZT 2.97 billion from the total KZT 3.9 billion reserve that it had created with respect to the alleged unpaid taxes, penalties and fines during the year ended 31 December 2010. In 2011, the tax authorities conducted tax audits of the Group for fiscal years 2007 through 2010. As of the date of the Prospectus, these tax audits had not been completed. The Group did not accrue tax provisions as the Company believes that future tax payments arising as a consequence of such tax audits are not likely.

Due to the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued as at the date of this Prospectus. It is not practicable to determine the amount of any unasserted claims that may arise, if any, or the likelihood of any unfavourable outcome. See "*Risk Factors – Risk Factors Relating to the Republic of Kazakhstan – Kazakhstan's legislative, judicial, tax and regulatory framework is developing and evolving*".

Information Technology

The Group relies on its information technology systems to, among other things, increase the efficiency of its railway operations. These systems include:

- a operational management system used to process data from the Company's trains and information relating to train, locomotive, wagon and container operations;
- a system of real-time mode automatic dispatcher control over energy demands by the traction rolling stock in comparison with the actual work performed, including with respect to the distances of the route, the weight of freight, the length of the train and the grading of track, which is linked to the traffic schedule;
- an integrated system of passenger transportation management that monitors ticket and cash operations, the technical condition of the passenger cars fleet, marketing activity as to renewal of product lines and scheduling for the optimisation of route arrangements;
- an integrated processing system used to produce the railway memorandum bill, one of the most important railway documents which allows the Company to calculate the volume of rail turnover for any given route;
- an integrated processing system that produces, among other things, locomotive haulage data and reports on crew performance and locomotive haulage, all of which can be monitored by the Company in real-time;
- an interactive information system of fieldwork controls that allows the Company to introduce, process and record the information into a single database, calculate daily balance availability of railcars and issue certificates for the Company;
- an automatic system of internal bookkeeping and accounting for the Company;
- a corporate information portal containing information resources regarding the Company;
- an automated management system of track facilities, alarms and communications and the power supply infrastructure;

- an integrated system of yard operations management, which completely automates commercial and technical survey processes, the reading of numbers and controls over yard wagon fleets, the planning and recording of fulfilment of yard assignments using systems of intelligent video monitoring and hybrid technologies, and transfers of technological documentation in electronic format; and
- Kazakhstan Train Control Systems (KTCS), an integrated system regulating train movements using high speed digital radio standards of data transmission that minimises trackside assets and increases train effectiveness rates.

The Group has several development projects with respect to information technology, including the following:

- *Automated management system for contract and commercial work*. The Group completed its technical inquiry stage and the data processing design for the second stream of the system. All requests for freight transportation are now collected in electronic format. The system enables automatic compilation of freight transportation plans and reports, and carries out international exchanges of information relating to exports, imports and transit transportation.
- *Integrated system for the regulation of freight transportation*. The Group had completed the technical inquiry stages for creation of the system and developed the data processing design for the first stream of the system. Kandyagash-Nickeltau railway line was selected for the pilot run of the operational KTCS system that is to be conducted during 2012-2014.
- *Automated process of planning and measuring freight transportation*. This project will allow the Company to plan and analyse freight transportation, and offer opportunities for interactive planning of the transportation process including import, data input and plan adjustments for wagon formations. The Group has completed the stages of this project involving determination of functions, organisation of the hardware, testing, scanning, data updates, examination and planning and analysis, among others.
- *Geographic information system of the mainline railway*. This project, which is currently in its trial stage, will calculate safe interval distances between trains, as adjusted for various factors, and transfer such information to on-board computers. As at the date of this Prospectus, the Group had developed and approved the technical inquiry, acquired a space survey for the Astana-Atbasar railway line, and acquired special software for regulation of the train separation and calculation of haulage for trains working at optimum performance. The Group also acquired diagnostic equipment that allows for surveys of the conditions of tracks (odograph), monitoring and recording adjacent infrastructure (up to 70-80 metres sidewards from the tracks centreline) with geodetic accuracy, and GPR (ground penetrating radar) equipment that is used for monitoring the roadbed up to four metres deep.

The Group is also planning to implement several additional information technology projects, such as an automated system of management of passenger services of the Company, an automated system of operational control over transportation on the DB2 platform shoe and a system to transfer messages on the basis of WebSphere MQ. The Group also plans to commence the second stage of the automated integrated processing system called the "Energy Dispatcher of Haulage" automatic control systems project (ACS), which permits the transfer of the machinist's route lists in electronic format for 100% of routes of the Group and full automation of storage and processing functions. This project was granted the status of a strategic investment project by Samruk-Kazyna's Committee for Investment and Innovations.

The Group intends to invest in the development of its information technology facilities through the above-listed projects. "*See Risk Factors – Risk Factors Relating to the Group – The Group relies heavily on information technology systems to operate its business and any failure of these systems could harm its business*".

The Company's information technology management is undertaken by the Company's IT system operators. The Company's principal informational technologies are located in the main computer centre of the Company and include various technical measures to ensure that the Company is able to operate continuously. The Company provides electric power supply by two separate feeders from different electrical substations. Additionally, the Company's mainframes and servers operate from an uninterrupted power supply with back-up systems. Moreover, the Company has a diesel electric engine to generate electricity in the event of an external power failure. The Company's informational systems operate on IBM mainframes simultaneously on four machines that will use the resources of each other in the event of a technical failure.

TRANSACTIONS WITH RELATED PARTIES

Related parties include the Group shareholders, key management personnel, associates and enterprises in which the Group's shareholders or key management personnel have the ability to control or exercise significant influence over such other party in making financial or operational decisions. Parties under common control with the Group are also considered to be related parties. Because the Group is controlled by the Government, any other company controlled by the Government is considered a "related party" of the Group.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

As a general rule, transactions with related parties should be approved by the Board of Directors by a majority of votes of non-interested directors. If all members of the Board of Directors are interested in a transaction or there is a lack of the required number of votes for approval of a transaction with a related party, a decision should be adopted by the General Meeting of Shareholders by a majority of votes not interested in the transaction. The decision is adopted by a majority of votes of the General Meeting of Shareholders if all members of the Board of Directors and all members of the General Meeting of Shareholders are interested in a transaction.

There is a less onerous procedure for approval of transactions with related parties concluded between the companies of Samruk-Kazyna group[1]. Given that most of the Group members fall under the criteria for the Samruk-Kazyna group, the transactions entered into between the Group and the companies of the Samruk-Kazyna group should be approved by the Management Board by a majority of votes but not less than three quarters of its elected members.

If the Management Board is not available to approve the transaction, then a majority of the members of the Board of Directors who are not interested in the transaction may vote to approve the transaction. If all members of the Board are interested, then a majority of the independent directors may vote to approve the transaction. If the independent directors are not available to approve the transaction, then the sole shareholder may approve it.

1 Companies of Samruk-Kazyna group means Samruk-Kazyna itself, the companies (the national development institutes, national companies and other legal entities) more than 50% of which are owned by or in trust management of Samruk-Kazyna, the subsidiaries of the companies more than 50% of which are owned by the companies, and legal entities more than 50% of which are owned by said subsidiaries.

Amounts due to and from related parties (all of which are controlled by the Government) were as follows for the periods indicated:

	Due from related party			Due to related party		
	As at 31 December		As at 1 January	As at 31 December		As at 1 January
Company Name	2011	2010 (restated)	2010 (restated)	2011	2010 (restated)	2010 (restated)
			(KZT in thousands)			
JSC National Company KazMunaiGas	90,848	132,384	27,242	697,254	284,103	340,845
JSC Kazpost	150,302	137,742	83,571	8,935	8,228	—
JSC Kazakhtelecom	16,775	30,548	—	35,874	29,842	63,076
JSC National Nuclear Company Kazatomprom	6,033	10,836	—	86,291	85,075	83,241
JSC KEGOC	2,858	3,109	—	16	108	26,295
JSC National Company Kazakhstan Engineering	87,693	156,262	—	364,705	482,097	148,702
JSC Samruk-Energo	15,046	15,667	26,016	4,220	8,590	—
JSC Air Astana	199	645	—	9,539	7,931	4,371
LLP Samruk-Kazyna Contract	275	—	—	5,095	8,182	1,148
JSC KOREM	—	—	—	1,912	1,856	2,531
LLP JV Betpak Dala	—	—	—	2,841	2,479	2,218
SEC Sary-Arka	—	—	364	—	—	—
LLP JV Katco	—	—	—	1,065	3,001	11,130
JSC Kazyna Capital Management	2	51	—	—	—	2
JSC International Airport Atyrau	—	—	—	424	766	1,331
JSC GSM Kazakhstan JSC Kazakhtelecom	13,283	11,270	19,811	2,504	199	—
JSC Alliance Bank	—	1	—	—	40	7
JSC Development Bank of Kazakhstan	24	24	—	—	—	—
JSC BTA Bank	326	10	—	273	2,025	—
JSC Temir Bank	62	42	—	164	—	—
JSC Astana Finance	92	—	—	—	—	1,962,860
Other	—	—	—	1,633	1,133	934
	383,818	498,591	157,004	1,222,745	925,655	2,648,691

Transactions with related parties (all of which are controlled by the Government of Kazakhstan) were as follows for the periods indicated:

	Sales of services		Purchases of services	
	For the year ended 31 December		For the year ended 31 December	
Company Name	**2011**	**2010 (restated)**	**2011**	**2010 (restated)**
	(KZT in thousands)			
JSC National Company KazMunaiGas	4,710,471	7,061,091	120,920	1,207,467
JSC Kazpost	711,013	692,916	190,214	81,435
JSC Kazakhtelecom	227,312	266,622	531,266	587,655
JSC National Nuclear Company Kazatomprom	714,763	449,012	123,170	80,684
JSC KEGOC	8,049	8,912	3,152,105	2,922,614
JSC National Company Kazakhstan Engineering	406,294	81,774	1,871,887	708,488
JSC Samruk-Energo	150,468	128,804	283,513	236,136
JSC Air Astana	57,263	44,113	137	—
JSC GSM Kazakhstan JSC Kazakhtelecom	125,023	191,526	12,960	532
LLP JV Betpak Dala	3,923	1,580	—	—
LLP JV Katco	7,470	9,157	—	—
JSC Kazyna Capital Management	211	70	—	—
JSC International Airport Atyrau	4,323	8,820	—	—
JSC KOREM	—	—	16,497	15,712
LLP Samruk-Kazyna Contract	—	—	75,313	71,584
JSC Alliance Bank	1,712	1,936	—	—
JSC Development Bank of Kazakhstan	687	—	3,062	620
JSC BTA Bank	3,398	2,116	100,853	74,413
JSC Temir Bank	1,347	1,634	1,582	—
JSC Astana Finance	1,225	442,983	202	—
Other	9,777	7,568	—	—
	7,144,729	9,400,634	6,483,681	5,987,340

The services provided by related parties consist of repair works and other costs of providing services. The services provided to related parties primarily consist of freight transportation services. Sales to and purchases from related parties are at prices intended to be consistent with market prices. All outstanding balances with related parties are unsecured, interest-free and settled in cash at year-end.

As at 31 December 2011, 31 December 2010 and 1 January 2010, certain of the Group's borrowings in the amount of KZT 3,292,686 thousand, KZT 3,597,548 thousand and KZT 3,950,158 thousand, respectively, were guaranteed by the Government of the Republic of Kazakhstan.

As at 31 December 2011, 31 December 2010 and 1 January 2010, the Group had loans from and finance lease liabilities to related party banks in the aggregate amount of KZT 19,478,251 thousand, KZT 5,072,638 thousand and KZT 5,438,149 thousand, respectively.

The following table presents the Group's loans received from, and financial lease liabilities existing to, related party banks as at the dates indicated:

	As at 31 December		As at 1 January
	2011	2010 (restated)	2010 (restated)
	(KZT in thousands)		
JSC Development Bank of Kazakhstan:			
Loan	1,943,511	1,898,521	1,314,034
Finance lease	1,377,070	1,566,059	1,754,901
JSC BTA Bank loans	—	—	2,369,214
JSC Halyk Bank of Kazakhstan loans	15,856,087	1,608,058	—
JSC Alliance Bank loans	301,583	—	—
Total	19,478,251	5,072,638	5,438,149

The following table presents the Group's deposits with related party banks as at the dates indicated:

	As at 31 December		As at 1 January
	2011	2010 (restated)	2010 (restated)
	(KZT in thousands)		
JSC "Halyk Bank of Kazakhstan"			
Cash on current accounts and on short-term deposits with maturity period of up to three months	65,337,934	32,148,533	7,855,497
Deposits with maturity period of 3 to 12 months	3,004,657	32,914,415	10,173,176
JSC "Kazkommertsbank"			
Cash on current accounts and on short-term deposits with maturity period of up to three months	—	—	20,787,238
JSC "BTA Bank"			
Cash on current accounts and on short-term deposits with maturity period of up to three months	305,685	317,397	1,513,586
JSC "Alliance Bank"			
Cash on current accounts and on short-term deposits with maturity period of up to three months	54,710	17,042	5,495
Deposits with maturity period of 3 to 12 months	59,500	22,000	—
JSC "Temir Bank"			
Cash on current accounts and on short-term deposits with maturity period of up to three months	23,014	21,760	3,221
JSC "Development Bank of Kazakhstan"			
Cash on current accounts and on short-term deposits with maturity period of up to three months	73	3	—
Restricted cash	224,665	227,662	233,714
Total	69,010,238	65,668,812	40,571,927

MANAGEMENT AND EMPLOYEES

The following is a discussion of the management structure and certain employee matters of the Company, Kaztemirtrans and Lokomotiv.

Company

General

The Company's management structure consists of its sole shareholder-Samruk-Kazyna, its Board of Directors, its Management Board and its President. The Vice-President reports directly to the President. Those who report to the Vice President include, among others, the Managing Director of Fleet, the Managing Director of Field Operations and the Managing Director of Corporate Development. Also reporting directly to the President are the Vice-President of Economy and Finance, the Vice-President of Human Resources and Social Affairs, the Vice-President of Supplies, the Managing Director – Head of Administration and the Managing Director on Legal Issues.

Sole Shareholder

The sole shareholder performs the functions of the general shareholders' meeting as set forth in JSC Law, Kazakhstan Law on the National Welfare Fund ("**Samruk-Kazyna Law**"), the Company's charter, and the presidential edicts and decrees of the Government on the establishment of Samruk-Kazyna and its role and functions in Kazakhstan's economy.

The exclusive functions of the sole shareholder include, among other things, (i) approving any amendments to the Company's charter, as well as approving new versions of the Charter, (ii) approving the Company's corporate governance code as well as any amendments to the code, (iii) approving a reorganisation or liquidation of the Company, (iv) appointing the Company's auditors, (v) approving the payment of dividends by the Company, (vi) approving the Company's annual financial statements, (vii) approving the number, the term of authority and the members of the Board of Directors of the Company, (viii) appointing the Chairman of the Management Board and the Board of Directors and (ix) approving a decision with respect to the Company's participation in establishment of the business of other legal entities where a transfer of all or a part of the Company's assets occurs in an amount equal to 25% or more of the total amount of assets owned by the Company.

Board of Directors of the Company

The Board of Directors is responsible for the overall management of the Company's activities and directs the Company's strategy and policy, except for those matters which are expressly reserved to the sole shareholder pursuant to JSC Law, Samruk-Kazyna Law and the Company's charter.

In particular, the powers of the Board of Directors include, among others, (i) setting the priorities of the Company's activities, (ii) approving the terms of bonds and derivatives to be issued by the Company, (iii) appointing the members of the Management Board, except for the Chairman of the Management Board, (iv) approving the remuneration of the members of the Management Board, (v) selecting a registrar of the Company and (vi) approving all interested party transactions, excluding transactions with the companies within the group of the Sole Shareholder.

The members of the Company's Board of Directors are appointed by a resolution of the sole shareholder for a term of not more than three years, the duration of which is defined by the sole shareholder. A person generally shall not serve as a member of the Board of Directors for a term of more than nine years; however, in exceptional cases an appointment for more than nine years is permitted but such person shall be re-appointed on an annual basis.

The Board of Directors must have not less than six members, of which at least one-third must be independent directors. Members of the Management Board, other than the President, may not be elected to the Board of Directors. The President is not permitted to serve as Chairman of the Board of Directors.

As at the date of this Prospectus, the Company's Board of Directors consists of seven members, with Mr. Baidauletov serving as the Chairman of the Board. Certain biographical information regarding members of the Board of Directors is provided below:

Name and position	Age	Background and principal outside activities and duties
Nurzhan Talipovich Baidauletov (Managing Director of Samruk-Kazyna, Chairman)	51	Mr. Baidauletov was born in 1960 and graduated from the Moscow Institute of Railway Transport in 1986 specialising in management of transportation processes for railways. From 1986 to 1998, Mr. Baidauletov was employed by the system of Ministry of Railways of the USSR and the Republic of Kazakhstan serving in the following positions: Shunting Master; Station Operator; Process Engineer at the Ekibastuz station of the Tselinnaya railway line; Chief Engineer of the Pavlodar-North station; Deputy Traffic Manager of the Pavlodar division of the Tselinnaya railway line; Master of the Pavlodar station; First Deputy Division Superintendant of the Pavlodar division of the Tselinnaya railway line; Deputy Head of the Akmolinsk railway line – Pavlodar Division Superintendent; and Head of the Akmolinsk railway line. In 1998, Mr. Baidauletov was appointed as Director of the Railway Transport Department of the Ministry of Transport and Communications. From 2003 to 2004, he worked as Vice-Minister of Transport and Communications. From 2004 to 2006, Mr. Baidauletov held the position of Chairman of the Railway Committee under the Ministry of Transport and Communications. Since 2006, Mr. Baidauletov has served as Managing Director of Transport and Industrial Assets of JSC Samruk Holding, Managing Director of JSC Samruk Holding and Managing Director of JSC Samruk-Kazyna. He is also the Chairman of the Appointment Committee and a member of the Audit Committee of the Board of Directors of the Company. He was appointed as the Chairman of the Board of Directors of the Company on 24 January, 2012.
Askar Uzakpayevich Mamin (President of the Company)	46	For information regarding Mr. Mamin, see "*Management Board of the Company*".
Marat Zhanabergenovich Urazbekov (Managing Director of Transport Assets of Samryk-Kazyna)	51	Mr. Urazbekov was born in 1960. He graduated from Almaty Institute of Railway Engineers in 1986, qualifying as an engineer – electrician. Mr. Urazbekov worked as a foreman, foreman of the locomotive depot; in 1988 he was appointed as Chief technician of the Arys locomotive depot in Almaty railway. From 1990 to 1992 he worked as a senior consultant in Arys City Council. In 1992 he was appointed chief engineer of the locomotive depot in Arys City, where he worked until 1995. From 1995 to 1997 he worked as deputy head of the Department of the factory and repair facilities of the Department of Railway Transport of the Republic of Kazakhstan. In 1997, he was appointed Deputy Director of the Department of Railway Transport. In 2003 he was appointed Director of this Department. In 2000 he graduated from the Academy of Public Administration of the President of the Republic of Kazakhstan specialising in public and municipal administration. From August 2005 to July 2006 he was deputy chairman of the Railway Committee of the Ministry of Transport and Communications. In July 2006 he was appointed as Chairman of the Committee of Transport Communications of the Ministry of Transport and Communications. Since October 2008 he works as Managing Director of the transport assets of JSC Samruk-Kazyna. He was elected as Chairman of the Board of Directors of JSC "Aktobe International Airport" and JSC "Atyrau International

Name and position	Age	Background and principal outside activities and duties
		Airport." Since January 2012, he has served as a member of the Board of Directors of the Company.
Nigmatzhan Kabatayevich Issingarin (Independent Director)	70	Mr. Issingarin was born in 1941 and graduated from Uralsk Electromechanic Institution of Railway Engineers in 1964 and from the Academy of National Economy under the Council of Ministers of the USSR in 1984. He holds a doctorate degree in economics, which was conferred by the Ministry of Education and Science of the Republic of Kazakhstan. From 1964 to 1991, Mr. Issingarin was employed by the USSR Railways serving in the following positions: Engineer, Chief Engineer and Head of Signalisation and Communication Division at the Tselinograd railway division; Head of the Engineering Department and Deputy Head Engineer of the Kazakhstan railway line; Head Engineer and Head of the Tselinnaya railway line, Vice-Minister of Railways of the USSR, and Superintendent of the Almaty railway division. Between 1991 and 2002, Mr. Issingarin served as Minister of Transport, Minister of Transportation and Communications, First Deputy Prime-Minister of the Republic of Kazakhstan, and executive officer of the Eurasian Economic Community. Since 2002, Mr. Issingarin has been serving as General Director of Economtransconsulting LLP, Chairman of the National Expeditors of Kazakhstan Association and as Chairman of the Kazakhstan Association of Carriers and Car Operators. In 2006, he was appointed as an Independent Director of the Board of Directors of the Company. In addition to being a member of the Board of Directors of the Company, he is also the Chairman of the Remuneration Committee and a member of the Appointment Committee of the Board of Directors.
Zhenis Makhmudovich Kassymbek (Executive Secretary of the Ministry of Transport and Communications)	37	Mr. Kassymbek was born in 1975. He graduated from Kazakh State Architectural and Construction Academy with a Diploma in Architect-Design and from Eurasian University specialising in state and local government. He began his career as a head banker for JSC "Temirbank." He worked as the head of the Department of railways and ports of the Agency for Regulation of Natural Monopolies and Protection of Competition; head of the Department of tariff policy and tariff policy coordination; Director of the Department of Water Transport of the Ministry of Transport and Communications; and Director of RSE "Aktau International Sea Port". Since November 2005, he as served as Vice-Minister of Transport and Communications of Kazakhstan. On March 12, 2009 he was appointed Executive Secretary of the Ministry of Transport and Communications of the Republic of Kazakhstan. Mr. Kassymbek was appointed as a member of the Board of Directors in April 2011.
Kalman Somodi (Independent Director)	52	Mr. Somodi was born in 1959 and graduated from Leningrad Institute of Railway Engineers in 1983 specialising in automatics, telemechanics and communications. In 1986, he graduated from Budapest Technical University as a specialist of automation. From 1987 to 2002, Mr. Somodi occupied several positions within the railway industry, including the position of Section Manager of the International Relations Department at Hungarian State Railways. Working with international railway organisations, Mr. Somodi acted as Chairman of the Transport Law Commission, Chairman of the Transport Policy Commission, Deputy Chairman of the OSJD Committee, Permanent Representative of the Hungarian Minister of Transport at OSJD, and Policy Officer of the UIC to cooperate with the CIS and Baltic railways. Between 2002 and 2008, Mr.

Name and position	Age	Background and principal outside activities and duties
		Somodi acted as the Executive Secretary of the OSJD Committee. Between 2008 and 2011 Mr. Somodi served as Head of the Department of the Hungarian State Railway Corporation. On 1 June, 2011, he was appointed Executive Secretary of the Committee of the Organisation for the Cooperation of Railways. In 2006, Mr. Somodi was appointed an Independent Director of the Board of Directors of the Company. In addition to being a member of the Board of Directors of the Company, Mr. Somodi also serves as Chairman of the Audit Committee and as a member of the Human Resources and Remuneration Committee of the Board of Directors.
Chris Walton (Independent Director)	54	Mr. Walton was born in 1957 and graduated from the University of Western Australia in 1979 with a bachelor's degree in political science and an MBA degree in finance from the University of Western Australia in 1985. From 1983 to 2005, Mr. Walton occupied the following positions: Research Officer to Australian Senator J.D. Evans; Corporate Planner at BP Australia; Group Finance Planning Manager of Australian Airlines; Group Manager – Financial Management at Australia Post; Finance Manager – International at Air New Zealand; and Finance Director and Chief Financial Officer of Easy Jet Plc. Currently, Mr. Walton serves as the Independent Chairman of the board of directors of Goldenport Holdings Inc., and as the Independent Director and the Chairman of the audit committee of Rockhopper Exploration Plc. Since 2006, Mr. Walton has served as an Independent Director of the Board of Directors of the Company and as a member of the Audit Committee of the Board of Directors.

The business address of each of the members of the Board of Directors is the legal address of the Company, located at 6 Kunayev Street, Esil District, Astana, 010000, The Republic of Kazakhstan.

Management Board of the Company

The Management Board is responsible for executing the day-to-day management and administration of the Company, subject to the supervision of the Board of Directors and the sole shareholder. The Management Board's responsibilities include, among others, (i) implementing the decisions of the sole shareholder and of the Board of Directors, (ii) approving and presenting to the Board of Directors the business strategy and budget of the Company, (iii) implementing the business strategy and the budget of the Company, (iv) developing the risk management and internal controls of the Company, (v) approving the management structure of the Company based on the number of staff of the Central Administrative office and representative offices of the Company approved by the Board of Directors, (vi) approving acquisitions by the Company of 10% or more of the shares in other legal entities, (vii) approving transactions related to the incurrence of liabilities by the Company in an amount of 10% or more of the Company's equity, (viii) approving interested party transactions, only with the companies within the group of the Sole Shareholder and (ix) approving other decisions relating to the business of the Company that are not among the exclusive authority of the Board of Directors of the Company or its sole shareholder.

In accordance with the Company's charter, the Management Board must consist of not less than five members. The Board of Directors elects the members of the Management Board for three year terms, subject to re-election for an unlimited number of terms.

As at the date of this Prospectus, the Company's Management Board consists of twelve members. Certain biographical information regarding members of the Management Board is provided below:

Name and position	Age	Background and principal outside activities and duties
Askar Uzakpaevich Mamin (President, Chairman of the Management Board)	46	Mr. Mamin was born in 1965 and graduated from Tselinograd Institution of Civil Engineering in 1987 specialising in construction engineering. He also graduated from the Plekhanov Russian Academy of Economics in 2003 where he specialised in economics. He started his career as an assembler in the Tselintyazhstroy Group. From 1991 to 1993, he served as Deputy General Director of the Union of Innovative Enterprises of Kazakhstan. From 1996 to 2008, Mr. Mamin occupied the following positions: First Deputy Akim (Mayor) of Astana; Vice-Minister of Transport and Communications; First Vice-Minister of Industry and Trade; Minister of Transport and Communications; and Akim (Mayor) of Astana. He was appointed to his current position in April 2008.
Ermek Anuarbekovich Kizatov (Vice-President)	50	Mr. Kizatov was born in 1961 and graduated from Almaty Institute of Railway Engineers in 1986 specialising in the construction of railway lines, tracks and trackside. He started his career in 1983 as a bridge craftsman. From 1985 to 1997, Mr. Kizatov occupied the following positions in the railway industry: Division Engineer; Deputy Chief Engineer; Head of the Technical Division; and Deputy Division Superintendent for marketing, commerce, material and technical supplies. From 1997 to 2001, he served as Head of Trackside under the Chief Operational Department, Head of the Chief Operational Department and Deputy General Director of RSE Kazakhstan Temir Zholy. Between 2002 and 2007, Mr. Kizatov was employed by the Company in the following positions: Department Director; Manager of the Railway Network Direction; Advisor to the President of the Company and for the TSC Group Corporation LLP as Deputy General Director. In 2008, Mr. Kizatov was appointed as the Interim Vice-President and subsequently Vice-President of Business Development of the Company. He was appointed to his current position in July 2009.
Erik Hamzinovich Sultanov (Vice-President of Supply)	56	Mr. Sultanov was born in 1956. In 1978, he graduated from Karaganda Polytechnic Institute where he specialised in construction, road-building machines and equipment. In 2005, he graduated from Eastern Kazakhstan State Technical University with a degree in construction of auto-roads and aerodromes. Mr. Sultanov started his career in 1978 as a RMS mechanic at the Ekibastuzshakhtostroy Industrial Complex where he occupied various positions through 1992, including Chief RMS Engineer, Chairman of the Trade Union Committee and Director of the wood working plant. In 1995, Mr. Sultanov became President of JSC Ekibastuzshakhtokurylys. Between 1996 and 1998, Mr. Sultanov served as the Chairman of Pavlodar and the Northern Kazakhstan State Property and Privatisation Committee. From 1999 to 2005, Mr. Sultanov worked for the Ministry of Transport and Communications holding the following positions: Director of the Auto-Roads Department, Chief Coordinator of Advisors on External Loans, First Deputy General Director and Interim General Director of RSE Kazautodor and Chairman of the Auto-Roads Committee under the Ministry of Transportation. From 2005 to 2008, he served as Chairman of Kazdorstroy Company and as Vice-Akim (Mayor) and Chief Vice-Akim (Mayor) of Astana.

Name and position	Age	Background and principal outside activities and duties
		Mr. Sultanov joined the Company as the Interim Vice-President of Supply and was later appointed to his current position of Vice-President of Supply in April 2008.
Kanat Kalievich Alpysbayev (Vice-President of Economy and Finance)	40	Mr. Alpysbayev was born in 1972. In 1994, he graduated from the Almaty Institute of Railway Engineers where he specialised in automation, telemechanics and communication of railway transport. In 1998, he obtained a BBA degree from the University of Kentucky and in 2007 received an MBA degree from Moscow International School of Business. Mr. Alpysbayev started his career in 1994 as an electrician of computing techniques for the repair and maintenance group of the third signalisation and communication division of the Tselinnaya railway controlled by the Ministry of Transport of the Republic of Kazakhstan. In 1999, Mr. Alpysbayev joined the RSE Kazakhstan Temir Zholy where he held the following positions until 2002: Analyst and Deputy Head of the Financing and Budget Financing Divisions; Head of the Budget Division and Department; Head of the Finance Department; Deputy Head of Economy and Finance of the Locomotives Facilities Department; and Director of ASE Locomotive. From 2002 to 2003, he worked as Vice-President of Finance of JSC Air Astana, the national air carrier of the Republic of Kazakhstan. Between 2003 and 2005, he worked as Deputy Chairman of the Board and Advisor to the Chairman of the Board of JSC Intranscom. From 2005 to 2008, Mr. Alpysbayev was employed by General Electric International Inc. where he was a Sales Manager and Director of Business Development of the Transport Systems Department. He was appointed to his current position in October 2008.
Askhat Harisovich Akchurin (Vice-President of Human Resources Management and Social Issues)	50	Mr. Akchurin was born in 1961. He graduated from Kazakh State Agricultural Institute in 1983 specialising in agriculture engineering. In 2005, he attended courses at Yale University on the management of key executive staff. Mr. Akchurin started his career at the Leading Special Construction Bureau PET (LSCB PET) in Tselinograd (one of the former names of Astana) as a construction engineer in 1983. From 1983 to 1996, he worked as a Lead Engineer, Divisional Manager, Chief Engineer and Head General Constructor of LSCB PET. Between 1996 and 2004, Mr. Akchurin served as Chief Constructor of JSC Tselinogradselmash and occupied several executive positions at Akimat (Mayor's office) of Astana. From 2004 to 2006, he worked as State Inspector at the Executive Office of the President of Kazakhstan. From 2006 to 2008, he was Deputy Akim (Governor) of the West-Kazakhstan oblast. Between 2008 and 2009, he worked as Chief of the Company's staff. Mr. Akchurin was appointed to his current position as the Vice-President of Human Resources Management and Social Issues in January 2009.
Erkhat Serikovich Iskaliyev (Vice President of Logistics)	35	Mr. Iskaliyev graduated from the Academy of Banking and Commerce of the "Karic Brothers" University, and the Academy of Jurisprudence – Higher School of Law "Adilet" with a Ph.D. in Economics, MBA, and DBA. He began his career in the Ministry of Finance and has worked in senior positions of the Administration of the Atyrau region. In 2003, he was appointed Director of Investment Policy and Project Finance of the Company. Since 2003, he has served as: Managing director of JSC "Kazakhstan Development Bank", the President of JSC "DBK-Leasing", and

Name and position	Age	Background and principal outside activities and duties
		President of JSC Kaztemirtrans from 2008 to 2009. Between 2009 and 2010, he served as Vice-Minister of Industry and Trade. Since June 2011, he has served as Vice President of Logistics.
Yelena Ivanovna Lepskaya (Managing Director of Finance)	43	Mrs. Lepskaya graduated from Tselinograd Agricultural Institute with the Diploma of Economist – organiser of agricultural production and obtained a Ph.D. in Economics. She worked as a leading expert of the Akmola regional department of agriculture, and as economist in "Tsesna" Corporation. From 1998 to 2001 she served as Vice Chairman on financial matters of the Management Board of JSC "Astana Finance". In 2008 she was appointed as Director of the Department of Finance of the Company. Since April 2011, she has served as Managing Director of Finance.
Kanat Esmukhanovich Almagambetov (Managing Director – Head of Administration)	49	Mr. Almagambetov was born in 1962. In 1983, he graduated from Almaty Institute of Railway Engineers specialising in railway operations. In 2001, he graduated from Kazakh Academy of Transport and Communications with a degree in economy and management of railways. Mr. Almagambetov began his career in 1981 at the Tselinnaya railway line, which was part of the Ministry of Railways of the USSR as an apprentice to a shunting master and later occupied various positions at railway organisations. In 1997, Mr. Almagambetov became Head of the Transportation Department of the Tselinnaya Railway Administration. From 1999 to 2005, he held the following positions: Head of the Chief Administration of Transportation; Head of the Freight Transportation Department of RSE Kazakhstan Temir Zholy; Director of ASE Freight Transportation; and Vice-President of Kaztemirtrans. Since 2008, he has been serving as Managing Director of the Company. Mr. Almagambetov has over 20 years of experience serving in executive positions.
Beibit Gazizovich Zhussupov (Adviser to the President of the Company)	63	Mr. Zhussupov was born in 1948. In 1970, he graduated from Sverdlovsk Law Institute with a degree in law and in 1989 graduated from Almaty Higher Party School. Mr. Zhussupov started his career in 1969 as an investigator at the prosecutor's office of the Alexeevskiy district of the Tselinograd oblast. Until 1976, he served as Senior Investigator, Prosecutor and Deputy Head of the Investigation Department of the Tselinograd oblast prosecutor's office. From 1976 to 1981, Mr. Zhussupov worked on the Communist party committee of the Tselinograd oblast. From 1981 to 1982, he served as Deputy Transport Prosecutor of the Tselinograd oblast. Between 1982 and 1990, Mr. Zhussupov worked as the head of administrative agencies and state-legal divisions of the Communist party committee of the Tselinograd oblast. From 1990 to 1992, he held the office of Deputy Chairman of the Tselinograd oblast Council of Deputies. From 1992 to 1998, Mr. Zhussupov served as the Deputy Akim (Mayor) of the Akmolinsk (Tselinograd) oblast. Between 1998 and 2004, he served as a Senator of the Parliament of Kazakhstan. Between 2004 and 2007, Mr. Zhussupov worked as the Head of the office at the Supreme Court of Kazakhstan. Prior to joining the Company in 2009, Mr. Zhussupov worked as First Deputy Akim of the Kyzylorda oblast. In January 2009, Mr. Zhussupov was appointed as the Head of Administration and currently serves as the Adviser to the President of the Company.

Name and position	Age	Background and principal outside activities and duties
Rustem Koibagarovich Khasenov (Managing Director of Legal Issues)	49	Mr. Khasenov was born in 1962. He graduated from Karaganda State University in 1984 with a degree in law and began his career as an Investigator of the Kokshetau Municipal Department of Internal Affairs. From 1987 to 1991, he worked as a Senior Inspector and Senior Specialist of the Kokshetau municipal authorities. From 1991 to 1997, Mr. Khasenov held the position of Legal Manager of the Kokshetau oblast Agricultural Department. Between 2003 and 2006, he held the following legal positions with the Kazakhstan Ministry of Transportation: Chief Specialist; Head of the Division; and Deputy Director of the Legal Department. Prior to joining the Company, Mr. Khasenov served as Director of the State Legal Department of Astana city Akim's (Mayor's) office. Mr. Khasenov was appointed to his current position in April 2008.
Almas Muratovich Lepesbayev (Managing Director of Economy)	33	Mr. Lepesbayev was born in 1978. In 2000, he graduated from Kokshetau University where he specialised in economy and management in infrastructure. He also obtained a bachelor's degree from Kazakh Humanitarian Law University in 2007. Since 2009, he has held a degree in economics, which was conferred by the Ministry of Education and Science of the Republic of Kazakhstan. He also holds a degree of Doctor of Economics from the Russian Transport Academy. Mr. Lepesbayev started his career in 2000 as a Lead Engineer in the Department of Technical Policy of RSE Kazakhstan Temir Zholy. Following this position, Mr. Lepesbayev has served in various positions within the Company and its subsidiaries including being appointed as Director of the Department of Economy and Finance of JSC Kazzheldortrans in 2005. In 2006, Mr. Lepesbayev took office as the Director of Economy of the Company and was appointed to his current position as Managing Director of Economy in 2009. Since 2009, he has been serving as a member of the Board of Directors of Kaztemirtrans, and since 2010, as Managing Director of Kazakhstan Temir Zholy Finance B.V.
Bauyrzhan Pazylbekovich Urynbasarov (Managing Director of Field Operations)	41	Mr. Urynbassarov graduated from the Almaty Institute of Railway Engineers specialising in "Transport Management and Administration of Railway". In 1993, he began his career as a train dispatcher at the Almaty office of Alma-Ata Railroad. He later served as the senior engineer and the head of the industrial engineering department of the Railway Department RSE KTZ in Almaty. Since 2007, he has headed the branch of the Company "Almaty division".

The business address of each member of the Management Board is the legal address of the Company.

Management Remuneration of the Company

In accordance with the Company's charter, the remuneration of the members of the Board of Directors is determined by the sole shareholder, while the remuneration of the Management Board and the Internal Audit Service are determined by the Board of Directors.

Before 2009, the Company did not pay remuneration to the members of the Board of Directors. However, in May 2009, the Management Board of Samruk-Kazyna adopted a resolution "On Remuneration Paid to the Independent Directors" which requires that independent directors receive compensation for their services semi-annually. Such compensation is comprised of annual fixed fees and Board meeting attendance fees. As at 31 December 2011, the Company set the annual fixed fee to be paid to the Independent Directors at an aggregate amount of KZT 16.03 million.

Compensation to members of the Management Board is personalised and depends on personal work performance, difficulty level and the amount of responsibility required for assigned tasks, the specificity of the type of work performed and the personal qualifications of the individual director. Remuneration amounts may be reduced for an individual director due to (i) deterioration in the financial and economic performance of the Company as compared to the previous year and (ii) failure to accomplish assigned tasks or poor performance by the director. The total compensation paid to members of the Management Board amounted to KZT 214 million and KZT 140.6 million for the years ended 31 December 2011 and 31 December 2010, respectively.

According to the Decree of Samruk-Kazyna dated 7 April 2009 No. 23-П the Management Board is prohibited from being paid bonuses. No bonuses were paid for 2011.

Management Liability and Code of Business Conduct

Pursuant to the Company's charter and applicable corporate law, members of the Management Board of the Company and the President of the Company are personally liable to the Company for any damage caused by their acts or negligence. By a resolution of Samruk-Kazyna, as the Company's sole shareholder, the Company may sue any of its officials for damage or loss incurred by it as a result of the actions or inactions of its officials.

Officials and employees of the Company are required to adhere to the Company's Code of Business Conduct. This code was adopted to memorialise the Company's position on proper corporate conduct and the basic values and principles of business ethics.

Employees

As at 31 December 2011, the Group had 153,423 employees as compared to 143,779 as at 31 December 2010 and 144,408 as at 31 December 2009. The following tables present the distribution of the Group's employees as at the dates indicated:

	Number of Employees		
	As at 31 December		
Activity	**2011**	**2010**	**2009**
Locomotives	19,954	19,288	19,505
Rolling Stock	1,599	1,690	1,830
Infrastructure	54,998	55,800	56,828
Freight Transportation	19,917	20,217	20,386
Passenger Transportation	13,902	15,343	16,348
Other	43,053	31,441	29,511
Total	153,423	143,779	144,408

	Number of Employees		
	As at 31 December		
Employer	**2011**	**2010**	**2009**
Company	78,675	79,995	81,190
Lokomotiv	19,954	19,288	19,505
Kaztemirtrans	1,599	1,690	1,830
Other	53,195	42,806	41,883
Total	153,423	143,779	144,408

For the year ended 31 December 2011, employees of the Group received a 7% increase in their salary. The majority of the Group's employees are members of the Trade Union. The Trade Union was established in 1992 and as at 31 December 2011 had 145,964 members representing employees of the Group and other companies engaged in the railway business. In 2012 the Company entered into a collective bargaining agreement with the Trade Union for the period 2012 to 2014. The terms of the collective bargaining agreements subject the Group to procedural and notification requirements with respect to the Group's decision to terminate a Trade Union employee's labour agreement or modify its structural organisation. In particular, the collective bargaining agreements provide that the decision to terminate a labour agreement with a Trade Union committee chairman not released from his or her main position should be made with consideration of the prior consent of a Trade Union committee. The Trade Union also must be notified of the Group's intention to eliminate structural subdivisions of the Group, and Trade Union representatives must be included in the working group regarding such elimination. Additionally, the majority of Kaztemirtrans' employees are members of the trade union associated with Kaztemirtrans. See "*Employees of Kaztemirtrans*".

As at the date of this Prospectus, the Group has not experienced any material labour disputes or strikes.

Training Programmes

The Company has various training and educational programmes for its employees in Kazakhstan and abroad, as well as in the Company's own corporate learning centres. Approximately 6,000 employees of the Company are involved in the educational process annually.

In 2006, the Company established the centre of evaluation and development of railway staff (the "**Centre**"). The Centre operates as a branch of the Company and is designed to provide professional development programmes for the Company's employees. The Centre cooperates with various higher educational institutions and foreign institutions that train specialists in the railway industry. Programmes offered through the Centre include collaboration with the Tynyshpayev Kazakh Academy of Transport and Communication and the Centre of International Programmes JSC in order to train and recruit young railway specialists, as well as to provide internships for students. Advanced training for engineering, technical and administrative employees is offered through seminars, training, internships and conferences at universities in Kazakhstan and CIS countries. The Company also provides computer training to its employees.

One of the current priorities of the training strategy for the Company's employees is to obtain international experience. For these purposes the Company established a special programme for international education of employees with the following areas of focus:

- short-term training of managers with the involvement of professors from leading educational institutions and railway industry experts;
- international internships and trainings;
- Master's degrees; and
- language courses.

In 2012 the Company arranged for a training course Railway Management Programme, organised by the University of Michigan, and attended by ten employees of the Company.

In 2012 the Company and the Singaporean East Asia Institute of Management entered into a memorandum according to which the East Asia Institute of Management agreed to train employees of the Group in advanced logistics methods and to develop their professional skill level.

The Company currently plans to create an educational centre in Astana that could accommodate up to 15,000 employees of the Company. This centre would specialise in exploring new technologies in cooperation with the international partners of the Company.

The Company has also entered into the Cooperation Memorandum with DB Mobility Logistics AG according to which, amongst other things, DB Mobility Logistics AG has agreed to cooperate on logistics education and retraining of Kazakhstan employees.

Annually the Company selects and grants funding for graduate level education programmes which relate to railway-related professions that are important to the Company. Beginning from 2010, the Company provides scholarships for its employees to obtain graduate level and doctoral degrees. In 2011 the Company granted scholarships to 14 employees of the Company for masters and PhD programmes in local and international universities.

In order to attract and retain young railway specialists to the Company, the Company awards scholarships and educational grants for mainline, graduate and doctoral courses. This is accomplished through the Company's association with various educational organisations in Kazakhstan, CIS countries and other countries for railway professions that are considered a priority to the Company. In 2011 the Company awarded 46 students with educational grants for undergraduate level education.

Social Support of Employees

From December 2005 to July 2009, the Company implemented its Programme on Provision of Housing by the Company, pursuant to which employees of the Company could purchase housing for 10% to 30% of its net value, with such purchase price primarily based on length of service to the Company. In November 2009, the Company adopted a programme for the construction of service housing for employees of the Company. As at the date of this Prospectus, the Company is developing two programmes to provide housing to its employees. First, the housing programme for 2011-2015 providing houses with the payment plan by installments for a period of 15 years (equal shares, without the overpayment). During 2011 the Company purchased and distributed among its employees 172 apartments in seven different regions of Kazakhstan. Second, the programme provides houses for workers of the Company maintaining the operating stations who given the nature of employment on such stations are required to live near their place of work. Under this programme houses are provided to the employees without the ownership rights. The Company and its subsidiaries also provide other types of social support to their employees and the retired employees of the Company, including medical assistance, organisation of sporting events and celebrations of certain national and professional holidays, birth grants and grants for funerals, provision of material support and social protection to employees, pensioners, to victims of industrial accidents and occupational diseases in the Company and material aid for young professionals' living arrangements.

Employee Retirement Benefits

In accordance with the collective bargaining agreements with the Trade Union, the Group provides certain benefits to employees upon retirement (the "**Defined Benefit Scheme**"). In accordance with this agreement, the retirement benefits include a one-time retirement grant, annual financial support to pension holders, complementary train tickets, funeral aid and assistance for dental treatment.

The Group recognises actuarial gains and losses arising from the reassessment of the employee benefit liability in the period in which they are identified and recognises the benefit costs and obligations based on estimates determined in accordance with IAS 19, "Employee benefits".

The obligation and cost of benefits with respect to the Defined Benefit Scheme are determined using the projected unit credit method. Under this method, each year of service gives rise to an additional unit of benefit entitlement. Each unit is measured separately with respect to calculating the final obligation.

The cost of providing benefits is charged to the consolidated statement of operations, so as to attribute the total benefit cost over the service lives of employees in accordance with the benefit formula of the plan. This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit obligation. The Defined Benefit Scheme is unfunded.

Retirement benefit expenses paid amounted to KZT 1.8 billion, KZT 1.4 billion and KZT 0.9 billion for the years ended 31 December 2011, 2010 and 2009, respectively.

Audit Committee of the Company

The Company's Audit Committee is a consulting and advisory body of the Board of Directors. The Audit Committee was established to consider in-depth issues, within the competence of the Board of Directors or examined by it, as part of a procedure to control operations of the Company and to provide required recommendations to the Board of Directors and Management Board. The Committee is acting on the basis of the Statute on the Audit Committee of the Board of Directors of the Company approved by the Resolution of the Board of Directors of the Company dated 11 September 2009.

The Committee is generally responsible for (i) establishing an effective system of monitoring the financial activity of the Company (including, the completeness and accuracy of the annual financial statements); (ii) monitoring the reliability and effectiveness of internal control and risk management, as well as the execution of documents in the field of corporate governance; and (iii) monitoring the independence of the external and internal audit.

As at the date of this Prospectus, the following individuals serve on the Audit Committee:

Name	Other Positions
Kalman Somodi	Independent Director; Chairman of the Audit Committee
Murat Urazbekov	Managing Director of Transport assets of Samruk-Kazyna; member of the Board of Directors
Chris Walton	Independent Director

Internal Audit Service

In accordance with the Company's charter, the Internal Audit Service was established to monitor the Company's financial and economic activities and its internal controls, oversee risk management of the Company, the execution of documents under corporate governance and counselling in order to improve the Company's activities. The Board of Directors determines the remuneration of the members of the Internal Audit Service and appoints the head of the Internal Audit Service. The Internal Audit Service reports to the Board of Directors and is monitored by the Audit Committee. As at the date of this Prospectus, 19 individuals serve on the Internal Audit Service, comprising a Head of the Service, a Deputy Head of the Service, twelve Senior Auditors and five Auditors.

Kaztemirtrans

General

Kaztemirtrans' sole shareholder, the Company, retains exclusive authority over the operations of Kaztemirtrans as set forth in the JSC Law, including the Law on Joint Stock Companies dated 13 May 2003, the laws and regulations of Kazakhstan and the Company's charter. Kaztemirtrans is managed by its Board of Directors, except for those limited matters expressly reserved to the sole shareholder. The President, elected by the sole shareholder but subject to the supervision of the Board of Directors, is responsible for the executive authority of the day-to-day management and affairs of Kaztemirtrans.

Sole Shareholder

The exclusive functions of the sole shareholder include, among other things, (i) approving any amendments to the charter of Kaztemirtrans or approval of a new version of the charter, (ii) approving the corporate governance code as well as any amendments to the code of Kaztemirtrans, (iii) approving a reorganisation or liquidation of Kaztemirtrans, (iv) appointing the auditors of Kaztemirtrans, (v) approving the payment of dividends, (vi) approving the annual financial statements of Kaztemirtrans, (vii) approving the number, the term of authority and the members of the Board of Directors of Kaztemirtrans, (viii) appointing the Chairman of the Management Board and the Board of Directors of Kaztemirtrans and (ix) approving a decision with respect to Kaztemirtrans' participation in establishment of the business of other legal entities where a transfer of all or a part of Kaztemirtrans' assets occurs in an amount equal to 25% or more of the total amount of assets owned by the company.

Board of Directors of Kaztemirtrans

The Board of Directors is responsible for the overall management of Kaztemirtrans' activities, and directs Kaztemirtrans' strategy and policy, except those matters which are expressly reserved to the sole shareholder.

Accordingly, the Board of Directors is generally responsible for (i) setting the priorities of the company's activities, (ii) approving the terms of bonds and derivatives to be issued by the company, (iii) appointing the members of the Management Board, except for the Chairman of the Management Board, (iv) approving the remuneration of the members of the Management Board, (v) approving acquisitions by the company of 10% or more of the shares in other legal entities, (vi) approving transactions related to the incurrence of liabilities by the company in an amount of 10% or more of the company's equity, (vii) selecting a registrar of the company and (viii) approving all interested party transactions, excluding transactions with the companies within the group of the Sole Shareholder.

Members of the Board of Directors are appointed by the sole shareholder for a term of not more than three years, the duration of which is defined by the sole shareholder. A person generally shall not serve as a member of Boards of Directors for a term of more than nine years; however, in exceptional cases an appointment for more than nine years is permitted but such person shall be re-appointed on an annual basis. The Board of Directors must not have less than three members and the President, if a member of the Board of Directors, is not permitted to serve as Chairman of the Board of Directors.

As at the date of this Prospectus, Kaztemirtrans' Board of Directors consists of five members with Mr. Kizatov serving as the Chairman of the Board. Certain biographical information regarding members of the Board of Directors is provided below:

Name and position	Age	Background and principal outside activities and duties
Ermek Anuarbekovich Kizatov (Chairman of the Board of Directors of Kaztemirtrans, Vice-President of the Company)	50	For information regarding Mr. Kizatov, see "*Management Board of the Company*".
Baurzhan Pazylbekovich Urynbasarov	41	For information regarding Mr. Urynbasarov, see "*Management Board of the Company*".
Yeltay Nurbolatovich Mukhamedzhanov (Independent Director)	28	Mr. Mukhamedzhanov was born in 1983. In 2004, he received a bachelor's degree from the Kazakhstan Institute of Management Economics and Planning (KIMEP). In September 2006 he obtained a Masters of Business Administration degree specialising in Finance from UWIC, Cardiff, Wales, United Kingdom. Mr. Mukhamedzhanov started his career in June 2000 as a financial analyst for Baker Hughes, a position which he held until May 2003. From July 2007 to September 2010 he worked for HSBC Kazakhstan as business development manager in Global Banking, and then as Corporate Director. Since October 2010 he has held his current position at HSBC Bank plc as Vice-President in the Institutional Sales and New Markets Group. Mr. Mukhamedzhanov is a certified member of The Chartered Institute for Securities and Investment, London, UK. Since May 2012 Mr. Mukhamedzhanov has been an Independent Director and member of the Board of Directors of JSC Kaztemirtrans.
Yevgenyi Pavlovich Ogay (General Manager (level 2) of the division of functional asset management of the Department of Asset Management of the Company)	57	Mr. Ogay has been working in the Company since 2002. He is a General Manager of the Department of Asset Management of the Company. He has extensive experience in public service. In 2005 he was deputy head of the Department of optimisation of the property of the Company. Since 2008, he has served as deputy head of the Department of Assets Management of the Company. He has held his current position since 2009.
Yerlan Baykenovich Smailov (General Director of "AKSU SD" LLP, Independent Director of the Board of Directors of Kaztemirtrans)	61	Mr. Samilov graduated from Pavlodar Industrial Institute. From 1996 to 1997, he served as Mayor of the Zhezkazgan area. From 1997 to 2002, he served as President of "Kazenergoservis". From 2000 to 2002, he was President of JSC "Zhezkazgan ore". Since 2003 he has been working with the Company "KVANT".

President of Kaztemirtrans

The President (or the Chairman of the Management Board) is appointed and relieved of his duties by the Decision of the Management Board of the sole shareholder with subsequent approval of such decision by the Board of Directors of Kaztemirtrans as set forth in Kaztemirtrans' charter. As at the date of this Prospectus, the President of Kaztemirtrans is Mr. Zhaysanbayev S.N., who was appointed by the sole shareholder's resolution dated 19 October 2009 to serve until his successor is appointed. The business address of the President is the legal address of Kaztemirtrans.

The President manages the day-to-day activities of Kaztemirtrans, including the implementation of the resolutions of the sole shareholder, the Board of Directors and the Management Board; entering into transactions for Kaztemirtrans; representing Kaztemirtrans in its relations with third parties; issuing powers of attorney to represent the company; and performing other duties as provided by Kaztemirtrans' charter.

Employees of Kaztemirtrans

Kaztemirtrans employed 1,599, 1,690, 1,830 individuals as at 31 December 2011, 2010 and 2009, respectively. As at 31 December 2011 1,483 of Kaztemirtrans' employees were members of the Public Association Trade Union of JSC Kaztemirtrans (the "**Trade Union of Kaztemirtrans**").

As at the date of this Prospectus, Kaztemirtrans has not experienced any material labour disputes or strikes.

Legal Address of Kaztemirtrans

Kaztemirtrans is located at 10 Kunayev Street, in the office building of JSC "NC" Kazakhstan Temir Zholy, 9-12 Floor, Esil District, Astana, 010000, Republic of Kazakhstan and its telephone number is +7 (7172) 93 02 76.

Kaztemirtrans' Executive Compensation

In accordance with Kaztemirtrans' charter, the remuneration of the President is set by the Board of Directors, while the remuneration of the members of the Board of Directors is determined by the sole shareholder. Other than its Independent Director, all members of the Board of Directors of Kaztemirtrans are employees of the Company and, accordingly, receive remuneration from the Company. As at year ended 31 December 2011, the annual fixed fee paid to each independent director of Kaztemirtrans was approximately KZT 1.08 million.

The President of Kaztemirtrans received an aggregate of approximately KZT 12.5 million and KZT 9.4 million in compensation for the year ended 31 December 2011 and for the year ended 31 December 2010, respectively, with such amounts including both short-term and post-term employee benefits.

Lokomotiv

General

Lokomotiv's sole shareholder, the Company, retains exclusive authority over the operations of Lokomotiv as set forth in JSC Law and the Company's charter. Lokomotiv is managed by its Board of Directors, except for those limited matters expressly reserved to the sole shareholder. The President, elected by the sole shareholder but subject to the supervision of the Board of Directors, is responsible for the executive authority of the day-to-day management and affairs of Lokomotiv.

Sole Shareholder

The functions of the sole shareholder include, among other things, (i) approving any amendments to the charter of Lokomotiv or approval of a new version of the charter, (ii) approving the corporate governance code as well as any amendments to the code of Lokomotiv, (iii) approving a reorganisation or liquidation of Lokomotiv, (iv) appointing the auditors of Lokomotiv, (v) approving the payment of dividends, (vi) approving the annual financial statements of Lokomotiv (vii) approving the number, the term of authority and the members of the Board of Directors of Lokomotiv, (viii) appointing the Chairman of the Management Board and the Board of Directors of Lokomotiv and (ix) approving a decision with respect to Lokomotiv's participation in establishment of the business of other legal entities where a transfer of all or a part of Lokomotiv's assets occurs in an amount equal to 25% or more of the total amount of assets owned by the company.

Board of Directors of Lokomotiv

The Board of Directors is responsible for the overall management of Lokomotiv's activities, and directs Lokomotiv's strategy and policy, except those matters which are expressly reserved to the sole shareholder.

Accordingly, the Board of Directors is generally responsible for (i) setting the priorities of the company's activities, (ii) approving the terms of bonds and derivatives to be issued by the company,

(iii) appointing the members of the Management Board, except for the Chairman of the Management Board, (iv) approving the remuneration of the members of the Management Board, (v) approving acquisitions by the company of 10% or more of the shares in other legal entities, (vi) approving transactions related to the incurrence of liabilities by the company in an amount of 10% or more of the company's equity, (vii) selecting a registrar of the company and (viii) approving all interested party transactions, excluding transaction with the companies within the group of the Sole Shareholder.

Members of the Board of Directors are appointed by the sole shareholder for a term of not more than three years, the duration of which is defined by the sole shareholder. A person generally shall not serve as a member of Board of Directors for a term of more than nine years; however, in exceptional cases an appointment for more than nine years is permitted but such person shall be re-appointed on an annual basis. The Board of Directors must be comprised of at least three members, as set forth in Lokomotiv's charter. The President may be elected to the Board of Directors but is not permitted to serve as Chairman of the Board of Directors.

As at the date of this Prospectus, Lokomotiv's Board of Directors consists of six members with Mr. Kizatov serving as the Chairman of the Board. Certain biographical information regarding members of the Board of Directors is provided below:

Name and position	Age	Background and principal outside activities and duties
Ermek Anuarbekovich Kizatov (Chairman, Vice-President of the Company)	50	For information regarding Mr. Kizatov, see – "*Management Board of the Company*".
Kadyl Sekenovich Talaspekov (Managing Director of Safety in Operation of the Company)	60	Mr. Talaspekov was born in 1951. In 1983, he graduated from the Almaty Institute of Railway Engineers specialising in railway operations. In 1996, he graduated from Karaganda Polytechnic Institute where he specialised in Economy and Management. Mr. Talaspekov holds a doctorate degree in engineering, which was conferred by the Ministry of Education and Science of the Republic of Kazakhstan. Mr. Talaspekov has worked in the railway industry his entire career. Prior to being appointed to his current position, Mr. Talaspekov held the following positions within the Company: Vice-President from 2002 to 2006; Chief Engineer from 2006 to 2008; and First Vice-President until October 2008. From October 2008 to December 2010 Mr. Talaspekov was President of Lokomotiv. Since December 2010 he was appointed to his current position as Managing Director of Safety in Operation of the Company.
Adilzhan Abilkairovich Ismukhambetov (Independent Director, Director of the Department of Legal Issues of the Company)	32	Mr. Ismukhambetov was born in 1980. From 1999 to 2002 he studied in the Kazakh Academy of Labour and Social Relations, Faculty of Law; from 2002 to 2004, he studied in Al-Farabi Kazakh National University, where he earned a Ph.D in "Civil Law". He has held the position of the Director of the Department of Legal Issues of the Company since February 2012. Previously, he had worked as the Head of the Legal Department and then as Managing Director of Kaztemirtrans from 2008. In 2007 he was appointed counsel of the General Director of Legal Issues of JSC "NCM" LLP. From 2003 to 2007 he held the positions of Head Specialist and the Head of the Legal Department of JSC "Transtelecom". From 2001 to 2003 he served as legal counsel for "Kazzernoprom" LLP and Kazagrotrade Company LLP.

Name and position	Age	Background and principal outside activities and duties
Marat Zholdyevich Medeubaev (President of Lokomotiv)	51	Mr. Medeubayev was born in 1961. In 1983 he graduated from Almaty Institute of Railway Engineers, specialising in "Diesel and Diesel industry", qualification – Engineer of Railways. From 1985 to 2000 he worked in the locomotive depot in Aktobe, first as a foreman, then as a deputy chief of the depot and then as a chief of the depot. From 2000 to 2004 Mr. Medeubayev worked in the main locomotive Department as the chief engineer, Head of the Transport Management, Head of the Department and first deputy director – chief engineer of the Company. From 2004 to 2010 he worked as the Manager of Business Development of the General Electric Company representative office, President of Lokomotiv (his current position), Director of the rolling stock and managing director of the rolling stock of the Company.
Begendyk Sautovich Utibayev (Independent Director)	61	Mr. Utibayev was born in 1951. In 1980, he graduated from the Tselinograd Agricultural Institute where he specialised in economics. He holds a doctorate degree in economics, which was conferred by the Ministry of Education and Science of the Republic of Kazakhstan. Mr. Utibayev has spent the majority of his career working in higher education. He has worked at Kazakh Agrotechnical University of Astana, University Turan-Astana and the Astana Institute of Management. Since February 2010, Mr. Utibayev has been employed as a professor at the Kazakh University of Economics, Finance and International Trade.
Anuarbek Sabetov (Independent Director)	65	Mr. Sabetov was born in 1947 and in 1970 he graduated from the Tashkent Institute of Railway Engineers where he specialised in diesel units and facilities. He also received a postgraduate education at the Moscow Institute of Railway Transport from 1976 to 1980. He holds a degree in economics, which was conferred by the Ministry of Education of the Republic of Kazakhstan. Since 2003, Mr. Sabetov has been employed by the Kazakh Academy of Transport and Communications serving in various positions including, among others, Dean of Transport Management, Department Director of the Institution for Advanced Training and Professor of Locomotive.

President of Lokomotiv

The President is appointed by the sole shareholder as set forth in Lokomotiv's charter. The President of Lokomotiv is Mr. Medeubayev as at the date of this Prospectus, who was appointed by the sole shareholder's resolution dated 18 April 2011 to serve until his successor is appointed. The business address of the President is the legal address of Lokomotiv.

The President manages the day-to-day activities of Lokomotiv, including the implementation of the resolutions of the sole shareholder, the Board of Directors and the Management Board; entering into transactions for Lokomotiv; representing Lokomotiv in its relations with third parties; issuing powers of attorney to represent the company; and performing other duties as provided by Lokomotiv's charter.

Employees of Lokomotiv

Lokomotiv employed 19,954, 19,288 and 19,505 employees for the years ended 31 December 2011, 31 December 2010 and 31 December 2009, respectively. Lokomotiv's employees are members of the Trade Union.

As at the date of this Prospectus, Lokomotiv has not experienced any material labour disputes or strikes.

Legal Address of Lokomotiv

The legal address of Lokomotiv is Republic of Kazakhstan, Astana, 010000, Left Bank, in the office building of JSC "NC" KTZ, Kunaev street, 6, 4th Floor, office 416 and its telephone number is +7 (7172) 60 04 01.

Lokomotiv Executive Compensation

In accordance with Lokomotiv's charter, the remuneration of the President is set by the Board of Directors, while the remuneration of the members of the Board of Directors is determined by the sole shareholder. For the year ended 31 December 2011 the annual fixed fee paid to each independent director of Lokomotiv was approximately KZT 1.08 million. The President and Independent Directors are the only members of the Board of Directors who receive remuneration from Lokomotiv. All other members of the Board of Directors are employees of the Company and, accordingly, receive remuneration from the Company.

The President of Lokomotiv received an aggregate of KZT 11.1 million and KZT 7.9 million in compensation for the years ended 31 December 2011 and 2010, respectively, which includes both short-term and post-term employee benefits.

SHARE CAPITAL AND PRINCIPAL SHAREHOLDERS

The Company

The Company, formed in March 2002, as at 31 December 2011, has a total authorised equity capital of 502,040,458 common voting shares of which 491,190,412 are issued and paid-in and held by Samryk-Kazyna. As of 31 January 2012 the amount of issued and paid-in shares has increased to 491,283,182 due to the paying up of shares by the Shareholder by means of cash and design and estimate documentation for the railway construction of projects "Uzen – state border with Turkmenistan" and Zhetyhen – Khorgas route. As at 31 December 2011, the share capital of the Company totals KZT 579,417,097 thousand. In January 2012, the Company received a capital contribution of KZT 92,024,746 thousand from its Shareholder. Historically, all of the shares of the Company were owned directly by the Government. In January 2006, all of the Company's shares were transferred from the Government to Samruk, the predecessor of Samruk-Kazyna. As at the date of this Prospectus, Samruk-Kazyna is the sole shareholder of the Company.

Samruk-Kazyna

Samruk-Kazyna is wholly-owned by the Government and is the national managing holding company for substantially all state enterprises. Samruk-Kazyna was created in 2008 pursuant to the Presidential Edict No. 669, dated 13 October 2008, and the Resolution of the Government No. 962, dated 17 October 2008, by way of the merger of JSC "Kazakhstan Holding for Management of State Assets" "Samruk" and JSC "Sustainable Development Fund" "Kazyna". Samruk-Kazyna is a joint stock company whose shares are held by the Ministry of Finance's Committee of State Property and Privatisation on behalf of Kazakhstan.

Samruk-Kazyna's primary objective is to manage shares (participatory interests) of legal entities it owns with a goal of maximising long-term value and increasing competitiveness of such legal entities in world markets.

The governance of Samruk-Kazyna's activities is subject to general corporate governance applicable to all joint stock companies in Kazakhstan. Accordingly, the corporate governance structure of Samruk-Kazyna is as follows: the Government, as the sole shareholder constitutes the supreme governing body, the board of directors constitutes the managing body, and the management board constitutes the executive body.

Members of Samruk-Kazyna's board of directors are appointed by the government, and its members are, among others, the Minister of Economic Development and Trade, the Minister of Finance, the Minister of Oil and Gas, the Minister of Industry and New Technologies, independent directors and the chairman of the management board of Samruk-Kazyna. In addition, the board of directors is chaired by the Prime Minister of Kazakhstan.

The registered office of Samruk-Kazyna is at 23 Kabanbay Batyr Avenue, 010000 Astana, The Republic of Kazakhstan and the telephone number is: +7 7172 790 486.

Kaztemirtrans

Kaztemirtrans is a joint stock company organised under the laws of Kazakhstan. Kaztemirtrans was initially registered with the Ministry of Justice of Kazakhstan under state registration number 14750-1901-AO and re-registered on 24 January 2007 for an indefinite duration and is the national fleet carrier of Kazakhstan. Kaztemirtrans has a total authorised equity capital as at the date of this Prospectus of 63,000,000 common shares. The total share capital of Kaztemirtrans is KZT 61,043,178 thousand, all of which is held by the Company.

Lokomotiv

Lokomotiv is a joint stock company organised under the laws of the Republic of Kazakhstan. Lokomotiv's principal activity is the procurement of locomotive haulage services. Lokomotiv was registered with the Ministry of Justice under state registration number 14689-1901-AO on 14 October 2003 for an indefinite duration. Lokomotiv has a total authorised equity capital as at the date of this Prospectus of 48,897,878 common shares. The total share capital of Lokomotiv is KZT 48,897,878 thousand, all of which is held by the Company.

FORM OF THE NOTES AND TRANSFER RESTRICTIONS

The following information relates to the form, transfer and delivery of the Notes.

1. Form of the Notes

All Notes will be in fully registered form, without interest coupons attached. Notes offered and sold outside the United States in reliance on Regulation S will be represented by interests in the Unrestricted Global Note, in definitive fully registered form, without interest coupons attached, which will be deposited on or about the Closing Date with a common depositary for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee for such common depositary in respect of interests held through Euroclear and Clearstream, Luxembourg.

Notes offered and sold in reliance on Rule 144A will be represented by interests in the Restricted Global Note, in fully registered form, without interest coupons attached, which will be registered in the name of Cede & Co., as nominee for, and which will be deposited on or about the Closing Date with The Bank of New York Mellon, as custodian (the "**Custodian**") for, DTC. The Restricted Global Note (and any Note Certificates (as defined below) issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of such Note as set forth under paragraph 3 below.

The Unrestricted Global Note will have an ISIN number and a Common Code and the Restricted Global Note will have a separate ISIN number, Common Code and CUSIP number.

For the purposes of the Restricted Global Note and the Unrestricted Global Note, any reference in the Conditions to "**Note Certificate**" or "**Note Certificates**" shall, except where the context otherwise requires, be construed so as to include the Restricted Global Note or, as the case may be, the Unrestricted Global Note and interests therein.

2. Notices

So long as the Notes are represented by a Global Note and the Global Note is held on behalf of a clearing system, notices to Noteholders required to be published in the Financial Times may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders except that so long as the Notes are listed on the Official List and admitted to trading on the Market and the rules of that Exchange so require, notices shall also be published in a leading newspaper having general circulation in England (which is expected to be the Financial Times).

3. Transfer Restrictions

On or prior to the 40th day after the Closing Date, a beneficial interest in the Unrestricted Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the Restricted Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Agency Agreement), to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. After such 40th day, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject to the transfer restrictions contained in the legend appearing on the face of such Note, as set out below.

A beneficial interest in the Restricted Global Note may also be transferred to a person who wishes to take delivery of such beneficial interest through the Unrestricted Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

Any beneficial interest in either the Restricted Global Note or the Unrestricted Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Note will, upon transfer, cease to be a beneficial interest in such Global Note and become a beneficial interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Note for so long as such person retains such an interest.

The Notes are being offered and sold in the United States only to qualified institutional buyers within the meaning of and in reliance on Rule 144A. Because of the following restrictions, purchasers of Notes offered in the United States in reliance on Rule 144A are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Notes.

Each purchaser of Notes offered hereby pursuant to Rule 144A will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A are used herein as defined therein):

(i) the purchaser (a) is a qualified institutional buyer within the meaning of Rule 144A, (b) is acquiring the Notes for its own account or for the account of such a qualified institutional buyer and (c) such person is aware that the sale of the Notes to it is being made in reliance on Rule 144A;

(ii) the Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Notes offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged, or otherwise transferred except in accordance with the legend set out below; and

(iii) the Restricted Global Note and any Restricted Note Certificates (as defined below) issued in exchange for an interest in the Restricted Global Note will bear a legend to the following effect, unless the Issuer and the Guarantors determine otherwise in accordance with applicable law:

"NEITHER THIS NOTE NOR THE GUARANTEE HAS BEEN OR WILL BE REGISTERED UNDER, AND EACH WAS ORIGINALLY ISSUED OR MADE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), AND THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF REPRESENTS AND AGREES, FOR THE BENEFIT OF THE ISSUER AND THE GUARANTORS, THAT (A) THIS NOTE (AND ANY INTEREST HEREIN) MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER OR THE GUARANTORS, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THAT (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE (OR INTEREST HEREIN) FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (A) ABOVE.

THIS NOTE AND ALL RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFERS OF RESTRICTED SECURITIES GENERALLY. BY THE ACCEPTANCE OF THIS NOTE, THE HOLDER HEREOF SHALL BE DEEMED TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT."

Each purchaser of Notes outside the United States pursuant to Regulation S, and each subsequent purchaser of such Notes in re-sales during the period which expires on and includes the 40th day after the later of the commencement of the offering of the Notes and the Closing Date (the "**distribution compliance period**"), will be deemed to have represented, agreed and acknowledged as follows:

(i) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S);

(ii) it understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell pledge or otherwise transfer such Notes except in an offshore transactions in accordance with Rule 903 or Rule 904 of Regulation S, and in accordance with any applicable securities laws of any State of the United States; and

(iii) the Issuer, the Guarantor, the Registrar, the Managers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

4. Exchange of Interests in Global Notes for Note Certificates

The Restricted Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for Note certificates in definitive form ("**Restricted Note Certificates**") if DTC (a) notifies the Issuer or the Guarantors that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Note or ceases to be a "**clearing agency**" registered under the Exchange Act, or is at any time no longer eligible to act as such, and the Issuer or the Guarantors are unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC or (b) an Event of Default (as defined and set out in Condition 12 (Events of Default) of the Notes) occurs. In such circumstances, such Restricted Note Certificates shall be registered in such names as DTC shall direct in writing and the Issuer or the Guarantors will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

The Unrestricted Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for Note certificates in definitive form ("**Unrestricted Note Certificates**" if (a) 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 does in fact do so or (b) an Event of Default (as defined and set out in Condition 12 (*Events of Default*) of the Notes) occurs. In such circumstances, such Unrestricted Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing and the Issuer or the Guarantors will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

In the event that the Restricted Global Note is to be exchanged for Restricted Note Certificates or the Unrestricted Global Note is to be exchanged for Unrestricted Note Certificates (together "**Note Certificates**") the relevant Global Note shall be exchanged in full for the relevant Note Certificates and the Issuer or the Guarantors will, without charge to the holder or holders thereof, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders.

On exchange, a person having an interest in a Global Note must provide the Registrar with (i) a written order containing instructions and such other information as the Issuer, the Guarantors and the Registrar may require to complete, execute and deliver such Note Certificates and (ii) in the case of the Restricted Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Note Certificates issued in exchange for a beneficial interest in the Restricted Global Note shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*" above. Restricted Note Certificates issued as described above will not be exchangeable for beneficial interests in the Unrestricted Global Note and Unrestricted Note Certificates issued as described above will not be exchangeable for beneficial interests in the Restricted Global Note.

In addition to the requirements described under "*Transfer Restrictions*" above, the holder of a Note may transfer such Note only in accordance with the provisions of Condition 2 (*Transfer of Notes and Issue of Notes*) of the Notes.

Upon the transfer, exchange or replacement of a Restricted Note Certificate bearing the legend referred to under "Transfer Restrictions" above, or upon specific request for removal of the legend on a Restricted Note Certificate, the Issuer will deliver only Restricted Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer, the Guarantors and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer or the Guarantors that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

The Registrar will not register the transfer of any Notes or exchange of interests in a Global Note for Note Certificates for a period of 15 calendar days ending on the due date of any payment of principal or interest in respect of such Notes.

5. Euroclear, Clearstream, Luxembourg and DTC Arrangements

So long as DTC or its nominee or Euroclear, Clearstream, Luxembourg or the nominee of their common depositary is the registered holder of a Global Note, DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Agency Agreement, the Trust Deed and the Notes. Payments of principal, interest and Additional Amounts, if any, in respect of Global Notes will be made to DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof. None of the Issuer, the Guarantors, the Trustee, any Paying and Transfer Agent, the Managers or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal and interest with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by Euroclear or Clearstream, Luxembourg from the Principal Paying and Transfer Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg customers in accordance with the relevant system's rules and procedures.

Holders of book-entry interests in the Notes through DTC will receive, to the extent received by DTC from the Principal Paying and Transfer Agent, all distributions of principal and interest with respect to book-entry interests in the Notes from the Principal Paying and Transfer Agent through DTC. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

Interest on the Notes (other than interest on redemption) will be paid to the holder shown on the Register on the 15th day before the due date for such payment (the "**Record Date**"). Principal and interest with respect to the Restricted Note Certificates and the Unrestricted Note Certificates on redemption will be paid to the holder shown on the Register on the Record Date upon delivery and surrender of the relevant Note Certificate. Trading between the Restricted Global Note and the Unrestricted Global Note will therefore be net of accrued interest from the relevant Record Date to the relevant Interest Payment Date.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Note to such persons will be limited. Because DTC, Euroclear and Clearstream, Luxembourg can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book-entry interests in the Notes in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of the nominee of The Bank of New York Depository (Nominees) Limited and Cede & Co. to reflect the amounts of Notes held through Euroclear and Clearstream, Luxembourg on the one hand and DTC, on the other. Beneficial ownership in Notes will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

Interests in the Unrestricted Global Note and the Restricted Global Note will be in uncertificated book-entry form.

Trading between Euroclear and/or Clearstream, Luxembourg Account Holders. Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

Trading between DTC Participants. Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same Day Funds Settlement System.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser. When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Restricted Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Unrestricted Global Note (subject to such certification procedures as are provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC in accordance with the rules and procedures of DTC on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder. On the settlement date, the Custodian will instruct the Registrar to (a) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note and (b) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first Business Day following the settlement date. See above concerning the Record Date for payment of interest.

Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser. When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the Restricted Global Note (subject to such certification procedures as are provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m. Brussels or Luxembourg time, one Business Day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg account holder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the Custodian who will in turn deliver such book-entry interest in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note. See above concerning the Record Date for payment of interest.

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the Notes among participants of DTC, Clearstream, Luxembourg and Euroclear, none of Euroclear, Clearstream, Luxembourg or DTC is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Guarantors, the Trustee, any Paying and Transfer Agent, either of the Managers or any affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the Securities Act, will have any responsibility for the performance by DTC, Euroclear and Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

6. Prescription

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by the Global Note will become void unless presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 10 (Taxation) of the Notes).

7. Meetings

The holder of a Global Note will 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 for which the Global Note may be exchanged.

8. 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 relevant Global Note.

9. Trustee's Powers

In considering the interests of Noteholders while a Global Note 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 and may consider such interests as if such accountholders were the holder of the Global Note.

10. Put Option

The Noteholders' put option in Condition 9(c) (Redemption at the option of the Noteholders) of the Notes may be exercised by the holder of the relevant Global Note giving notice to the Principal Paying and Transfer Agent of the principal amount of Notes in respect of which the option is exercised and presenting the Global Note for endorsement of exercise within the time limits specified in such Condition.

SUBSCRIPTION AND SALE

The Managers have, pursuant to a Subscription Agreement dated 5 July 2012, severally but not jointly agreed with the Issuer and the Guarantors, subject to the satisfaction of certain conditions, to subscribe the Notes at 100% of their principal amount plus accrued interest, if any. The Issuer (failing whom the Guarantors) has agreed to pay the Managers an underwriting commission and to reimburse the Managers for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Managers and their respective affiliates may provide various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non public market financing for, and enter into derivative transactions with, the Company and its affiliates (including its shareholders) and for which they will receive customary fees.

United States

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Notes or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

The Notes have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or in a transaction not subject to the registration requirements of, the Securities Act.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the "**distribution compliance period**") within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to whom it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons substantially to the following effect:

"The Notes covered hereby have not been registered under the U.S. Securities Act of 1933 (the "**Securities Act**") and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, except in either case in accordance with Regulation S or Rule 144A under the Securities Act. Terms used above have the meanings given to them by Regulation S."

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 if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

The Subscription Agreement provides that each Manager may directly or through its U.S. broker dealer affiliate arrange for the offer and resale of Notes within the United States only to qualified institutional buyers in reliance on Rule 144A.

Terms used in this section have the meanings given to them by Regulation S or Rule 144A, as applicable, under the Securities Act.

United Kingdom

Each Manager has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an 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 the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; 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.

Kazakhstan

Each Manager has agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell the Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan, except as described below:

(a) concurrently with the placement of the Notes outside the Republic of Kazakhstan the Notes will be offered through the KASE on the same pricing terms as the international offer in accordance with the Securities Law;

(b) registration of orders of investors for purchase of the Notes on the KASE (hereinafter – ''Orders of Investors'') will be conducted by the KASE in its trade system in a manner set forth by internal documents of the KASE; and

(c) Orders of Investors will be satisfied in accordance with the price of interest to maturity established as the result of acceptance of all orders within this placement of the Notes and defined in the volume of not less than 20% of the total volume of the Notes. In the case if demand on the KASE is less than 20% of the total volume of the Notes then Orders of Investors are satisfied in full.

The Netherlands

In relation to the Netherlands, each of the Joint Lead Managers, the Kazakhstan Manager and the Issuer have represented and agreed that it has not made and will not make any offer of Notes which are the subject of the Offering contemplated by this Prospectus in the Netherlands, unless such offer is made exclusively to persons which are qualified investors (as defined in Article 2(1)(e) of Directive 2003/71/EC (the ''**Prospective Directive**'')) in the Netherlands.

General

No action has been or will be taken in any jurisdiction by the Managers, the Issuer or the Guarantors that would permit a public offering of the Notes in any country or jurisdiction where action for that purpose is required.

Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Prospectus (in preliminary, proof or final form) or any amendment or supplement thereto or any other offering or publicity material relating to the Notes, may be distributed in or from, or published in any country or jurisdiction, except under circumstances that will result to the best of the Managers' knowledge and belief in compliance with any applicable securities laws or regulations.

TAXATION

The following is a general summary of the tax consequences in relation to the United Kingdom, The Netherlands, Kazakhstan and the United States as at the date hereof in relation to payments made under the Notes in relation to the sale or transfer of Notes. These comments are not intended to be, nor should they be regarded as, legal or tax advice. 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, including any consequences that may result from the Intended Substitution.

EU Directive on the Taxation of Savings Income (Directive 2003/48/EC)

Under the "**EU Savings Directive**", each Member State is required to provide to the tax authorities of another Member State details of Savings Income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State or certain limited types of entities established in that other Member State (interest payments on the Notes will be Savings Income for these purposes). However, for a transitional period, Austria and Luxembourg are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments, deducting tax at rates over time of 35% 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. The end of the transitional period is dependent upon the conclusion of other arrangements relating to the information exchange relating to such payments with certain other countries.

A number of non-EU countries, including Switzerland, and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments of Savings Income made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State or certain limited types of entities established in that other Member State with effect from the same date. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependant or associated territories in relation to payments of Savings Income made by a person in a Member State to an individual or certain other residual entities resident in one of those territories. Where an individual Holder receives a payment of Savings Income from any Member State or dependent or associated territory employing the withholding arrangement, the individual Holder may be able to elect not to have tax withheld. The formal requirements may vary slightly from jurisdiction to jurisdiction. They generally require the individual Holder to produce certain information (such as his tax number) and consent to details of payments and other information being transmitted to the tax authorities in his home state. Provided that the other Tax Authority receives all of the necessary information the payment will not suffer a withholding under EC Council Directive 2003/48/EC or the relevant law conforming with the directive in a dependent or associated territory.

The Savings Directive is currently the subject of a review which may lead to it being amended to overcome its perceived shortcomings. It is not clear if and when these amendments will come into force. Any changes could apply to Notes that have already been issued at the date of the amendment of the Savings Directive.

United Kingdom Taxation

The following, which applies only to persons who are beneficial owners of the Notes, is a summary of the Issuer's understanding of current law and Her Majesty's Revenue and Customs ("**HMRC**") practice in the United Kingdom as at the date hereof relating to United Kingdom withholding tax and the provision of information. The United Kingdom tax treatment of prospective holders of the Notes depends on their individual circumstances and may be subject to change in the future. Prospective holders of the Notes who may be subject to tax in the United Kingdom or any other jurisdiction should seek their own professional advice. The following applies only in respect of the Notes issued by Kazakhstan Temir Zholy Finance B.V. (as "**Issuer**") and not to any Substituted Obligor and references to Notes and holders of Notes shall be construed accordingly.

Withholding tax

Payments of interest on the Notes by the Issuer may be made without withholding on account of United Kingdom tax on the basis that those payments should not be regarded as being a United Kingdom source for UK tax purposes.

Provision of information

Persons in the United Kingdom through whom interest is paid or credited to, or by whom interest is received on behalf of, an individual holder of Notes (whether resident in the United Kingdom or elsewhere) may be required to provide certain information to HMRC regarding the payment and the noteholder concerned. "Interest" for this purpose includes any amount to which a person holding a deeply discounted security is entitled on redemption of the security. However, in practice no information will be required to be provided in respect of such redemption amounts for the tax year 2012-2013. HMRC may communicate information to the tax authorities of other jurisdictions.

The United Kingdom has complied with its obligations under the EU Savings Directive and operates a system providing reports of information of or withholding tax from payments of savings income under the EU Savings Tax Directive.

Kazakhstan Taxation

The following is a general summary of Kazakhstan tax consequences as at the date hereof in relation to payments 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.

Prior to the fourth interest payment with respect to the Notes, the Company intends to substitute itself for the Issuer as the issuer of the Notes, referred to herein as the Intended Substitution. See "*Terms and Conditions of the Notes – Meetings of Noteholders, Amendment, Modification and Waiver – Substitution*". Set forth below is a summary of Kazakhstan tax consequences both prior to and following the Intended Substitution. There can be no assurances that the Intended Substitution will take place. See "*Risk Factors – Risk Factors Relating to the Notes and the Guarantees – Favourable withholding tax treatment after the Intended Substitution is dependent on the Company maintaining the KASE Listing or a similar listing*".

Prior to the Intended Substitution

Interest

Under Kazakhstan law as presently in effect, payments of principal or interest on the Notes by the Issuer to an individual who is a tax non-resident of Kazakhstan or to a legal entity that is neither established in accordance with the legislation of Kazakhstan, nor has its actual governing body (place of actual management) in, nor maintains a permanent establishment in, Kazakhstan or otherwise has no legal taxable presence in Kazakhstan (together, "**Non-Kazakhstan Holders**") will not be subject to taxation in Kazakhstan, and no withholding of any Kazakhstan tax will be required on any such payments. Interest payable by the Issuer to residents of Kazakhstan or to tax non-residents who maintain a permanent establishment in Kazakhstan (together, "**Kazakhstan Holders**"), other than to individuals, will be subject to Kazakhstan income tax unless the Notes are listed, as at the date of accrual of interest, on the official list of a stock exchange operating in the territory of Kazakhstan.

Payments of interest from the Guarantors to the Issuer to fund the Issuer's obligations to make payments under the Notes will be subject to Kazakhstan withholding tax at a rate of 15% (unless a double tax treaty provides otherwise).

Gains

Gains realised by Non-Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes will not be subject to Kazakhstan income tax. Any gains derived by Kazakhstan Holders in relation to Notes which are listed as at the date of sale on 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.

Payments under the Guarantees

Payments of interest to Non-Kazakhstan Holders under the Guarantees issued by the Guarantors will be subject to withholding tax at a rate of 15% unless reduced by an applicable double taxation treaty. Payments of interest under such Guarantees to Non-Kazakhstan Holders registered in countries with a favourable tax regime which appear in a list published from time to time by the Kazakhstan Government (these countries currently include Cyprus, Liechtenstein, Luxembourg, Nigeria, Malta, Aruba, Singapore and others) will be subject to withholding of Kazakhstan tax at a rate of 20% unless reduced by an applicable double taxation treaty.

Payments of interest to Kazakhstan Holders under the Guarantees issued by the Guarantors, other than to Kazakhstan investment funds and certain other entities, will be subject to withholding tax at a rate of 15%.

The Guarantors will agree under their Guarantees in the Trust Deed to pay Additional Amounts (as defined in the Trust Deed) in respect of any such withholding, subject to certain exceptions set out in full in "*Terms and Conditions of the Notes – Taxation*". Payments by the Guarantors to a Noteholder entitled to the benefits of a Kazakhstan Tax Treaty may be subject to a reduced rate of withholding tax.

Following the Intended Substitution

Interest

Payments of interest on the Notes by the Company to Non-Kazakhstan Holders will be subject to withholding tax at a rate of 15% 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 which appear in a list published from time to time by the Kazakhstan Government (these countries currently include Cyprus, Liechtenstein, Luxembourg, Nigeria, Malta, Aruba, Singapore and others) will be subject to withholding of Kazakhstan tax at a rate of 20% unless reduced by an applicable double taxation treaty.

Under Kazakhstan law presently in effect, the withholding tax on interest would not apply if the Notes are, as at the date of accrual of interest, on the official list of a stock exchange operating in the territory of Kazakhstan (such as, the KASE).

Interest payable by the Company to 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% unless the Notes are listed, as at the date of accrual of interest, on the official list of a stock exchange operating in the territory of Kazakhstan.

Gains

Gains realised by Non-Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes will be subject to withholding tax at a rate of 15%. If the disposal of the Notes is made to a Kazakhstan Holder and the transferor is registered in a country with a favourable tax regime, gains derived from such a disposal are subject to withholding tax in Kazakhstan at the rate of 20%. While Kazakhstan tax legislation did not define procedures to collect withholding tax where payment is made by a non-resident without taxable presence in Kazakhstan, and it was otherwise not clear if such non-resident may be treated as a tax agent for Kazakhstan tax purposes. In addition, pursuant to amendments to the 2009 Tax Code made in July 2011, with effect from 1 January 2012, a legal entity purchasing securities (including debt securities) 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.

Any gains realised by Non-Kazakhstan Holders in relation to the Notes which are listed as of the date of sale on 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. Also, the withholding tax on the gains may be reduced under an applicable double taxation treaty.

Any gains derived by Kazakhstan Holders in relation to the Notes which are listed as of the date of sale on 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.

Payments under the Guarantees by Kazakhstan Guarantors (other than the Company)

Payments of interest to Non-Kazakhstan Holders under the Guarantees issued by Guarantors will be subject to withholding tax at a rate of 15% unless reduced by an applicable double taxation treaty. Payments of interest under such Guarantees to Non-Kazakhstan Holders registered in countries with a favourable tax regime which appear in a list published from time to time by the Kazakhstan Government (these countries currently include Cyprus, Liechtenstein, Luxembourg, Nigeria, Malta, Aruba, Singapore and others) will be subject to withholding of Kazakhstan tax at a rate of 20% unless reduced by an applicable double taxation treaty.

Payments of interest to Kazakhstan Holders under the Guarantees issued by Guarantors, other than to Kazakhstan investment funds and certain other entities, will be subject to withholding tax at a rate of 15%.

The Guarantors will agree under their Guarantees in the Trust Deed to pay Additional Amounts (as defined in the Trust Deed) in respect of any such withholding, subject to certain exceptions set out in full in "*Terms and Conditions of the Notes – Taxation*". Payments by the Guarantors to a Noteholder entitled to the benefits of a Kazakhstan Tax Treaty may be subject to a reduced rate of withholding tax.

The Netherlands Taxation

The following is a general summary of certain Netherlands tax consequences of the acquisition, holding and disposal of the Notes. This summary does not purport to describe all possible tax considerations or consequences that may be relevant to a holder or prospective holder of Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as investors that are subject to taxation in Bonaire, Sint Eustatius and Saba and trusts or similar arrangements) may be subject to special rules. In view of its general nature, it should be treated with corresponding caution. Holders or prospective holders of Notes should consult with their tax advisers with regard to the tax consequences of investing in the Notes in their particular circumstances. The discussion below is included for general information purposes only.

Except as otherwise indicated, this summary only addresses Netherlands national tax legislation and published regulations, as in effect on the date hereof and as interpreted in published case law until this date, without prejudice to any amendment introduced at a later date and implemented with or without retroactive effect.

Withholding tax

All payments of principal and/or interest made by the Issuer under the Notes may be made free of withholding or deduction of, for or on account of any taxes of whatever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein.

Taxes on income and capital gains

Please note that the summary in this section does not describe The Netherlands tax consequences for:

(i) holders of Notes if such holders, and in the case of individuals, his/her partner or certain of their relatives by blood or marriage in the direct line (including foster children), have a substantial interest or deemed substantial interest in the Issuer under The Netherlands Income Tax Act 2001 (in Dutch: "*Wet inkomstenbelasting 2001*"). Generally speaking, a holder of securities in a company is considered to hold a substantial interest in such company, if such holder alone or, in the case of individuals, together with his/her partner (as defined in The Netherlands Income Tax Act 2001), directly or indirectly, holds (i) an interest of 5% or more of the total issued and outstanding capital of that company or of 5% or more of the issued and outstanding capital of a certain class of shares of that company; or (ii) rights to acquire, directly or indirectly, such interest; or (iii) certain profit sharing rights in that company that relate to 5% or more of the company's annual profits and/or to 5% or more of the company's liquidation proceeds. A deemed substantial interest arises if a substantial interest (or part thereof) in a company has been disposed of, or is deemed to have been disposed of, on a non-recognition basis;

(ii) pension funds, investment institutions (in Dutch: "*fiscale beleggingsinstellingen*"), exempt investment institutions (in Dutch: "*vrijgestelde beleggingsinstellingen*") (as defined in The Netherlands Corporate Income Tax Act 1969; in Dutch: "*Wet op de vennootschapsbelasting* 1969") and other entities that are exempt from Netherlands corporate income tax; and,

(iii) holders of Notes who are individuals for whom the Notes or any benefit derived from the Notes are a remuneration or deemed to be a remuneration for activities performed by such holders or certain individuals related to such holder (as defined in The Netherlands Income Tax Act 2001).

Residents of The Netherlands

Generally speaking, if the holder of the Notes is an entity that is a resident or deemed to be resident of The Netherlands for Netherlands corporate income tax purposes, any payment under the Notes or any gain or loss realised on the disposal or deemed disposal of the Notes is subject to

Netherlands corporate income tax at a rate of 25% (a corporate income tax rate of 20% applies with respect to taxable profits up to € 200,000, the bracket for 2012).

If a holder of the Notes is an individual, resident or deemed to be resident of The Netherlands for Netherlands income tax purposes (including the non resident individual holder who has made an election for the application of the rules of The Netherlands Income Tax Act 2001 as they apply to residents of The Netherlands), any payment under the Notes or any gain or loss realised on the disposal or deemed disposal of the Notes is taxable at the progressive income tax rates (with a maximum of 52%), if:

(i) the Notes are attributable to an enterprise from which the holder of the Notes derives a share of the profit, whether as an entrepreneur or as a person who has a co entitlement to the net worth of such enterprise without being a shareholder (as defined in The Netherlands Income Tax Act 2001); or

(ii) the holder of the Notes is considered to perform activities with respect to the Notes that go beyond ordinary asset management (in Dutch: "*normaal, actief vermogensbeheer*") or derives benefits from the Notes that are (otherwise) taxable as benefits from other activities (in Dutch: "*resultaat uit overige werkzaamheden*").

If the above mentioned conditions (i) and (ii) do not apply to the individual holder of the Notes, such holder will be taxed annually on a deemed income of 4% of his/her net investment assets for the year at an income tax rate of 30%. The net investment assets for the year are the fair market value of the investment assets less the allowable liabilities on 1 January of the relevant calendar year. The Notes are included as investment assets. A tax free allowance may be available. An actual gain or loss in respect of the Notes is as such not subject to Netherlands income tax.

Non residents of The Netherlands

A holder of Notes that is neither a resident nor deemed to be a resident in The Netherlands (and, if such holder is an individual, such holder has not made an election for the application of the rules of The Netherlands Income Tax Act 2001 as they apply to residents of The Netherlands) will not be subject to Netherlands taxes on income or capital gains in respect of any payment under the Notes or in respect of any gain or loss realised on the disposal or deemed disposal of the Notes, provided that:

(i) such holder does not have an interest in an enterprise or deemed enterprise (as defined in The Netherlands Income Tax Act 2001 and The Netherlands Corporate Income Tax Act 1969) which, in whole or in part, is either effectively managed in The Netherlands or carried on through a permanent establishment, a deemed permanent establishment or a permanent representative in The Netherlands and to which enterprise or part of an enterprise the Notes are attributable; and

(ii) in the event the holder is an individual, such holder does not carry out any activities in The Netherlands with respect to the Notes that go beyond ordinary asset management and does not derive benefits from the Notes that are (otherwise) taxable as benefits from other activities in The Netherlands.

Gift and inheritance taxes

Residents of The Netherlands

Gift or inheritance taxes will arise in The Netherlands with respect to a transfer of the Notes by way of a gift by, or on the death of, a holder of such Notes who is resident or deemed resident of The Netherlands at the time of the gift or his/her death.

Non residents of The Netherlands

No Netherlands gift or inheritance taxes will arise on the transfer of Notes by way of gift by, or on the death of, a holder of Notes who is neither resident nor deemed to be resident in The Netherlands, unless:

(i) in the case of a gift of a Note by an individual who at the date of the gift was neither resident nor deemed to be resident in The Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in The Netherlands; or

(ii) the transfer is otherwise construed as a gift or inheritance made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be resident in The Netherlands.

For the purposes of Netherlands gift and inheritance taxes, amongst others, a person that holds The Netherlands nationality will be deemed to be resident in The Netherlands if such person has been resident in The Netherlands at any time during the ten years preceding the date of the gift or his/her death. Additionally, for the purposes of Netherlands gift tax, amongst others, a person not holding The Netherlands nationality will be deemed to be resident in The Netherlands if such person has been resident in The Netherlands at any time during the twelve months preceding the date of the gift. Applicable tax treaties may override deemed residency.

Value added tax (VAT)

No Netherlands VAT will be payable by the holders of the Notes on any payment in consideration for the issue of the Notes or with respect to the payment of interest or principal by the Issuer under the Notes.

Other taxes and duties

No Netherlands registration tax, customs duty, stamp duty or any other similar documentary tax or duty, other than court fees, will be payable by the holders of the Notes in respect or in connection with the issue of the Notes or with respect to the payment of interest or principal by the Issuer under the Notes.

U.S. Taxation

The following discussion is a summary of the principal U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes, but does not purport to be a complete analysis of all potential tax effects. This summary is based upon the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), existing, temporary and proposed U.S. Treasury Regulations issued thereunder, and judicial and administrative interpretations thereof, each as available and in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect or differing interpretations which could affect the tax consequences described herein. This discussion does not address all of the U.S. federal income tax consequences that may be relevant to a holder in light of such holder's particular circumstances, such as the unearned income Medicare contribution tax, or to holders that may be subject to special rules, such as certain financial institutions, certain former citizens or long-term residents of the United States, insurance companies, dealers or traders in securities or currencies, holders whose functional currency is not the U.S. dollar, tax exempt organisations, regulated investment companies, real estate investment trusts, grantor trusts, holders that will hold Notes through partnerships or other pass through entities and persons holding the Notes as part of a "straddle", "hedge", "conversion transaction" or other integrated transaction for U.S. federal income tax purposes. Moreover, this summary does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership, disposition or retirement of the Notes. In addition, this discussion is limited to persons who purchase the Notes for cash at original issue and at their "issue price" (the first price at which a substantial part of the Notes are sold to the public for cash, excluding sales to bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) and who hold the Notes as capital assets within the meaning of Section 1221 of the Code.

For purposes of this discussion, a "**U.S. holder**" is a beneficial owner of a Note that is (i) an individual citizen or resident of the United States; (ii) a corporation or other entity taxable as a corporation for U.S. federal income tax purposes created or organised in or under the laws of the United States or any state or any political subdivision thereof; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or if a valid election is in place under applicable U.S. Treasury Regulations to treat the trust as a U.S. person.

A "**non U.S. holder**" is a beneficial owner of the Notes that is neither a U.S. holder nor a partnership (or other entity that is treated as a partnership for U.S. federal income tax purposes).

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of the partnership and a partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax adviser as to its consequences.

Internal Revenue Service Circular 230 Disclosure

Pursuant to United States Internal Revenue Service (the "**IRS**") Circular 230, we hereby inform you that the following description of U.S. federal tax issues is not intended or written to be used, and such description cannot be used by any holder for the purpose of avoiding any penalties that may be imposed on the holder under the Code. Such description was written to support the promotion or marketing of the Notes. Holders should seek advice based on the holder's particular circumstances from an independent tax adviser.

Foreign Account Tax Compliance Act (FATCA)

Under FATCA, a non-U.S. financial institution (an "**FFI**") may be subject to a U.S. withholding tax of up to 30 percent on certain payments made to it on or after 1 January 2014 unless the FFI complies with certain requirements under FATCA or the payments are in respect of certain "grandfathered obligations" (described below). Unless an exemption is available, an FFI will be required to enter into an agreement ("**FATCA Agreement**") with the IRS pursuant to which it will be obligated to report on its account holders and to withhold on payments made to account holders that are not FATCA compliant.

Based on current operations, the Issuer does not believe that it or any member of its affiliated group of companies will be treated as an FFI or that amounts payable under the Notes will be subject to withholding under FATCA. If it were treated as an FFI (or, to the extent a Guarantor were treated as an FFI), the Issuer (or Guarantor, as the case may be) may enter into a FATCA Agreement. In addition, regardless of whether the Issuer (or a Guarantor, as the case may be) is treated as an FFI, a financial institution, broker, agent or other intermediary (collectively, "**Intermediaries**") through which a beneficial owner of Notes holds its interests may also enter into a FATCA Agreement to avoid U.S. withholding tax. If the Issuer, a Guarantor, or an Intermediary does comply with FATCA, it may be required, among other things, to agree to withhold up to 30% of the portion of any payments, including principal, from or attributable to U.S. sources (as discussed in the second immediately following paragraph) to Noteholders or beneficial owners (1) that either fail to provide information requested by or on behalf of the Issuer, Guarantor, or Intermediary, as the case may be, to comply with their respective reporting requirements under a FATCA Agreement or, if applicable, that do not execute a waiver of law prohibiting the Issuer, Guarantor, or Intermediary from disclosing such information to a taxing authority or (2) that are themselves FFIs that have not entered into their own FATCA Agreements, unless exempted (collectively, "**Recalcitrant Holders**"). In addition, the Issuer, a Guarantor, or an Intermediary may be required, under the terms of its FATCA Agreement, to terminate accounts or Notes held by certain Recalcitrant Holders.

Under a grandfathering provision, any obligation (including for this purpose a debt instrument) issued before January 1, 2013 (other than an obligation that is treated as equity for U.S. federal income tax purposes) is exempt from withholding under FATCA ("**grandfathered obligations**"). Grandfathered obligations, however, will lose their grandfathered status if they are modified after 31 December 2012 in a manner that causes them to be treated as reissued for U.S. federal income tax purposes. To the extent FATCA is otherwise applicable to the Notes, Notes issued before January 1, 2013 should be treated as grandfathered obligations.

To the extent withholding on Notes is applicable, the most recently issued guidance suggests that the amount deducted would be equal to 30% of the payment multiplied by the percentage of the payor's assets that are U.S. assets (which is broadly defined for this purpose). It is unclear at this time, however, if the final withholding rules will in fact be determined in accordance with this assets based approach. In addition, in the unlikely event that any portion of a payment on a Note was treated as U.S. source income or U.S. source gross proceeds, the payor could be required to withhold 30% of such entire portion. No additional amounts will be paid to compensate a Holder or beneficial owner for any amounts deducted by any payor in compliance with FATCA.

FATCA is particularly complex and the full extent of its application to the Issuer, a Guarantor, Intermediaries and Notes is currently uncertain. There can be no assurance that payments on a Note will not be subject to withholding under FATCA. Accordingly, all investors should consult their own tax advisers about how FATCA may affect an investment in the Notes.

U.S. Holders

Interest

It is expected and this discussion assumes that either the issue price of the Notes will equal the stated principal amount of the Notes or the Notes will be issued with no more than a de minimis amount of original issue discount. Payments of stated interest on the Notes, including any Additional Amounts, generally will be taxable to a U.S. holder as ordinary interest income at the time that such payments are received or accrued, in accordance with such U.S. holder's usual method of accounting for U.S. federal income tax purposes.

Subject to certain conditions and limitations, Kazakh, Dutch or other foreign taxes, if any, withheld on interest payments may be treated as foreign taxes eligible for credit against such U.S. holder's U.S. federal income tax liability. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific ''baskets'' of income. Interest on the Notes generally will constitute ''passive category income,'' or, in the case of certain U.S. Holders, ''general category income.'' As an alternative to the tax credit, a U.S. holder may elect to deduct such taxes (the election would then apply to all foreign income taxes such U.S. holder paid in that taxable year). The rules governing the foreign tax credit are complex. U.S. holders are urged to consult their tax advisers regarding the availability of the foreign tax credit under their particular circumstances.

Effects of Certain Redemptions

Certain debt instruments that provide for one or more contingent payments are subject to U.S. Treasury Regulations governing contingent payment debt instruments. A payment is not treated as a contingent payment under these regulations if, as of the issue date of the debt instrument, the likelihood that such payment will be made is remote. In certain circumstances (see the discussion under ''*Terms and Conditions of the Notes – Redemption, Purchase and Cancellation*''), the Issuer may pay amounts on the Notes that are in excess of the stated interest or principal of such Notes. The Issuer intends to take the position that the possibility that any such payment will be made is remote so that such possibility will not cause the Notes to be treated as contingent payment debt instruments. The Issuer's determination that these contingencies are remote is binding on a U.S. holder unless such holder discloses its contrary position to the IRS in the manner that is required by applicable U.S. Treasury Regulations. The Issuer's determination is not, however, binding on the IRS. It is possible that the IRS might take a different position from that described above, in which case the timing, character and amount of taxable income in respect of the Notes may be different from that described herein. This discussion assumes that the Notes will not be treated as consent payment debt instruments.

Sale, Exchange or Retirement of Notes

Upon the sale, exchange or retirement of a Note a U.S. holder will recognise taxable gain or loss equal to the difference, if any, between the amount realised on the sale, exchange or retirement, other than accrued but unpaid interest which will be taxable as such, and such U.S. holder's adjusted tax basis in the Note. A U.S. holder's adjusted tax basis in a Note generally will equal the cost of the Note to such U.S. holder. Any gain or loss recognised on a U.S. holder's sale, exchange or retirement of a Note (other than amounts attributable to accrued but unpaid interest) will be capital gain or loss. Any gain or loss realised on the sale, exchange or retirement of a Note generally will be treated as U.S. source gain or loss, as the case may be. Under certain circumstances as described under the heading ''*The Netherlands Taxation – Taxes on income and capital gains*'', a U.S. holder may be subject to Dutch tax upon the disposition of its Notes. In such circumstances and subject to applicable limitations under the Code, such U.S. holder may elect to treat the gain as foreign source income and to credit the Dutch tax against such U.S. holder's U.S. federal income tax liability with respect to the gain. The deductibility of capital losses is subject to limitations.

The Intended Substitution

As explained below, the Issuer intends to take the position that the Intended Substitution is not a taxable exchange for U.S. federal income tax purposes. No ruling will be sought from the IRS in connection with the Intended Substitution and no assurance can be given that the IRS will not challenge the conclusion below.

Under the Code gain or loss is recognised on the sale or exchange of property, such as the Notes. Treasury Regulations promulgated under the Code provide that the modification of the terms of a debt instrument results in a taxable exchange of the original instrument for the modified instrument only if the modified debt instrument differs materially in kind or in extent from the original instrument. That is, the modification is "significant".

The Intended Substitution is a modification of the Notes pursuant to the Treasury Regulations. However, the Intended Substitution does not cause a taxable exchange of the Notes for U.S. federal income tax purposes unless such modification is "significant". Under the Trust Deed, the Guarantor is liable as a guarantor with respect to the Notes as if it were the sole principal debtor and not merely a surety. Therefore, for U.S. federal income tax purposes, the Intended Substitution is treated as a deletion of a co-obligor. Under the Treasury Regulations, the deletion of a co-obligor on a debt instrument is a "significant" modification if such deletion of the co-obligor results in a change in payment expectations. The Issuer does not expect the Intended Substitution to result in a change in payment expectations because, among other factors, the Guarantor is at all times liable on the Notes as if it were the debtor and pursuant to the terms of this offering, the Intended Substitution is anticipated to occur prior to the fourth interest payment date with respect to the Notes. Based on the foregoing, the Intended Substitution should not result in a "significant" modification of the Notes that would be treated as a taxable exchange for U.S. federal income tax purposes.

This conclusion is not binding upon the IRS. U.S. holders should consult their tax advisers regarding the effect, if any, of the occurrence of the Intended Substitution on their ownership and disposition of the Notes.

Foreign Asset Reporting

Certain U.S. Holders who are individuals are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for notes held in accounts maintained by financial institutions). U.S. Holders are urged to consult their tax advisers regarding their information reporting obligations, if any, with respect to their ownership and disposition of the Notes.

Non-U.S. Holders

Subject to the discussion above under the heading "Foreign Account Tax Compliance Act" and below under the heading "Information reporting and backup withholding tax", payments of interest on a Note to a non-U.S. holder generally will not be subject to U.S. federal income tax unless the income is effectively connected with the conduct by such non-U.S. holder of a trade or business in the United States.

Subject to the discussion above under the heading "Foreign Account Tax Compliance Act" and below under the heading "Information reporting and backup withholding tax", any gain realised by a non-U.S. holder upon the sale, exchange, redemption or other disposition of a Note generally will not be subject to U.S. federal income tax, unless (i) the gain is effectively connected with the active conduct by such non-U.S. holder of a trade or business in the United States or (ii) in the case of any gain realised by an individual non-U.S. holder, such non-U.S. holder is present in the United States for 183 days or more in the taxable year of the sale, exchange, redemption or other disposition and certain other conditions are met.

Information Reporting and Backup Withholding Tax

A backup withholding tax and information reporting requirements apply to certain payments of interest on an obligation and to proceeds of the sale or redemption of an obligation, to certain holders of Notes that are U.S. persons. The payor will be required to withhold backup withholding tax on payments made within the United States, or by a U.S. payor or U.S. middleman, on a Note to a holder of a Note that is a U.S. person, other than an exempt recipient, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments within the United States, or by a U.S. payor or U.S. middleman, of principal and interest to a holder of a Note that is not a U.S. person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect.

Backup withholding is not an additional tax but, rather, is a method of tax collection. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against the holder's U.S. federal income tax liability provided the required information is furnished to the U.S. Internal Revenue Service in a timely manner.

The above summary is not intended to constitute a complete analysis of all tax consequences relating to the ownership of Notes.

Prospective purchasers of the Notes should consult their own tax advisers concerning the tax consequences of holding Notes in light of their particular circumstances, including the application of the U.S. federal income tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

GENERAL INFORMATION

1. Clearing Systems

The Notes have been accepted for clearance through the DTC, Clearstream, Luxembourg and Euroclear systems with Common Codes of 079965863 and 080019866 for Unrestricted Notes and Restricted Notes, respectively. The International Securities Identification Numbers (ISIN) for the Unrestricted Notes and Restricted Notes are XS0799658637 and US48667DAD66, respectively. The CUSIP number for the Restricted Notes is 48667DAD6.

2. Admission to Trading

It is expected that admission of the Notes to the Official List and to trading on the Market will commence on or about 11 July 2012, subject only to the issue of the Global Note. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in U.S. Dollars and for delivery on the third working date after the day of the transaction.

It is expected that admission of the Notes to the official list and to trading on the KASE will commence on or about 11 July 2012. Prior to official listing and admission to trading, however, dealings will be permitted by the KASE in accordance with its rules.

3. Authorisations

The Issuer and the Guarantors have obtained all necessary consents, approvals and authorisations in The Netherlands and Kazakhstan in connection with the issue and performance of the Notes and the Guarantee. The issue of the Notes was authorised by resolutions of the Management Board of the Issuer passed on 17 April 2012 and on 14 May 2012, and the giving of the Guarantee by the Company was authorised by resolution of the Board of Directors of the Company passed on 7 May 2012. Furthermore, the giving of the Guarantee by Kaztemirtrans was authorised by resolution of the Board of Directors of Kaztemirtrans passed on 11 May 2012 and the giving of the Guarantee by Lokomotiv was authorised by resolution of the Board of Directors of Lokomotiv passed on 22 May 2012.

4. Material Adverse Change

There has been no significant change in the financial or trading position of the Issuer, the Company and its subsidiaries, Kaztemirtrans and its subsidiaries or Locomotive and its subsidiaries since 31 December 2011 and no material adverse change in the financial position or prospects of the Issuer, the Company and its subsidiaries, Kaztemirtrans and its subsidiaries or Lokomotiv and its subsidiaries since 31 December 2011.

5. Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) in which the Issuer, the Company and its subsidiaries, Kaztemirtrans and its subsidiaries or Lokomotiv and its subsidiaries is involved which may have, or have had during the 12 months preceding the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer, the Company and its subsidiaries, Kaztemirtrans and its subsidiaries or Lokomotiv and its subsidiaries.

6. Documents on Display

For so long as any of the Notes is outstanding, copies of the following documents may be inspected at the specified offices of each of the Paying and Transfer Agents during normal business hours:

(a) the Articles of Association of the Issuer and each of the Guarantors;

(b) the annual report and consolidated accounts of the Company for the financial years ended 31 December 2011 and 2010 including, in each case, the audit report relating to such accounts;

(c) the Trust Deed (including the Guarantee);

(d) the Agency Agreement; and

(e) this Prospectus and any supplements thereto.

Direct and accurate English translations of the Articles of Association of the Issuer and each of the Guarantors are also available for inspection as described above.

Neither the Issuer nor the Guarantors has entered into any material contracts outside the ordinary course of their businesses which could result in them being under an obligation or entitlement that is material to their ability to make payments under the Notes.

7. Auditors

The Annual Financial Statements of the Company as at 31 December 2011, 31 December 2010 (restated), and 1 January 2010 (restated) and for the years ended 31 December 2011 and 31 December 2010 (restated) contained in this Prospectus have been prepared in accordance with IFRS and have been audited by Deloitte LLP, independent auditors, as stated in their report appearing herein, which report expresses an unqualified opinion on the Annual Financial Statements.

8. Certificates

Any certificate of the Auditors (as defined in the Trust Deed) or any other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts set out therein notwithstanding that such certificate or report and/or any engagement letter or other document entered into by the Trustee in connection therewith contains a monetary or other limit on the liability of the Auditors or such other person in respect thereof and notwithstanding that the scope and/or basis of such certificate or report may be limited by any engagement or similar letter or by the terms of the certificate or report itself.

9. Conflicts of Interest

There are no potential conflicts of interest between any duties of the managing directors of the Issuer or any of the board of directors of the Issuer's corporate director, Intertrust (Netherlands) B.V. towards the Issuer and their private interests and/or other duties, there are no potential conflicts of interest between any duties of the board of directors, managing board and president of the Company towards the Company or the Issuer and their private interests and/or other duties, there are no potential conflicts of interest between any duties of the board of directors and president of Kaztemirtrans towards Kaztemirtrans or the Issuer and their private interests and/or other duties, and there are no potential conflicts of interest between any duties of the board of directors and president of Lokomotiv towards Lokomotiv or the Issuer and their private interests and/or other duties.

10. Enforcement by the Trustee

The Conditions provide for the Trustee to take action on behalf of the Noteholders in certain circumstances, but only if the Trustee is indemnified and/or otherwise secured to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes and accordingly in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it, and it will be for Noteholders to take action directly.

APPENDIX I

GLOSSARY OF FREQUENTLY USED DEFINED TERMS

The following terms are used in this Prospectus and are not defined in "*Terms and Conditions of the Notes*":

"**2006 Notes**" means the U.S.$450,000,000 aggregate principal amount of 6.50% notes which matured on 11 May 2011 and U.S.$350,000,000 aggregate principal amount of 7.00% notes due 2016 issued by the Issuer, collectively;

"**2009 Tax Code**" means the adopted Kazakhstan tax code effective 1 January 2009, as amended;

"**2010 Notes**" means the U.S.$700,000,000 aggregate principal amount of 6.375% notes due 2020 issued by the Issuer;

"**Additional Amounts**" means additional amounts paid by the relevant Guarantor or Issuer to holders of the Notes as set forth in the Terms and Conditions of the Notes;

"**Annual Financial Statements**" means the Company's audited consolidated statements of financial position as at 31 December 2011, 31 December 2010 (restated) and 1 January 2010 (restated) and the consolidated statements of comprehensive income, cash flows and changes in equity for the years ended 31 December 2011 and 31 December 2010 (restated);

"**Anti-Monopoly Agency**" means the Agency for Regulation of Natural Monopolies;

"**Arbitration Law**" means the Law on International Commercial Arbitration adopted by the Parliament of Kazakhstan on 28 December 2004;

"**Basic Rates**" means the rates for international tariffs for passenger, cargo and baggage transportation by rail, which were approved in 1995;

"**BRT CIS**" means the Board for Railway Transportation of CIS Country Members;

"**Centre**" means the centre of evaluation and development of railway staff;

"**CIS**" means the Commonwealth of Independent States;

"**CIS Tariff Agreement**" means the Tariff Agreement between the railway administrations of the CIS, which was approved on 17 February 1993, the Concept of Concurrence of Railway Tariff Policies of the CIS dated 18 October 1996, and the Agreement of Mutual Policy on Tariffs dated 17 January 1997, collectively;

"**CIS Tariff Policy**" means the Tariff Policy of Railways of CIS Countries for International Cargo Transportation, which establishes the framework for tariffs that CIS member states have agreed to follow;

"**Civil Code**" means the Kazakhstan Civil Code adopted in December 1994, as amended;

"**Clearstream, Luxembourg**" means Clearstream Banking, *société anonyme*;

"**Code**" means U.S. Internal Revenue Code of 1986, as amended;

"**Company**" means JSC National Company Kazakhstan Temir Zholy;

"**Competition Laws**" means the Law on Competition and the Law on Natural Monopolies;

"**Convention**" means the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards;

"**CRA Regulation**" means Regulation (EC) No. 1060/2009 of the European Parliament and the Council of 16 September 2009 on credit rating agencies, as amended;

"**Custodian**" means The Bank of New York Mellon;

"**Defined Benefit Scheme**" means certain benefits provided by the Company to employees upon retirement in accordance with collective bargaining agreements with the Trade Union;

"**Development Programme**" means the Government's railway infrastructure Development Programme for the years 2010-2014;

"**Development Strategy**" means the Development Strategy of the Group through 2020 adopted by the Board of Directors of the Company on 7 May 2010, which aims to build an efficient organisational structure to enhance the commercial and operational performance of the Group in connection with the overall reform of the Kazakhstan railway industry;

"**distribution compliance period**" means the time period to which: (a) each Manager has agreed, except as permitted by the Subscription Agreement, not to offer, sell nor deliver the Notes (i) as part of its distribution at any time or (ii) otherwise until the expiration of 40 days after the later of the commencement of the offering and the Closing Date, and (b) each purchaser of the Notes outside the United States pursuant to Regulation S and each subsequent purchaser of the Notes in any re-sale have agreed to certain conditions regarding the Notes until the expiration of 40 days after the later of the commencement of the offering and the Closing Date;

"**domestic**" means the transportation of freight within Kazakhstan;

"**DTC**" means the Depository Trust Company;

"**EBITDA**" means profit for the year before income tax expense, finance costs, finance income, depreciation and amortisation;

"**EBRD**" means the European Bank of Reconstruction and Development;

"**ECO**" means the Economic Cooperation Organisation;

"**EU Savings Directive**" means the EC Council Directive 2003/48/EC on the taxation of savings income;

"**Euro**" or "**€**" means 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;

"**Euroclear**" means Euroclear Bank SA/NA;

"**Exchange Act**" means the United States Securities Exchange Act of 1934, as amended;

"**export**" means the transportation of freight from within Kazakhstan to destinations outside of Kazakhstan;

"FATCA" means sections 1471-1474 of the U.S. Internal Revenue Code of 1986, as amended;

"**Fitch**" means Fitch Ratings Limited;

"**freight tariffs**" means the tariffs charged by the Group for freight transported within, imported into or exported from Kazakhstan;

"**Global Notes**" means the Restricted Global Note together with the Unrestricted Global Note;

"**Government**" means the Government of the Republic of Kazakhstan;

"**Group**" means the Company and its consolidated subsidiaries, collectively;

"**Group EBITDA**" means EBITDA plus finance income, or profit for the year before income tax, finance costs, depreciation and amortisation;

"**Guarantee**" means the guarantee agreement contained in the Trust Deed among the Guarantors to pay all amounts due and payable in respect of the Notes;

"**Guarantor**" means each of the Company, Kaztemirtrans and Lokomotiv;

"**Guarantors**" means the Company, Kaztemirtrans and Lokomotiv, collectively;

"**HMRC**" means Her Majesty's Revenue and Customs;

"**IFRS**" means the International Financial Reporting Standards as adopted by the International Accounting Standards Board;

"**Import**" means the transportation of freight from outside of Kazakhstan to destinations within Kazakhstan;

"**Insurance Rules**" means the rules of cooperation between the Company and its subsidiaries with respect to insurance coverage that were approved by the Company's Management Board on 5 March 2012;

"**Intended Substitution**" means the Company's intention, prior to the fourth interest payment date on the Notes, to be substituted for the Issuer as issuer of the Notes whereupon the Company will assume all of the obligations of the Issuer under the Notes;

"**Investor's Currency**" means the currency or currency unit of the investor;

"**IRS**" means the United States Internal Revenue Service;

"**Issuer**" means Kazakhstan Temir Zholy Finance B.V.;

"**Joint Lead Managers**" means Barclays Bank PLC and HSBC Bank plc, collectively;

"**KASE**" means the Kazakhstan Stock Exchange Inc.;

"**KASE Listing**" means the application by the Company to list the notes on the KASE;

"**Kazakhstan Holders**" means individuals who are tax residents of Kazakhstan or tax non-residents who maintain a registered permanent establishment in Kazakhstan, other than an individual, and such Holders will be subject to Kazakhstan income tax;

"**Kazakhstan Manager**" means JSC Kazkommerts Securities;

"**Kaztemirtrans**" means JSC Kaztemirtrans, a wholly owned subsidiary of the Company and owner of the freight fleet;

"**km**" means kilometres;

"**KZT**" means Kazakhstan Tenge, the official currency of Kazakhstan;

"**Land Code**" means Article 26 of the Land Code of the Republic of Kazakhstan dated 20 June 2003 No. 442-II;

"**Law on Competition**" means the Law of the Republic of Kazakhstan on Competition No. 112-IV dated 25 December 2008, as amended;

"**Law on Natural Monopolies**" means the Law of the Republic of Kazakhstan on Natural Monopolies and Regulated Markets No.272-I dated 9 July 1998, as amended;

"**Lokomotiv**" means JSC Lokomotiv, a wholly owned subsidiary of the Company and owner of the locomotives;

"**London Stock Exchange**" means the London Stock Exchange plc;

"Managers" means Barclays Bank PLC, HSBC Bank plc and JSC Kazkommerts Securities, collectively;

"**Market**" means the London Stock Exchange's regulated market;

"**Ministry of Transportation**" means the Ministry of Transportation and Communication of the Republic of Kazakhstan;

"**Moody's**" means Moody's Investors Service Limited;

"**NBK**" means the National Bank of Kazakhstan;

"**Non-Kazakhstan Holders**" means individuals who are non-residents of Kazakhstan for tax purposes or a legal entity that is neither established under Kazakhstan law, nor has its actual governing body (place of actual management) in, nor maintains a permanent establishment in or otherwise has no legal taxable presence in Kazakhstan and such Holders will not be subject to taxation in Kazakhstan or subject to Kazakhstan withholding taxes;

"**non-U.S. holder**" means a beneficial owner of the Notes that is neither a U.S. holder nor a partnership (or other entity that is treated as a partnership for U.S. federal income tax purposes);

"**Note Certificates**" means the Restricted Note Certificates and the Unrestricted Note Certificates, collectively;

"**Notes**" means the notes described in this Prospectus;

"**NSA**" means the Agency of the Republic of Kazakhstan for Statistics;

"**OFAC**" means the United States Treasury Department's Office of Foreign Assets Control;

"**Official List**" means the Official List of the UK Listing Authority;

"**OSJD**" means the Organisation for Railways Cooperation;

"**Passenger-kilometres**" means the number of passengers transported multiplied by the number of kilometres the passengers are transported;

"**PPP franchises**" means long-term concession agreements entered into between the state and a qualified carrier on a competitive basis;

"**Procurement Rules**" means Samruk-Kazyna's Rules for the Procurement of Certain Goods, Works and Services and the Ownership Rights or Trust Management adopted by the Board of Directors of Samruk-Kazyna on 18 November 2009 No. 32, which is Samruk-Kazyna's rules for companies directly or indirectly majority owned or trust managed by Samruk-Kazyna;

"**Prospectus**" means the final prospectus in connection with the admission of the Notes to the Official List of the U.K. Listing Authority and the Stock Exchange's Regulated Market;

"**Prospectus Directive**" means the Directive 2003/71/EC;

"**QIBs**" means Qualified Institutional Buyers (within the meaning of Rule 144A under the Securities Act);

"**Record Date**" means the date upon which the determination is made as to the Noteholders entitled to receive interest payments and such date is set on the 15th day prior to the due date of the interest payment in respect of the Notes;

"**Regulation S**" means Regulation S promulgated under the Securities Act;

"**Relevant Persons**" means persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, collectively;

"**Restricted Global Note**" means the Notes that are offered and sold in reliance on Rule 144A;

"**Restricted Note Certificates**" means the Restricted Global Note that may become exchangeable, free of charge to the holder, in whole but not in part, for Note Certificates in definitive form if DTC (a) notifies the Issuer or the Guarantors that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Note or ceases to be a "clearing agency" registered under the Exchange Act, or is at any time no longer eligible to act as such, and the Issuer or the Guarantors are unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC or (b) an Event of Default occurs as set forth in the Terms and Conditions;

"**RSA**" means the New Hampshire Revised Statutes;

"**Rule 144A**" means Rule 144A promulgated under the Securities Act;

"**S&P**" means Standard & Poor's Credit Market Services Europe Limited;

"**Samruk-Kazyna**" means JSC Sovereign Wealth Fund Samruk-Kazyna;

"**Samruk-Kazyna Law**" means the Law of the Republic of Kazakhstan No. 550-IV dated 1 February 2012 on the Natural Welfare Fund;

"**Securities Act**" means the United States Securities Act of 1933, as amended;

"**SES**" means the Single Economic Space formed by Kazakhstan, Belarus and Russia in January 2010;

"**SIEC**" means Specialised Interdistrict Economic Court of Astana;

"**Stabilising Manager**" means HSBC Bank plc;

"**Tenge**" means Kazakhstan Tenge, the official currency of Kazakhstan;

"**tonne-kilometres**" means the weight in tonnes of material transported multiplied by the number of kilometres the freight is transported;

"**TRACECA**" means the Transport Corridor – Europe – Caucasus – Asia;

"**Trade Union**" means the Public Association Trade Union of Railway Employees;

"**Trade Union of Kaztemirtrans**" means the Public Association Trade Union of JSC Kaztemirtrans;

"**transit**" means the transportation of freight that originates outside of Kazakhstan and passes through Kazakhstan en route to its final destination outside of Kazakhstan;

"**transit freight tariffs**" means the tariffs charged by the Group for freight transported from outside of Kazakhstan using the Group's locomotives, freight cars or containers in respect of freight that passes through Kazakhstan en route to its final destination outside of Kazakhstan;

"**Trustee**" means BNY Mellon Corporate Trustee Services Limited;

"**turnover**" means the amount of freight or number of passengers transported, as the case may be, multiplied by the distance such freight or passengers, as the case may be, are transported;

"**UIC**" means the International Union of Railways;

"**UK Listing Authority**" means the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000;

"**Unrestricted Global Note**" means the Notes that are offered and sold in reliance on Regulation S;

"**Unrestricted Note Certificates**" means the Unrestricted Global Note that may become exchangeable, free of charge to the holder, in whole but not in part, for Note Certificates in definitive form if (a) 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 does in fact do so or (b) an Event of Default occurs as set forth in the Terms and Conditions;

"**U.S. Dollars**" or "**U.S.$**" means United States Dollars;

"**U.S. holder**" means a beneficial owner of a Note that is (i) an individual citizen or resident of the United States, (ii) a corporation or other entity taxable as a corporation for U.S. federal income tax purposes created or organised in or under the laws of the United States or any state or any political subdivision thereof, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or if a valid election is in place under applicable U.S. Treasury Regulations to treat the trust as a U.S. person; and

"**VAT**" means the value added tax arising on sales to customers outside of Kazakhstan.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

Consolidated Financial Statements
As at December 31, 2011,
December 31, 2010 (restated),
and January 1, 2010 (restated)
and for the years ended
December 31, 2011 and
December 31, 2010 (restated)

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2011, DECEMBER 31, 2010 (RESTATED) AND JANUARY 1, 2010 (RESTATED)
AND FOR THE YEARS ENDED DECEMBER 31, 2011 AND DECEMBER 31, 2010 (RESTATED)

CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2011, DECEMBER 31, 2010 (RESTATED) AND JANUARY 1, 2010 (RESTATED) AND FOR THE YEARS ENDED DECEMBER 31, 2011 AND DECEMBER 31, 2010 (RESTATED)

Management of JSC National Company Kazakhstan Temir Zholy (the "Company") is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Company and its subsidiaries (collectively, the "Group") as at December 31, 2011, December 31 2010 (restated), and January 1, 2010 (restated), and the results of its operations, cash flows and changes in equity for the years ended December 31, 2011 and December 31, 2010 (restated), in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated 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 Group's consolidated financial position and financial performance; and,
- making an assessment of the Group'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 Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group as at December 31, 2011, December 31, 2010 (restated) and January 1, 2010 (restated) and for the years ended December 31, 2011 and December 31, 2010 (restated) were approved by management on March 20, 2012.

On behalf of management of the Group:

A.U. Mamin **President**	**K.K. Alpysbayev** **Vice-President of Economics and Finance**	**N. Kh. Abilova** **Chief Accountant**
March 20, 2012	March 20, 2012	March 20, 2012

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholder of JSC National Company Kazakhstan Temir Zholy:

We have audited the accompanying consolidated financial statements of JSC National Company Kazakhstan Temir Zholy and its subsidiaries (collectively – the "Group"), which comprise the consolidated statements of financial position as at December 31, 2011, December 31 2010 (restated), and January 1, 2010 (restated), and the consolidated statements of comprehensive income, cash flows and changes in equity for the years ended December 31, 2011 and December 31, 2010 (restated), and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2011, December 31 2010 (restated), and January 1, 2010 (restated), and its financial performance and cash flows for the years ended December 31, 2011 and December 31, 2010 (restated) in accordance with International Financial Reporting Standards.

Other matters

As discussed in Note 4 to the consolidated financial statements, the Group acquired a business in 2011 from companies owned by the Shareholder of the Group and both the Shareholder of the Group and a subsidiary of the Group, resulting in a change in the reporting entity. The acquisition was accounted for as a business combination under common control. Assets and liabilities were transferred at historical cost. The consolidated financial statements have been prepared as if the business combination occurred at the beginning of the earliest period presented.

Deloitte, LLP

Tatyana Gutova
Engagement Partner
Qualified auditor
Qualification certificate No.0000314
dated December 23, 1996,
the Republic of Kazakhstan

Deloitte, LLP
State license on auditing in the Republic of Kazakhstan
No.0000015, type MFU-2,
issued by the Ministry of Finance of the Republic of
Kazakhstan dated September 13, 2006

Nurlan Bekenov
General Director
Deloitte, LLP

March 20, 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2011, DECEMBER 31, 2010 (RESTATED), AND JANUARY 1, 2010 (RESTATED)
(in thousands of tenge)

	Notes	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	5	1,269,468,987	993,529,020	845,741,549
Intangible assets	6	8,356,743	5,344,111	4,537,488
Investments in associates and joint ventures	7	4,939,504	2,075,176	1,852,666
Investment property	8	6,578,879	-	-
Other non-current assets	9	55,428,341	29,699,387	9,976,956
Total non-current assets		1,344,772,454	1,030,647,694	862,108,659
Current assets				
Inventories	10	41,484,666	30,770,894	27,031,130
Trade accounts receivable	11	4,568,143	5,203,424	7,404,143
Other financial assets	12	51,221,664	122,201,395	17,706,980
Prepaid income tax		5,538,970	3,438,549	9,369,224
Asset held for the benefit of the Shareholder	13	47,777,020	9,170,284	-
Other current assets	14	38,437,374	27,799,586	39,809,432
Cash and cash equivalents	15	130,211,949	97,513,097	54,706,785
Restricted cash	17	224,665	227,662	233,714
Total current assets		319,464,451	296,324,891	156,261,408
Total assets		1,664,236,905	1,326,972,585	1,018,370,067
LIABILITIES AND EQUITY				
Equity				
Share capital	16	579,417,097	521,100,457	486,220,457
Additional paid-in capital and unissued share capital		103,121,474	41,472,001	20,254,432
Foreign currency translation reserve		(197,201)	(103,797)	(83,546)
Retained earnings		261,978,267	197,385,718	161,384,721
Equity attributable to owner of the Company		944,319,637	759,854,379	667,776,064
Non-controlling interests		6,158,078	5,688,859	5,075,366
Total equity		950,477,715	765,543,238	672,851,430

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2011, DECEMBER 31, 2010 (RESTATED), AND JANUARY 1, 2010 (RESTATED) (CONTINUED)
(in thousands of tenge)

	Notes	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
Non-current liabilities				
Borrowings	17	167,374,546	47,470,080	32,752,485
Debt securities issued	18	154,927,950	153,740,906	117,706,342
Finance lease liabilities	19	5,016,103	4,945,560	5,268,051
Employee benefit obligations	20	17,455,418	14,062,806	13,187,780
Deferred income tax liability	21	118,599,053	84,521,083	46,079,111
Other non-current liabilities		104,554	3,000	2,500
Total non-current liabilities		463,477,624	304,743,435	214,996,269
Current liabilities				
Borrowings	17	33,119,423	34,001,731	20,758,024
Current portion of debt securities issued	18	2,056,610	68,927,178	1,092,377
Current portion of finance lease liabilities	19	614,257	508,648	476,428
Current portion of employee benefit obligations	20	1,985,504	1,697,299	1,025,608
Trade accounts payable	22	70,963,528	57,468,482	44,918,138
Income tax payable		107,835	243,858	111,536
Other taxes payable	23	7,779,382	6,147,760	8,981,394
Other current liabilities	24	133,655,027	87,690,956	53,158,863
Total current liabilities		250,281,566	256,685,912	130,522,368
Total liabilities		713,759,190	561,429,347	345,518,637
Total equity and liabilities		1,664,236,905	1,326,972,585	1,018,370,067

A.U. Mamin
President

March 20, 2012

K.K. Alpysbayev
Vice-President, of Economics and Finance

March 20, 2012

N. Kh. Abilova
Chief Accountant

March 20, 2012

The notes below form an integral part of the consolidated financial statements.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011 AND DECEMBER 31, 2010 (RESTATED)
(in thousands of tenge)

	Notes	2011	2010 (restated)
Revenue			
Freight transportation		603,656,403	501,555,575
Passenger transportation		54,913,553	50,914,647
Government grants		18,454,475	15,409,258
Other revenue	25	25,724,911	14,501,328
Total revenue		702,749,342	582,380,808
Cost of sales	26	(470,280,262)	(397,418,883)
Gross profit		232,469,080	184,961,925
General and administrative expense	27	(62,772,376)	(69,164,226)
Selling expenses		(159,971)	(121,788)
(Loss)/recovery of loss from impairment of property, plant and equipment	5	(903,059)	106,428
Bargain purchase gain	30	948,610	-
Other income and expense		3,381,126	1,885,036
Finance income	28	4,644,247	3,289,691
Finance costs	29	(19,515,232)	(12,998,931)
Foreign exchange loss		(1,640,265)	(118,652)
Share of profit of associates and joint ventures	7	69,331	242,810
Profit before taxation		156,521,491	108,082,293
Income tax expense	21	(33,292,672)	(41,545,541)
Profit for the year		123,228,819	66,536,752
Other comprehensive loss:			
Foreign currency translation loss		(93,404)	(20,251)
Other comprehensive loss for the year		(93,404)	(20,251)
Total comprehensive income for the year		123,135,415	66,516,501
Profit for the year attributable to:			
Owner of the Company		122,886,900	65,917,640
Non-controlling interests		341,919	619,112
		123,228,819	66,536,752
Total comprehensive income attributable to:			
Owner of the Company		122,793,496	65,897,389
Non-controlling interests		341,919	619,112
		123,135,415	66,516,501
Earnings per share (in whole tenge)	31	250	134

A.U. Mamin	**K.K. Alpysbayev**	**N. Kh. Abilova**
President	**Vice-President of Economics and Finance**	**Chief Accountant**
March 20, 2012	March 20, 2012	March 20, 2012

The notes below form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND DECEMBER 31, 2010 (RESTATED)
(in thousands of tenge)

	Notes	2011	2010 (restated)
Cash flows from operating activities:			
Profit before taxation		156,521,491	108,082,293
Adjustments for:			
Depreciation and amortization		60,972,868	52,518,353
Finance costs	29	19,515,232	12,998,931
Allowance for unrecoverable value added tax	9	(9,905,425)	8,998,670
Accrued penalties gain		-	(121,529)
Provision on legal claims	27	590,447	3,801,217
Loss/(recovery of loss) from impairment of property, plant and equipment	5	903,059	(106,428)
Gain on disposal of property, plant, and equipment and other fixed assets		(688,534)	(1,280,343)
Finance income	28	(4,644,247)	(3,289,691)
Defined benefit plan actuarial liability	20, 26, 27	5,497,239	2,928,345
Share of profit of associates and joint ventures	7	(69,331)	(242,810)
Recovery of allowance for obsolete and slow-moving inventories	10	(291,770)	(344,448)
Allowance for doubtful debts	9, 11, 14, 27	1,118,705	1,275,820
Unused vacation provision expense		1,473,272	1,256,117
Provision for additional payments to employees living in regions of environmental disaster	26, 27	3,223,972	302,951
Foreign exchange loss		1,640,265	118,652
Bargain purchase gain	30	(948,610)	-
Other (gain)/loss		(163,056)	374,338
Operating income before changes in working capital		234,745,577	187,270,438
Increase in trade accounts receivable		(3,592,506)	(11,477,556)
Increase in inventories		(13,799,347)	(3,328,303)
Decrease/(increase) in other current and non-current assets (including non-current VAT recoverable)		7,602,429	(4,246,478)
Increase in trade accounts payable		7,891,547	5,534,246
(Decrease)/increase in other taxes payable		(8,064,235)	5,277,199
Increase in other current liabilities		10,655,189	4,019,135
Decrease in employee benefit obligations	20	(1,816,422)	(1,381,628)
Increase in other non-current liabilities		85,420	-
Cash generated from operations		233,707,652	181,667,053
Interest paid		(20,620,645)	(11,069,341)
Income tax paid		(5,335,739)	(4,977,278)
Net cash flows from operating activities		207,751,268	165,620,434

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND DECEMBER 31, 2010 (RESTATED) (CONTINUED)
(in thousands of tenge)

	Notes	2011	2010 (restated)
Cash flows from investing activities:			
Purchase of property, plant and equipment		(338,914,446)	(195,573,327)
Purchase of intangible assets		(341,709)	(1,948,806)
Proceeds from disposal of property, plant and equipment and other non-current assets		1,776,686	821,039
Acquisition of subsidiaries, less cash and cash equivalents acquired		(505,080)	(1,241)
Purchase of investments		(2,794,997)	(4,229,862)
Interest received		4,300,465	2,502,604
Purchase of short-term investments		(128,196,788)	(173,530,297)
Proceeds from sale of short-term investments		198,723,015	69,375,889
Net cash flows used in investing activities		(265,952,854)	(302,584,001)
Cash flows from financing activities:			
Receipt of payment for unissued share capital	16	90,821,510	52,458,867
Increase in borrowing		145,428,149	64,173,433
Bonds issued		-	103,013,775
Repayments of borrowings		(28,508,488)	(27,526,283)
Repayments of bonds		(66,049,200)	-
Contributions from non-controlling interests		19,554	132,006
Dividends and distributions paid		(10,876,307)	(2,923,319)
Purchase of asset held for the benefit of the Shareholder		(38,606,736)	(9,170,284)
Repayments of finance lease liabilities		(685,935)	(339,553)
Net cash flows from financing activities		91,542,547	179,818,642
Net increase in cash and cash equivalents		33,340,961	42,855,075
Cash and cash equivalents at the beginning of the year	15	97,513,097	54,706,785
Effect of foreign exchange rates on cash and cash equivalents		(642,109)	(48,763)
Cash and cash equivalents at the end of the year	15	130,211,949	97,513,097

In 2011 the Group had the following non-cash transactions: additions of property, plant and equipment as a contribution to share capital of 1,203,236 thousand tenge (2010: nil), transfer of legal ownership of railway assets Khromtau-Aiteke Bi and Aiteke Bi-Altynsarin of 30,482,773 thousand tenge by the Shareholder (2010: nil), contribution of 100% share in Repair Corporation Kamkor LLP to the share capital of the Company for 10,255,000 thousand tenge (2010: nil), fair value adjustment on loan received of 10,271,770 thousand tenge (2010: 9,694,252 thousand tenge), property, plant and equipment of 12,255,643 thousand tenge (2010: 10,661,431 thousand tenge) was purchased during the period that has not yet been paid, capitalization of interest expense of 2,361,383 thousand tenge (2010: 524,803 thousand tenge), railway administrations debt offset of 4,114,905 thousand tenge (2010: nil).

During 2011 the Group purchased assets under finance leases totaling 1,042,029 thousand tenge (2010: 3,506 thousand tenge) (Note 19).

A.U. Mamin	**K.K. Alpysbayev**	**N. Kh. Abilova**
President	**Vice-President, of Economics and Finance**	**Chief Accountant**
March 20, 2012	March 20, 2012	March 20, 2012

The notes below form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND DECEMBER 31, 2010 (RESTATED)
(in thousands of tenge)

	Share capital	Additional paid-in capital and unissued share capital	Foreign currency translation reserve	Retained earnings	Equity attributable to owner of the Parent	Non-controlling interests	Total equity
As at January 1, 2010 (as previously reported)	486,220,457	20,254,432	(83,546)	154,611,850	661,003,193	-	661,003,193
Effect of business combination under common control (Note 4)	-	-	-	6,772,871	6,772,871	5,075,366	11,848,237
As at January 1, 2010 (restated)	486,220,457	20,254,432	(83,546)	161,384,721	667,776,064	5,075,366	672,851,430
Profit for the year	-	-	-	65,917,640	65,917,640	619,112	66,536,752
Other comprehensive loss for the year	-	-	(20,251)	-	(20,251)	-	(20,251)
Comprehensive income for the year	-	-	(20,251)	65,917,640	65,897,389	619,112	66,516,501
Contribution to share capital (Note 16)	34,880,000	17,578,867	-	-	52,458,867	-	52,458,867
Contribution from non-controlling interests	-	-	-	-	-	132,006	132,006
Dividends declared (Note 16)	-	-	-	(2,923,319)	(2,923,319)	-	(2,923,319)
Distribution (Notes 7, 13, 16 and 24)	-	(4,116,700)	-	(27,129,708)	(31,246,408)	-	(31,246,408)
Contribution - Adjustment of loan to the fair value, net of deferred tax of 1,938,850 thousand tenge (Note 17)	-	7,755,402	-	-	7,755,402	-	7,755,402
Acquisition of non-controlling interests in subsidiaries	-	-	-	136,384	136,384	(137,625)	(1,241)
As at December 31, 2010 (restated)	521,100,457	41,472,001	(103,797)	197,385,718	759,854,379	5,688,859	765,543,238

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2011 AND DECEMBER 31, 2010 (RESTATED) (CONTINUED)

(in thousands of tenge)

	Share capital	Additional paid-in capital and unissued share capital	Foreign currency translation reserve	Retained earnings	Equity attributable to owner of the Parent	Non-controlling interests	Total equity
As at December 31, 2010 (restated)	521,100,457	41,472,001	(103,797)	197,385,718	759,854,379	5,688,859	765,543,238
Profit for the year	-	-	-	122,886,900	122,886,900	341,919	123,228,819
Other comprehensive loss for the year	-	-	(93,404)	-	(93,404)	-	(93,404)
Comprehensive income for the year	-	-	(93,404)	122,886,900	122,793,496	341,919	123,135,415
Contribution from Shareholder (Note 16)	-	92,024,746	-	-	92,024,746	-	92,024,746
Contribution from non-controlling interests	-	-	-	-	-	19,608	19,608
Acquisition of subsidiaries (Note 30)	-	-	-	-	-	1,035,225	1,035,225
Contribution to share capital (Note 16)	10,255,000	-	-	(10,255,000)	-	-	-
Transfer due to legal registration of shares issuance	17,578,867	(17,578,867)	-	-	-	-	-
Transfer due to contribution of legal title to railway assets (Notes 5 and 16)	30,482,773	(21,013,822)	-	(9,468,951)	-	-	-
Dividends declared (Note 16)	-	-	-	(9,776,307)	(9,776,307)	-	(9,776,307)
Distribution (Notes 13, 16 and 24)	-	-	-	(29,714,107)	(29,714,107)	-	(29,714,107)
Contribution - Adjustment of loan to the fair value, net of deferred tax of 2,054,354 thousand tenge (Note 17)	-	8,217,416	-	-	8,217,416	-	8,217,416
Change of non-controlling interests in subsidiaries	-	-	-	920,014	920,014	(927,533)	(7,519)
As at December 31, 2011	579,417,097	103,121,474	(197,201)	261,978,267	944,319,637	6,158,078	950,477,715

A.U. Mamin
President

March 20, 2012

K.K. Alpysbayev
Vice-President, of Economics and Finance

March 20, 2012

N. Kh. Abilova
Chief Accountant

March 20, 2012

The notes below form an integral part of the consolidated financial statements.

1. GENERAL INFORMATION

JSC National Company Kazakhstan Temir Zholy (the "Company") was organized in Kazakhstan in accordance with Resolutions of the Government of the Republic of Kazakhstan (the "Government") for the purpose of establishing a holding company for the Government's railway industry assets. The Company was registered on May 15, 2002. The consolidated financial statements include the results of the operations of the Company, and its wholly owned subsidiaries (collectively, the "Group"). The address of the Company's registered office is: 6 D.Kunayev st., Astana, 010000, the Republic of Kazakhstan.

The Government represented by JSC National welfare fund Samruk-Kazyna (the Ministry of Transportation and Communication of the Republic of Kazakhstan before June 8, 2006; JSC Kazakhstan Holding for the Management of State Assets Samruk before October 17, 2008) is the sole shareholder of the Company (the "Shareholder").

The Government controls the structure of the Group and establishes the long-term structure of the railway operations in the Republic of Kazakhstan. Since 1997, the Government has been in the process of restructuring the rail system in Kazakhstan which included the establishment of the Group, the disposal of certain repair services businesses out of the Group, the segregation of the passenger and cargo transportation and the associated rail tariffs and the introduction of Government subsidies for passenger travel. The Government of the Republic of Kazakhstan, through the Group, is continuing to restructure the railway transport in Kazakhstan and has developed a long-term development strategy through 2020 that includes a significant investment in the railway assets. Within this strategy the Group has developed a detailed restructuring action plan, to be implemented no later than 2015, which will result in the establishment of KTZh-Infrastructure and JSC NZhK KTZh, JSC Cargo transportations, JSC Passenger Transportations and JSC Production and Repair.

The Group operates a Government regulated nationwide railway system providing freight transportation, railway passenger transportation services and maintenance of railway infrastructure within the Republic of Kazakhstan. As part of the regulation of the rail industry in Kazakhstan, the Government sets the tariffs which the Group charges its cargo and passenger customers, and also partially subsidizes certain passenger transportation activities through government grants. These regulated tariffs differ based on the type of transportation provided, and further for cargo transportation depending on the type of directions: domestic (national), international export-import. The tariff for cargo transportation in international transit direction is not regulated by the Government.

The Group's operations have been impacted by the global economic downturn, which has resulted in decreased global spending and a slowdown in global industrial production, which in turn has had a direct impact on the amount of cargo that is shipped via railways. During the second half of 2009, the Group saw a moderate increase in cargo volume and revenues, which continued during 2010 and 2011. In addition, in 2011 and 2010 the Group, with the Government's permission, has increased freight transportation tariffs by an average of 15% and 17.6%, respectively, and passenger transportation tariffs for international, interregional and inter-district direction for lux type wagons by 10% and 10%, respectively. Government grants provided to the Group have also increased.

(in thousands of tenge unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments.

Adoption of new and revised standards

Standards and Interpretations adopted during the current year:
The Group adopted the following new and revised Standards and Interpretations during the current year:

- IAS 1 "Presentation of financial statements"
- IAS 24 "Related party disclosure" – revision
- IFRIC 14 "Prepayments of a minimum funding requirements"
- IFRIC 19 "Extinguishing financial liabilities with equity"
- IAS 32 "Financial instruments: presentation – classification of rights issues" (revision)
- IFRS 3 "Business combinations"

In addition, the Group adopted the amendments to various other standards that were part of the annual initiative aimed at the general improvement of the effective IFRS. These amendments were related to certain expressions and issues regarding presentation of consolidated financial statements, and issues of recognition and appraisal. The improvements have led to a number of changes in the detail of the Group's accounting policies – some of which are changes in terminology only, and some of which are substantive, but have had no effect on amounts reported.

The adoption of the above standards had no impact on the results of operations or consolidated financial position.

Standards and Interpretations in issue to be adopted in future periods:

At the date of authorization of these consolidated financial statements the following Interpretations and Standards were in issue but not yet effective:

	Effective for annual periods beginning on or after
Amendments to IFRS 7 "Disclosures – Transfers of financial assets"	July 1, 2011
IFRS 9 "Financial instruments"	January 1, 2015
IFRS 10 "Consolidated Financial Statements"	January 1, 2013
IFRS 11 "Joint Arrangements"	January 1, 2013
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2013
IFRS 13 "Fair Value Measurement"	January 1, 2013
Amendments to IAS 1 "Presentation of Items of Other Comprehensive Income"	January 1, 2013
Amendments to IAS 12 "Deferred Tax – Recovery of Underlying Assets"	January 1, 2012
IAS 19 (as revised in 2011) "Employee Benefits"	January 1, 2013
IAS 27 (as revised in 2011) "Separate Financial Statements"	January 1, 2013
IAS 28 (as revised in 2011) "Investments in Associates and Joint Ventures"	January 1, 2013

In May 2011 a package of five standards was issued (IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011), and IAS 28 (2011)), in which the consolidations, joint arrangements, investments in associates and disclosure of information issues were considered. These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

Management of the Group anticipates that all of the above five standards will be adopted in the Group's consolidated financial statements for the period commencing January 1, 2013 and that the adoption of these standards will not have a material impact on the consolidated financial statements of the Group in the period of initial application.

Management of the Group anticipates that the adoption of all of the above other standards will not have a material impact on the consolidated financial statements of the Group in the period of initial application.

Critical accounting judgments and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements and use estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on historical experience and other factors that are considered to be relevant, events or actions may mean that actual results ultimately differ from those estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of assets

At the end of each reporting period the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

The assessment of whether there is an indication of impairment is based on a number of factors, such as change in restructuring process, expectations of growth in the railway industry, estimates of future cash flows, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate any impairment exists.

If any such indication exists, the recoverable amount of the asset is estimated and compared to the carrying amount of the asset. If the carrying amount exceeds the recoverable amount an impairment is recorded. The recoverable amount is the greater of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that management believes reflects current market assessment of the time value of money and the risks specific to the assets. A change in the estimated recoverable amount could result in an impairment, or reversal of an impairment, in future periods.

Post-employment benefits

The Group operates a defined benefit pension scheme which has been accounted for in accordance with IAS 19 "Employee Benefits". Application of IAS 19 requires the exercise of judgment in relation to various assumptions including future annual minimum pay rises, employer and pensioner demographics, discount rates and the expected rate of future annual railway ticket price increases. The Group bases IAS 19 estimates on, amongst other things, historical experience and recommendations of its actuaries. A change in assumptions could have a significant impact on the Group's profits in future periods. See further information in Note 20.

Allowances

Inventory valuation

Inventory is valued at the lower of cost or net realizable value. The Group records an allowance to reduce the carrying value of obsolete and slow-moving inventory to net realizable value, when appropriate. The actual value realized on disposition of such inventory may differ from the net realizable value; any such difference could have a significant impact on future operating results.

Recoverability of VAT

At each reporting date the Group assesses the recoverability of VAT arising on sales to customers on international transportation. The Group cannot charge VAT onwards to these customers, and accordingly can only receive these amounts through an offset against future VAT liability or collection from the tax authorities. In assessing the recoverability of the VAT receivable, the Group considers information from the internal tax department regarding projected VAT liability, correspondence with government tax authorities, and historical recovery experience. The actual amount of VAT recovery could differ materially from the Group's estimate and this could materially impact operating results.

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment is computed using the straight-line method over estimated useful lives. The estimates of useful lives, residual values and methods of depreciation are reviewed at each reporting date, and adjusted if appropriate. Any changes are accounted for prospectively as a change in accounting estimate. Estimates of the useful lives and residual value of these assets are based on the expected economic use, repair and maintenance programs, and volume of activity, technological advancements and other business conditions and may require significant future expenditures in order to maintain the property to a high level. If these assumptions were to change, it could result in significantly different depreciation amounts than those previously recorded.

In 2011 management revised the useful life for certain locomotives due to the moral depreciation. This change in estimate, determined from an assumption of usage of those assets till the end of useful life, will lead to the increase of depreciation in the current year and all subsequent years approximately for 1,007,691 thousand tenge.

Income taxes

Kazakhstan legislative acts and regulations are not always clearly written. Instances of inconsistent opinions between local, regional and national tax authorities are possible. Where additional taxes are imposed by the tax authorities penalties and interest applied are significant; penalties are generally assessed at 50% of the additional taxes accrued, and interest is assessed at 22.5% of taxes not settled on a timely basis. As a result, penalties and interest can exceed the amount of additional accrued taxes.

Because of the uncertainties disclosed above, the ultimate amount of taxes, penalties and interest, if any, imposed may be in excess of the amount expensed to date and accrued as at December 31, 2011 and 2010 and January 1, 2010. Any difference between these estimates and the actual amount, if any, ultimately paid could have a significant impact on the Group's profits in future periods.

Principles of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries listed in Note 33. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The acquisition method of accounting is used for acquired businesses.

All intercompany transactions, balances, and unrealized gains and losses on transactions between Group companies are eliminated on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method of accounting except for business combinations between entities under common control. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "*Share Based Payment*" at the acquisition date; and
- assets (or disposal groups) that are classified as held-for-sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with IFRS 5.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. An excess of the share of the company-acquirer in the fair value of the net identifiable assets acquired, liabilities and contingent liabilities assumed over the sum of the consideration transferred is recognised immediately in profit or loss.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Goodwill arising on acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. The Group tests goodwill for impairment annually, or more frequently when there is indication that the goodwill may be impaired. The goodwill is allocated to each of the Group's cash generating units (or groups of cash generating units) that is expected to benefit from the synergies of combination. Any impairment loss for goodwill is recognised directly in the consolidated statement of comprehensive income and is not reversed in subsequent periods.

Business combinations under common control

Business combinations of entities under common control are accounted for on a historical cost basis, which results in the historical book value of assets and liabilities of the acquired entities being combined with that of the Group. The consolidated financial statements of the Group reflect the effect of the combination, as if it occurred, at the beginning of the earliest period presented.

Any difference between the amount recorded as share capital issued and the amount recorded for the share capital acquired is adjusted against retained earnings in the consolidated statement of changes in equity.

Functional and presentation currency

The Group's consolidated financial statements are presented in Kazakhstan tenge ("tenge" or "KZT"). The functional currency of the Company and of its subsidiaries is also the tenge. The functional currency of the Group's branches in Russia is the Russian ruble. The assets and liabilities of this branch are translated into tenge at the rate of exchange effective at the reporting date and the profit and loss items are translated into tenge at the weighted-average exchange rate for the year. Exchange rate differences arising on the translation are recorded directly to other comprehensive income. Upon disposal, the deferred cumulative amount related to a specific foreign operation is recognized in the consolidated statement of comprehensive income.

The tenge is not a fully convertible currency outside the Republic of Kazakhstan. Transactions in currencies other than the entity's function currency (foreign currencies) are recorded at the market rate ruling at the date of the transaction using market rates, fixed by the Kazakhstan Stock Exchange ("KASE"). For foreign currencies which are not quoted by KASE, the exchange rates are calculated by the National Bank of Kazakhstan using the cross-rates to the US Dollar ("USD" or "US$") in accordance with the quotations received from Reuters.

(in thousands of tenge unless otherwise stated)

Monetary assets and liabilities, denominated in foreign currencies, are translated to tenge at the exchange rate effective at the reporting date with all differences arising from a change in exchange rates subsequent to the date of a transaction recognized in the consolidated statement of comprehensive income. 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.

The following table summarizes the foreign currency exchange rates for tenge at:

	December 31, 2011	December 31, 2010	January 1, 2010
US Dollar	148.40	147.40	148.36
Swiss Franc	157.65	156.76	143.01
Russian Ruble	4.61	4.84	4.92

Weighted-average tenge exchange rates for the years ended December 31 were as follows:

	2011	2010
US Dollar	146.62	147.35
Swiss Franc	165.79	141.61
Russian Ruble	5.00	4.85

Recognition of financial instruments

The Group recognizes financial assets and liabilities on its consolidated statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received; including or net of any transaction costs incurred and subsequently recorded at either fair value or amortized cost.

Fair value is generally determined by reference to official market quotes. When market quotes are not available, the fair value is determined using generally accepted valuation methods such as discounted future cash flows based on observable market inputs.

Amortized cost is calculated using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees on 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 instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" ("FVTPL"), "held-to-maturity" investments, and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, cash in transit, cash on hand and short-term deposits with an original maturity of three months or less.

Held-to-maturity investments

Held-to-maturity investments are debt securities with fixed or determinable payments, that the Group has the positive intent and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Loans and receivables

Trade receivables are recognized and carried at the original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is recognized when the accounts receivable is not collected within contractual terms, and collection of the full amount is no longer considered probable. The allowance for doubtful debts is reviewed periodically, and as adjustments become necessary, they are reported in the consolidated statement of comprehensive income in the period in which they become known. Bad debts are written-off when identified against an allowance previously recognized.

Other financial assets

Other financial assets are non-derivative financial assets such as bank deposits with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method less any impairment.

Impairment of financial assets

Financial assets, except for assets stated at FVTPL, are assessed for evidence of impairment at each reporting date. Financial assets are impaired when there is objective evidence that as a result of one or several events occurring after initial recognition of the financial asset there was in value. Such events include a significant change in estimated future cash flows on the investment, significant financial difficulty of the issuer or counterparty, breach of contract terms, creditors providing preferential conditions, borrower's encountering financial difficulties, it becoming probable that the borrower will enter bankruptcy, collapse of active market for the financial asset etc. For financial assets stated at amortized cost the amount of impairment represents the difference between the carrying value of the asset and present value of the estimated future cash flows discounted at the initial effective interest rate.

The carrying value of a financial asset is reduced by the impairment loss directly on all financial assets, except for trade accounts receivable, where the carrying value is decreased by use of the allowance for doubtful debts.

If in the subsequent period the amount of the impairment loss is decreased and the decrease can be objectively related to the event occurring after recognition of impairment, then the previously recognized impairment loss is reversed in profit or losses to the extent to which the carrying value of the investment at the date of reverse does not exceed the amount of amortized value, if impairment had not been recognized.

Financial liabilities

Financial liabilities represent contractual obligations and are recorded when the Group becomes contractually liable.

Trade and other accounts payable

Trade and other accounts payable are initially measured at fair value and subsequently revalued at amortized cost using effective interest method.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses, other than borrowing costs eligible for capitalization (for example, commission on guarantees of third parties), are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

Offsetting

Financial assets and liabilities are only offset and reported at the net amount in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and the Group intends to either settle on a net basis or to realize the asset and settle the liability simultaneously.

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 derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement and has transferred substantially all the risks and rewards of the asset; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. 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 Group could be required to repay.

Financial liabilities

A financial liability (or a part of financial liability) is derecognized when the obligation under the liability is discharged, cancelled or expires.

Inventories

Inventories largely comprise items that are used in the operation of the railway lines and railway vehicles and are not held for trading purposes.

Inventories are valued at the lower of cost or net realizable value. Costs comprise of charges incurred to bring inventory to its present location and condition for its intended use. Net realizable 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. Inventory is valued on a weighted-average cost basis.

Property, plant and equipment

Property, plant and equipment are stated at their initial cost or deemed cost, less any subsequent accumulated depreciation and impairment losses.

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended use.

The cost of assets constructed by the Group includes the cost of all materials used in construction, direct labor on the project, finance costs that are directly attributable to the project, and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalized as soon as an asset is ready for its intended use.

At times the Group will enter into a finance lease for equipment to be installed on a project. While that equipment is being prepared for installation it is not in use and therefore is recorded in capital construction in progress. Once ready for use, the equipment is transferred to the relevant asset category to which it relates and accounted for as described in this policy.

An item of property, plant and equipment is derecognized 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 consolidated statement of comprehensive income in the year the asset is derecognized.

Subsequent expenditure

Track renewals and major capita replacements

Expenditures relating to track renewals are capitalized to the extent that the flow of the future economic benefits is probable and these expenditures can be reliably measured. The replaced assets are valued at the lower of cost and net realizable value and transferred to inventories or property, plant and equipment, as applicable. The excess of the carrying value of the replaced assets over their net realizable values is recognized as an expense in the consolidated statement of comprehensive income. All property that does not provide future economic benefit is expensed immediately in the consolidated statement of comprehensive income.

(in thousands of tenge unless otherwise stated)

Repairs and maintenance

Expenditures which enhance the flow of the future economic benefits provided by use of an item of property, plant and equipment, and which are directed towards improvement of an item's condition and extension of its useful life and/or advancement of its production capacity are recognized in the carrying amount of the item and are amortized on a straight-line basis over the estimated useful life of the item. All other subsequent expenditures, such as general repair and maintenance expenditures, are charged in the consolidated statement of comprehensive income when incurred.

Depreciation

Property, plant and equipment, excluding land and construction in process, are depreciated on a straight-line basis over the estimated useful lives of the assets, as the Group believes that the wear and tear on each category of assets is spread evenly over the useful life. The estimated useful lives used by the Group in all reporting periods presented are as follows (in years):

Buildings	20-45
Railway infrastructure	10-80
Machinery and equipment	5-25
Railway transport	15-32
Other transport	10-20
Other	3-40

Land and construction in progress are not depreciated. Construction in progress is transferred to the appropriate asset category upon completion and then depreciated as described above.

Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairment loss. Intangible assets primarily include software and software licenses. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets of more than one year and up to 10 years. The estimated useful life and amortization method are reviewed at the end of each annual reporting period taking into account any changes in assessment in the future.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation of investment property is accrued based on straight-line method.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

Impairment of tangible and intangible assets excluding goodwill

At each reporting date the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. The recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that management believes reflects current market assessment of the time value of money and the risks specific to the assets.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of comprehensive income. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

VAT receivable

VAT receivable is generated on sales to customers on international transportation where the Group incurs VAT costs (through fuel and other operating costs) but does not legally have the right to charge VAT to the customer. All VAT expense on such transactions can be used to offset VAT payable to the Kazakhstan tax authorities. At the end of each reporting period an analysis is performed by the Company's tax department, in conjunction with the Kazakhstan tax authorities, to determine the amount that is expected to be used in the upcoming 12 months to offset future VAT liabilities. The amount expected to be recovered within 12 months is recorded in other current assets. The Group estimates the amount of the non-current asset that it believes it will recover and establishes an allowance against the remaining balance.

Investments in associates and joint ventures

The Group's investments in its associates and joint ventures are accounted for using the equity method of accounting. Associates are entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures of the Group. A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. The investment in associates and joint ventures are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates and joint ventures, less any impairment in value or dividends. When the Group's share of losses of these entities exceeds the Group's interest in that entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the entity), the Group discontinues recognising its share of further losses. The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associates and joint ventures.

Borrowing costs

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets as part of the cost of that asset. Investment income from a temporary investment of certain loans, expecting to be used on qualifying assets, is deducted from borrowing costs on loans fit for capitalization.

Borrowing costs also include the exchange differences arising from loans in foreign currencies to the extent to which they are considered to be an interest expense adjustment. The exchange difference amount capitalized as an interest expense adjustment must not exceed the interest expense amount which would be capitalized by the Group if the loan was received in the local currency. Any excess of exchange difference is recognized in the consolidated statement of comprehensive income.

All other borrowing costs are recognized in the consolidated statement of comprehensive income in the period in which they are incurred.

Employee benefits

Defined benefit scheme

In accordance with the Labor Union Agreement the Group provides certain benefits to its employees upon their retirement ("Defined Benefit Scheme"). Pursuant to this agreement, the Group provides the following benefits under an unfunded scheme:

- one-time retirement grant;
- annual financial support to pensioners;
- free train passenger tickets;
- funeral aid; and
- financial assistance on denture treatment.

The obligation and cost of benefits under the Defined Benefit Scheme are determined using the projected unit credit method. This method considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The cost of providing benefits is charged to the consolidated statement of comprehensive income, so as to attribute the total benefit cost over the service lives of employees in accordance with the benefit formula of the plan. This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit obligation.

The Group recognizes actuarial gains and losses arising from the reassessment of the employee benefit liability in the period they are identified as employee benefit expenses.

Equity

Share capital

Common shares are classified as equity. Costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. All non-cash contributions to share capital are assessed at fair value as at the date of contribution by an independent appraiser. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Consideration received for common shares yet to be issued is recognized as unissued share capital until such time as the common shares are issued, when such proceeds are transferred to share capital.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared 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 consolidated financial statements are authorized for issue.

Distributions

Distributions are recognized in equity when the Group has irrevocably committed to transfer cash or non-cash assets to its Shareholder/ultimate Shareholder and the amount of the commitment can be reliably measured. Distributions are recognized in equity at their fair value, net of any related deferred tax effects, where appropriate.

Recognition of revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

In respect of services related to transportation, revenue is recognized by reference to the stage of completion of the transportation at the reporting date provided that the stage of completion of the transportation and the amount of revenue can be measured reliably. The extent of completion of the cargo transportation process is calculated as the ratio of services volume, provided as at the reporting date to the total services volume according to information on the dates of cargo departure and arrival (intersection of joint station).

Prepayments received from customers relating to transportation services that have not been initiated are recognized as "Advances received from customers". Upon commencement of the services, the amount related to that service is reclassified to deferred income under the "Other current liabilities" caption in the consolidated statement of financial position. Deferred income is credited to revenue as the service is provided.

Income relating to services for use of wagons is recognized in the period of use of the Group's wagons.

Government grants

The Group is eligible to receive a subsidy, in the form of a Government grant, for a portion of the costs of transporting passengers on socially important routes within the Republic of Kazakhstan, as defined by the Government. The Group, along with other railway companies in the Republic of Kazakhstan, submit an application for these grants to the Government on an annual basis. If awarded the contract, the Group is eligible for a subsidy of costs to transport passengers on the socially important routes within the Republic of Kazakhstan up to a pre-budgeted amount, which is determined by the Government.

Government grants are recognised in the consolidated statement of comprehensive income in the period in which the transportation is provided to the passengers at the reduced tariffs set by the Government when there is reasonable assurance that the Group will comply with the conditions attaching to the grants and the collection of the grant funds can be reasonably assured.

Taxes

Current tax

Current tax assets and liabilities for the current and prior periods 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 by the reporting date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized.

Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized 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 period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes relate to the same taxable entity and the same taxation authority.

Current and deferred income tax are recognised as an expense or benefit 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 tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Leases

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expenses in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Finance leases

The Group recognizes finance leases as assets and liabilities in the consolidated statement of financial position at amounts equal at the commencement of the lease term to the fair value of the leased property or, if lower, the present value of the minimum lease payments. In calculating the present value of minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned if the lease period is greater than that period. If the period of lease is less than the amortization period of similar fixed assets, the leased asset is amortized based on the lease period.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When 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 (where the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a 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.

(in thousands of tenge unless otherwise stated)

3. SEGMENT INFORMATION

The Group, based on information contained in reports that are regularly reviewed by the Shareholder and which are used to make decisions about the allocation of financial resources and to assess segment performance, has two reportable segments namely cargo transportation and passenger transportation. The Group allocates all administrative and finance costs and income taxes to these segments. Unallocated revenues and costs relate primarily to the Group's repair services, sales of scrap inventory, and sales of electricity. Such revenues and costs are not regularly reviewed by the chief operating decision maker.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in the Note 2.

The Group monitors multiple measures of profitability such as profit before taxation, profit for the year and gross profit. However, profit after taxation is the measure used for the purpose of resource allocation and assessment of segment performance.

	For the year ended December 31, 2011			
	Cargo transportation	Passenger transportation	Unallocated results	Total
Key operating measures				
Revenue – external and intersegment revenue	881,810,289	97,467,897	183,314,221	1,162,592,407
Intersegment revenue	(274,432,454)	(23,730,239)	(161,680,372)	(459,843,065)
Revenue	607,377,835	73,737,658	21,633,849	702,749,342
Cost of sales	(366,767,992)	(91,739,250)	(11,773,020)	(470,280,262)
General and administrative expense	(52,013,999)	(8,825,955)	(1,932,422)	(62,772,376)
Selling expenses	(159,971)	-	-	(159,971)
Finance income	4,547,670	96,577	-	4,644,247
Finance costs	(19,434,627)	(80,605)	-	(19,515,232)
Foreign exchange loss	(1,592,747)	(47,518)	-	(1,640,265)
Loss from impairment of property, plant and equipment	(770,732)	(132,327)	-	(903,059)
Share of profit/(loss) of associates and joint ventures	77,067	(7,736)	-	69,331
Bargain purchase gain	-	-	948,610	948,610
Other income and expense	3,618,502	(237,376)	-	3,381,126
Income tax expense	(27,078,735)	(4,438,534)	(1,775,403)	(33,292,672)
Profit/(loss) for the year	147,802,271	(31,675,066)	7,101,614	123,228,819
Other key segment information				
Capital expenditures for property, plant and equipment	331,468,015	36,638,487	3,102,975	371,209,477
Depreciation of property, plant and equipment	48,377,917	10,959,553	1,821,586	61,159,056

(in thousands of tenge unless otherwise stated)

	For the year ended December 31, 2010 (restated)			
	Cargo transportation	Passenger transportation	Unallocated results	Total
Key operating measures				
Revenue – external and intersegment revenue	725,408,794	88,322,618	133,209,285	946,940,697
Intersegment revenue	(221,262,783)	(21,704,374)	(121,592,732)	364,559,889
Revenue	504,146,011	66,618,244	11,616,553	582,380,808
Cost of sales	(305,066,682)	(82,890,120)	(9,462,081)	(397,418,883)
General and administrative expense	(58,944,114)	(8,840,517)	(1,379,595)	(69,164,226)
Selling expenses	(121,788)	-	-	(121,788)
Finance income	3,141,913	147,778	-	3,289,691
Finance costs	(12,928,225)	(70,706)	-	(12,998,931)
Foreign exchange (loss)/gain	(295,957)	177,305	-	(118,652)
Reversal of/(loss from) impairment of property, plant and equipment	151,430	(45,002)	-	106,428
Share of profit of associates and joint-ventures	242,810	-	-	242,810
Other income and expense	1,923,998	(38,962)	-	1,885,036
Income tax expense	(39,654,022)	(1,736,544)	(154,975)	(41,545,541)
Profit/(loss) for the year	92,595,374	(26,678,524)	619,902	66,536,752
Other key segment information				
Capital expenditures for property, plant and equipment	169,993,589	25,332,820	13,963,113	209,289,522
Depreciation of property, plant and equipment	41,034,348	9,567,275	1,276,083	51,877,706

Geographical information for the Group

The Group derives its revenues from customers in multiple geographical regions. The table below provides revenue based on customer country of domicile for each of the years ended December 31.

Customer country of domicile	2011	2010 (restated)
Kazakhstan	690,780,995	570,740,523
Russia	4,819,874	4,481,172
Uzbekistan	2,800,627	2,588,390
China	2,088,960	1,987,857
Turkmenistan	721,916	714,937
Other	1,536,970	1,867,929
	702,749,342	582,380,808

Substantially all of the Group's non-current assets are in Kazakhstan.

4. BUSINESS COMBINATION UNDER COMMON CONTROL

In April 2011, in accordance with the railway infrastructure development program for the years 2010-2014 approved by Government Degree #1006 dated September 30, 2010 and the decision of the management board of JSC NWF Samruk-Kazyna #61/10 dated November 1, 2010, the Shareholder transferred its 100% ownership interest in Repair Corporation Kamkor LLP to the Company.

Repair Corporation Kamkor LLP, prior to the transfer date, held a 33.4% interest in Kazakhstan Wagon Construction Company. In addition, JSC Kaztemirtrans, a subsidiary of the Group, held a 33.3% interest in Kazakhstan Wagon Construction Company. Consequently, as a result of the transfer of control to Repair Corporation Kamkor LLP to the Group, the Group also obtained control Kazakhstan Wagon Construction Company.

As the transfer of Repair Corporation Kamkor LLP represents a business combination under common control, these consolidated financial statements have been prepared as if the transfer of Repair Corporation Kamkor LLP had occurred at the beginning of the earliest period presented (i.e. January 1, 2010), and, as a result, the related comparative data as at December 31, 2010 and January 1, 2010 have been restated. The assets and liabilities were recorded in these consolidated financial statements at the carrying amounts in their financial statements with a corresponding credit to retained earnings.

(in thousands of tenge unless otherwise stated)

Effect of the significant changes of comparative data is presented below:

	As previously reported	Business combination under common control	Eliminations	As reported
Effect on financial position at December 31, 2010				
Property, plant and equipment	978,927,703	16,372,767	(1,771,450)	993,529,020
Other non-current assets	39,429,912	1,706,338	(4,017,576)	37,118,674
Total current assets	282,109,121	22,455,542	(8,239,772)	296,324,891
Total assets	**1,300,466,736**	**40,534,647**	**(14,028,798)**	**1,326,972,585**
Equity attributable to owner of the Company	752,202,863	7,847,505	(195,989)	759,854,379
Non-controlling interests	(2,089)	6,441,294	(750,346)	5,688,859
Total equity	**752,200,774**	**14,288,799**	**(946,335)**	**765,543,238**
Total non-current liabilities	297,044,866	7,698,569	-	304,743,435
Total current liabilities	251,221,096	18,547,279	(13,082,463)	256,685,912
Total liabilities	**548,265,962**	**26,245,848**	**(13,082,463)**	**561,429,347**
Total equity and liabilities	**1,300,466,736**	**40,534,647**	**(14,028,798)**	**1,326,972,585**
Effect on financial position at January 1, 2010				
Property, plant and equipment	833,599,921	12,141,628	-	845,741,549
Other non-current assets	16,897,767	169,601	(700,258)	16,367,110
Total current assets	144,315,786	17,616,657	(5,671,035)	156,261,408
Total assets	**994,813,474**	**29,927,886**	**(6,371,293)**	**1,018,370,067**
Equity attributable to owner of the Company	661,003,193	6,835,740	(62,869)	667,776,064
Non-controlling interests	-	5,661,746	(586,380)	5,075,366
Total equity	**661,003,193**	**12,497,486**	**(649,249)**	**672,851,430**
Total non-current liabilities	213,171,640	1,824,629	-	214,996,269
Total current liabilities	120,638,641	15,605,771	(5,722,044)	130,522,368
Total liabilities	**333,810,281**	**17,430,400**	**(5,722,044)**	**345,518,637**
Total equity and liabilities	**994,813,474**	**29,927,886**	**(6,371,293)**	**1,018,370,067**

(in thousands of tenge unless otherwise stated)

	As previously reported	Business combination under common control	Eliminations	As reported
Effect on the statement of comprehensive income for the year ended December 31, 2010:				
Revenue	583,900,194	74,416,891	(75,936,277)	582,380,808
Gross profit	177,466,515	8,548,180	(1,052,770)	184,961,925
Profit before taxation	105,024,871	3,354,508	(297,086)	108,082,293
Profit for the year	65,162,420	1,671,418	(297,086)	66,536,752
Profit attributable to the owner of the Company	65,175,379	754,245	(11,984)	65,917,640
Effect on the statement of cash flows for the year ended December 31, 2010:				
Cash flows from/(used in) operating activities	180,982,606	(3,797,614)	(11,564,558)	165,620,434
Cash flows (used in)/from investing activities	(313,860,679)	(287,880)	11,564,558	(302,584,001)
Cash flows from financing activities	175,108,231	4,710,411	-	179,818,642

(in thousands of tenge unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the year ended December 31, 2011 was as follows:

	Land	Buildings and constructions	Railway infrastructure	Machinery and equipment	Railway transport	Other transport	Other	Capital construction in progress	Total
Historical cost:									
As at December 31, 2010 (restated)	1,065,275	110,399,068	453,431,973	140,647,286	385,171,462	10,686,867	8,392,203	133,107,879	1,242,902,013
Additions	48,214	217,210	29,864	10,675,360	40,982,399	803,878	687,181	299,795,133	353,239,239
Acquired through business combination (Note 30)	652,786	4,118,219	-	2,633,901	6,057	114,583	640,026	3,438,148	11,603,720
Transfers	93,629	14,604,216	128,308,827	55,260,040	127,920,530	332,288	1,119,690	(327,639,220)	-
Disposals	(43,056)	(1,467,901)	(134,692)	(1,225,467)	(3,139,975)	(131,207)	(145,218)	-	(6,287,516)
Transfer to inventory	-	-	(9,099,162)	(21,267)	(660)	(54)	(14,083)	-	(9,135,226)
Transfer to other non-current assets (Note 9)	-	(35,295)	-	-	-	-	-	(8,975,335)	(9,010,630)
Transfer to intangible assets (Note 6)	-	-	-	-	-	-	-	(3,863,139)	(3,863,139)
Transfer to investment property (Note 8)	(54,398)	(5,022,058)	-	(1,848,774)	-	-	-	-	(6,925,230)
As at December 31, 2011	1,762,450	122,813,459	572,536,810	206,121,079	550,939,813	11,806,355	10,679,799	95,863,466	1,572,523,231
Accumulated depreciation and impairment:									
As at December 31, 2010 (restated)	-	(9,851,618)	(64,066,272)	(38,714,392)	(126,789,245)	(3,331,983)	(3,134,150)	(3,485,333)	(249,372,993)
Charge for the year	-	(3,185,748)	(15,414,627)	(13,125,919)	(27,629,565)	(1,195,638)	(953,910)	-	(61,505,407)
Loss from impairment for the year	-	376,923	(769,041)	(83,736)	(64,908)	5,786	10,264	(378,347)	(903,059)
Transfers	-	94,347	140,767	20,233	(245,839)	(25,246)	15,738	-	-
Disposals	-	770,327	86,627	1,004,810	2,724,446	82,347	120,097	-	4,788,654
Transfer to inventory	-	-	3,572,135	9,506	660	54	9,855	-	3,592,210
Transfer to investment property (Note 8)	-	111,602	-	234,749	-	-	-	-	346,351
As at December 31, 2011	-	(11,684,167)	(76,450,411)	(50,654,749)	(152,004,451)	(4,464,680)	(3,932,106)	(3,863,680)	(303,054,244)
Net book value:									
As at December 31, 2011	1,762,450	111,129,292	496,086,399	155,466,330	398,935,362	7,341,675	6,747,693	91,999,786	1,269,468,987

(in thousands of tenge unless otherwise stated)

The movement of property, plant and equipment for the year ended December 31, 2010 was as follows:

	Land	Buildings and construc-tions	Railway infrastructure	Machinery and equipment	Railway transport	Other transport	Other	Capital construction in progress	Total
Historical cost:									
As at January 1, 2010 (restated)	946,862	72,512,040	427,592,681	120,888,378	343,607,567	9,881,817	7,679,657	70,859,732	1,053,968,734
Additions	107,362	554,912	17,268	5,256,819	11,064,319	736,317	320,829	191,316,809	209,374,635
Transfers	23,439	37,875,914	36,828,341	16,092,590	35,973,394	128,516	502,860	(127,425,054)	-
Disposals	(4,471)	(192,445)	(607,104)	(1,483,266)	(5,369,182)	(55,260)	(94,563)	(25,609)	(7,831,900)
Transfer to inventory	(7,917)	(351,353)	(10,399,213)	(107,235)	(104,636)	(4,523)	(16,580)	(39,584)	(11,031,041)
Transfer to intangible assets (Note 6)	-	-	-	-	-	-	-	(1,578,415)	(1,578,415)
As at December 31, 2010 (restated)	1,065,275	110,399,068	453,431,973	140,647,286	385,171,462	10,686,867	8,392,203	133,107,879	1,242,902,013
Accumulated depreciation and impairment:									
As at January 1, 2010 (restated)	-	(8,019,110)	(54,338,513)	(29,661,596)	(108,300,359)	(2,272,182)	(2,269,869)	(3,365,556)	(208,227,185)
Charge for the year	-	(2,206,895)	(13,551,564)	(10,287,930)	(23,757,919)	(1,103,169)	(970,229)	-	(51,877,706)
Recovered impairment for the year	-	127,041	1,511	56,339	43,965	(5,393)	2,742	(119,777)	106,428
Transfers	-	92,327	(61,373)	(30,824)	(29,194)	6,737	22,327	-	-
Disposals	-	154,213	378,040	1,202,140	5,245,905	42,007	80,500	-	7,102,805
Transfer to inventory	-	806	3,505,627	7,479	8,357	17	379	-	3,522,665
As at December 31, 2010 (restated)	-	(9,851,618)	(64,066,272)	(38,714,392)	(126,789,245)	(3,331,983)	(3,134,150)	(3,485,333)	(249,372,993)
Net book value:									
As at December 31, 2010 (restated)	1,065,275	100,547,450	389,365,701	101,932,894	258,382,217	7,354,884	5,258,053	129,622,546	993,529,020
Net book value:									
As at January 1, 2010 (restated)	946,862	64,492,930	373,254,168	91,226,782	235,307,208	7,609,635	5,409,788	67,494,176	845,741,549

The Group's assets include assets related to the Khromtau-Altynsarin railway, which connects the western and northern parts of the Republic of Kazakhstan and thus locks the railway infrastructure of the Republic of Kazakhstan into one network. The Group participated in a project to develop this railway, which consisted of two sections: Khromtau-Aiteke Bi ("first part") and Aiteke Bi-Altynsarin ("second part"). The construction of this railway was initiated by the Ministry of Transportation and Communication of the Republic of Kazakhstan and was financed 64% by the Government from the state budget with the remainder financed by the Group.

The first part of the Project was completed in 2006 and the second part in 2007. The Group recognized the full construction cost, including 21,013,822 thousand tenge financed by the Government, as railway assets. The assets financed by the Group and those financed by the Government cannot be physically separated. This was recognised as a Shareholder contribution in additional paid-in capital in the statement of changes in equity (Note 16). In October 2011 the Shareholder transferred legal title to these railway assets to Group.

As at December 31, 2011 and 2010, and January 1, 2010, property, plant and equipment of the Group with a carrying value of 50,007,759 thousand tenge, 46,580,791 thousand tenge and 47,164,038 thousand tenge, respectively, was pledged as collateral for a portion of the Group's borrowings (Note 17).

(in thousands of tenge unless otherwise stated)

As at December 31, 2011 and 2010, and January 1, 2010, the cost of fully depreciated property, plant and equipment amounted to 171,066,735 thousand tenge, 143,654,379 thousand tenge and 172,489,980 thousand tenge, respectively.

As at December 31, 2011 the carrying value of property, plant and equipment under finance lease included in equipment and capital construction in progress amounted to 7,191,245 thousand tenge (December 31, 2010: 6,857,295 thousand tenge, January 1, 2010: 7,369,941 thousand tenge).

As at December 31, 2011 the carrying value of property, plant and equipment of JSC Transtelecom, a subsidiary, restricted in use due to a court decision amounted to nil (December 31, 2010: 3,220,815 thousand tenge, January 1, 2010: nil).

6. INTANGIBLE ASSETS

The movement of intangible assets for the year ended December 31, 2011 is as follows:

	Licenses	Software	Other[1]	Goodwill	Total
Cost:					
As at December 31, 2010 (restated)	689,531	7,303,574	763,461	-	8,756,566
Additions	215,347	21,248	105,114	-	341,709
Business acquisitions (Note 30)	-	-	26,021	322,335	348,356
Transfer from inventory	-	15,349	-	-	15,349
Transfer from property, plant and equipment (Note 5)	-	3,863,139	-	-	3,863,139
Other transfers between categories	(126,048)	184,920	(58,872)	-	-
Disposals	(112)	(236,449)	-	-	(236,561)
As at December 31, 2011	778,718	11,151,781	835,724	322,335	13,088,558
Accumulated amortization:					
As at December 31, 2010 (restated)	(542,524)	(2,768,310)	(101,621)	-	(3,412,455)
Charge for the year	(102,061)	(1,282,853)	(113,103)	-	(1,498,017)
Other transfers between categories	107,488	(116,917)	9,429	-	-
Disposals	112	178,545	-	-	178,657
As at December 31, 2011	(536,985)	(3,989,535)	(205,295)	-	(4,731,815)
Net book value as at December 31, 2011	241,733	7,162,246	630,429	322,335	8,356,743

(in thousands of tenge unless otherwise stated)

The movement of intangible assets for the year ended December 31, 2010 is as follows:

	Licenses	Software	Other[1]	Total
Cost:				
As at January 1, 2010 (restated)	701,451	5,438,205	763,409	6,903,065
Additions	2,044	369,471	52	371,567
Transfer from property, plant and equipment (Note 5)	-	1,578,415	-	1,578,415
Disposals	(13,964)	(82,517)	-	(96,481)
As at December 31, 2010 (restated)	689,531	7,303,574	763,461	8,756,566
Accumulated amortization:				
As at January 1, 2010 (restated)	(374,558)	(1,902,260)	(88,759)	(2,365,577)
Charge for the year	(181,563)	(947,420)	(12,862)	(1,141,845)
Disposals	13,597	81,370	-	94,967
As at December 31, 2010 (restated)	(542,524)	(2,768,310)	(101,621)	(3,412,455)
Net book value as at December 31, 2010 (restated)	147,007	4,535,264	661,840	5,344,111
Net book value as at January 1, 2010 (restated)	326,893	3,535,945	674,650	4,537,488

(1) "Other" represents technical documentation, design of technological process for assembling diesel locomotives and maintenance manuals, none of which are individually material. The amortisation period for intangible assets included within "Other" ranges from one year to 10 years.

As at December 31, 2011 the cost of fully amortized intangible assets, represented by software used by the Group in operations, which were still in use amounted to 1,449,316 thousand tenge (December 31, 2010: 545,109 thousand tenge, January 1, 2010: 406,691 thousand tenge).

(in thousands of tenge unless otherwise stated)

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures comprised the following as at December 31, 2011 and 2010, and January 1, 2010:

Associate company	Nature of activities	December 31, 2011		December 31, 2010 (restated)		January 1, 2010 (restated)	
		Carrying value	% of share capital held	Carryin g value	% of share capital held	Carryin g value	% of share capital held
JSC Kedentransservice	Transportation and customs clearance service	2,186,636	33.00	2,075,034	33.00	1,832,224	33.00
OJSC Roskazzheldortrans	Freight forwarding to foreign markets	-	50.00	-	50.00	20,442	50.00
LLP Electrovoz kurastyru zauyty	Electric locomotives production	2,752,868	50.00	71	50.00	-	-
Other		-	34-50	71	46.02-50	-	37.03
		4,939,504		2,075,176		1,852,666	

Others comprise of investments in associates and joint ventures either on development stage or dormant. As at December 31, 2011 the Group recognized share in losses of these entities and impairment losses resulting in write down of investments to nil.

During 2010 and 2009, pursuant to a decree from the Shareholder, the Group purchased 8.99% and 37.03% of the issued shares in JSC Doszhan Temir Zholy, a party under common control of the Shareholder, for 3,880,000 thousand tenge and 1,578,000 thousand tenge, respectively. The estimated fair value of such shares at the date of transfer and as at December 31, 2011 and 2010, and January 1, 2010 was nil and therefore the investment has been recognised in the consolidated statement of financial position at nil value. The difference between the amount paid and the fair value of the shares acquired has been reflected as a distribution to the Shareholder in the consolidated statement of changes in equity.

(in thousands of tenge unless otherwise stated)

As at December 31, 2011 and 2010, and January 1, 2010 and for the years then ended, summary financial information for the Group's investments in associates and joint ventures is as follows:

	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
Total assets	35,131,409	9,685,907	9,287,693
Total liabilities	(23,059,964)	(3,397,642)	(3,694,614)
Net assets	12,071,445	6,288,265	5,593,079
Group's share of net assets of associates and joint ventures	4,939,504	2,075,176	1,852,666

	2011	2010 (restated)
Total revenue	10,916,902	6,552,321
Total profit	193,115	735,789
Group's share of profit of associates and joint ventures	69,331	242,810

8. INVESTMENT PROPERTY

The movement of investment property for the year ended December 31, 2011 is as follows:

	Land	Buildings	Machinery and equipment	Total
Cost:				
As at December 31, 2010	-	-	-	-
Transfer from property, plant and equipment (Note 5)	54,398	5,022,058	1,848,774	6,925,230
As at December 31, 2011	54,398	5,022,058	1,848,774	6,925,230
Accumulated depreciation and impairment:				
As at December 31, 2010	-	-	-	-
Transfer from property, plant and equipment (Note 5)	-	(111,602)	(234,749)	(346,351)
As at December 31, 2011		(111,602)	(234,749)	(346,351)
Net book value:				
As at December 31, 2011	54,398	4,910,456	1,614,025	6,578,879

(in thousands of tenge unless otherwise stated)

9. OTHER NON-CURRENT ASSETS

Other non-current assets comprised the following as at December 31, 2011 and 2010, and January 1, 2010:

	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
Advances to suppliers for property, plant and equipment	42,752,592	29,147,127	9,006,910
VAT receivable	17,324,330	24,512,391	15,513,721
Assets for sale to the Government (Note 5)	9,010,630	-	-
Advance payment on residential properties less impairment	403,956	1,329,596	1,506,126
Other	1,447,257	651,956	301,525
	70,938,765	55,641,070	26,328,282
Less: allowance for advances to suppliers for property, plant and equipment	(2,012,763)	(2,538,597)	(1,946,910)
Less: allowance for unrecoverable VAT receivable	(13,497,661)	(23,403,086)	(14,404,416)
	55,428,341	29,699,387	9,976,956

As at December 31, 2011 advances to suppliers for property, plant and equipment primarily represent prepayments for the construction of Uzen – state border with Turkmenistan and Khorgos – Zhetigen railway lines of 4,260,991 thousand tenge (December 31, 2010: 9,654,316 thousand tenge, January 1, 2010: nil), advances paid for the supply of locomotives of 6,038,012 thousand tenge (December 31, 2010: nil; January 1, 2010: 1,774,308 thousand tenge), advances paid for the supply of passenger wagons of 9,359,242 thousand tenge (December 31, 2010: nil; January 1, 2010: 1,741,099 thousand tenge), advances paid for the supply of cargo wagons of 7,939,424 thousand tenge (December 31, 2010: nil; January 1, 2010: nil) and advances paid for the purchase of spare parts for assembly of locomotives of 10,719,558 thousands tenge (December 31, 2010: 12,788,649 thousand tenge; January 1, 2010: nil).

In 2011, the ultimate Shareholder issued the Company with a decree in which it requested that the Company, at the end of the construction phase, sell certain assets, constructed within railway lines construction projects, to the ultimate Shareholder at a yet to be agreed amount. The sale is expected to occur in 2013 and while the sales price is yet to be agreed, it is expected to be at a minimum, as the carrying value of the said assets. In these consolidated financial statements such assets have been presented within other non-current assets.

The movement in the allowance for advances to suppliers for property, plant and equipment for the years ended December 31, is as follows:

	2011	2010 (restated)
Allowance for advances to suppliers for property, plant and equipment at the beginning of the year	(2,538,597)	(1,946,910)
Recovered/(accrued) during the year	61,140	(593,003)
Written off during the year against the allowance previously recorded	464,694	1,316
Allowance for advances to suppliers for property, plant and equipment at the end of the year	(2,012,763)	(2,538,597)

(in thousands of tenge unless otherwise stated)

The movement in the allowance for unrecoverable VAT receivable for the years ended December 31, were as follows:

	2011	2010 (restated)
Allowance for unrecoverable VAT receivable at the beginning of the year	(23,403,086)	(14,404,416)
Recovered/(accrued) for the year	9,905,425	(8,998,670)
Allowance for unrecoverable VAT receivable at the end of the year	(13,497,661)	(23,403,086)

Recovered allowance for unrecoverable VAT includes 8,356,191 thousand tenge which was reversed due to changes in methodology of VAT refunds calculation according to the Kazakhstan tax law.

10. INVENTORIES

Inventories comprised the following as at December 31, 2011and 2010, and January 1, 2010:

	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
Materials and supplies	14,371,690	12,461,418	11,655,981
Spare parts	12,739,945	13,140,327	12,521,151
Fuel	6,742,290	1,375,050	1,241,676
Upper railway components	1,379,128	1,554,358	843,386
Construction components	983,652	768,328	704,910
Finished goods	1,465,284	351,088	424,489
Work in process	4,444,090	2,079,081	1,021,282
Other	977,697	966,049	996,028
Less: Allowance for obsolete and slow-moving inventories	(1,619,110)	(1,924,805)	(2,377,773)
	41,484,666	30,770,894	27,031,130

The movements in the allowance for obsolete and slow-moving inventories were as follows for the years ended December 31:

	2011	2010 (restated)
Allowance for obsolete and slow-moving inventories at the beginning of the year	(1,924,805)	(2,377,773)
Recovered during the year	291,770	344,448
Written off during the year	13,925	108,520
Allowance for obsolete and slow-moving inventories at the end of the year	(1,619,110)	(1,924,805)

(in thousands of tenge unless otherwise stated)

11. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following as at December 31, 2011 and 2010, and January 1, 2010:

	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
Trade accounts receivable	9,772,597	10,147,759	12,495,771
Less: Allowance for doubtful debts	(5,204,454)	(4,944,335)	(5,091,628)
	4,568,143	5,203,424	7,404,143

As at December 31, 2011 eight debtors represented 37% of the Group's trade accounts receivable (December 31, 2010: 48%, January 1, 2010: 55%).

The movements in the allowance for doubtful debts were as follows for the years ended December 31:

	2011	2010 (restated)
Allowance for doubtful debts at the beginning of the year	(4,944,335)	(5,091,628)
Accrued during the year	(346,512)	(419,515)
Written off during the year against the allowance previously recorded	86,393	566,808
Allowance for doubtful debts at the end of the year	(5,204,454)	(4,944,335)

As at December 31, 2011 and 2010, and January 1, 2010 the Group's trade accounts receivable, net of allowance for doubtful debts, were denominated in various currencies as follows:

	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
Tenge	2,641,528	3,278,583	3,500,840
Swiss Francs	1,383,016	1,576,367	3,771,321
US Dollars	479,136	337,857	119,943
Russian Rubles	64,463	10,617	12,039
	4,568,143	5,203,424	7,404,143

(in thousands of tenge unless otherwise stated)

12. OTHER FINANCIAL ASSETS

As at December 31, 2011 and 2010, and January 1, 2010 other financial assets represent bank deposits with original maturities of greater than three but less than twelve months:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Interest rate	Amount	Interest rate	Amount	Interest rate	Amount
JSC Kazkommertsbank	3%-4.5%	11,810,699	4.00-6.50%	40,466,935	-	-
JSC Halyk Bank of Kazakhstan (Note 34)	1%	3,004,657	2.00-4.00%	32,914,415	5.00-7.00%	10,173,176
JSC ATF Bank	2.6%-3.6%	20,439,594	3.15-4.00%	20,720,016	-	-
JSC SB Sberbank of Russia	4.5%-5%	12,500,000	2.00-3.00%	14,026,388	4.00%	4,410,729
JSC SB HSBC Bank Kazakhstan	-	-	2.42-2.55%	7,836,438	-	-
JSC Bank CenterCredit	2.5%	2,994,000	4.20-5.00%	3,621,640	3.40-5.00%	2,953,440
JSC Kazinvest Bank	-	-	6.50%	2,000,000	-	-
JSC Alliance Bank (Note 34)	7.00%	59,500	7.00%	22,000	-	-
		50,808,450		121,607,832		17,537,345
Accrued interest receivable		413,214		593,563		169,635
		51,221,664		122,201,395		17,706,980

As at December 31, 2011 and 2010, and January 1, 2010 other financial assets were denominated in the following currencies:

	December 31, 2011	December 31, 2010	January 1, 2010
Tenge	22,699,504	29,995,556	3,396,240
US Dollars	28,522,160	92,205,839	14,310,740
	51,221,664	122,201,395	17,706,980

13. ASSET HELD FOR THE BENEFIT OF THE SHAREHOLDER

In May 2010 the Government directed the Group to construct a building for a teleradio complex in Astana at the Group's expense. The Group will take title to the land and assets during the construction period and, upon completion, the land and building will be transferred to the ultimate Shareholder for no consideration. Group's management formally approved the construction project in November 2010, which confirmed the Group's entrance into an irrevocable commitment to the Government and resulted in immediate recognition of a distribution to the Shareholder and an obligation of 27,129,708 thousand tenge (Notes 16 and 24). Also, in 2010 the Group entered into an agreement with a construction company and begun construction on the building. As a result the Group had recognized costs of construction of 1,467,483 thousand tenge and prepaid advances for further construction of 7,702,801 thousand tenge. These costs of 9,170,284 thousand tenge were recognised as a current asset (Asset held for the benefit of the Shareholder) in the consolidated statement of financial position since as at December 31, 2010 it was expected that these assets would be transferred to the ultimate Shareholder during 2011. In 2011, the Group concluded an addendum on prolongation of construction till April 30, 2012.

In March 2011, the Group confirmed acceptance of a further obligation to fit out the building with media and technical equipment to enable it to function as a teleradio complex. In 2011, the Group entered into an agreement for supply of media and technical equipment for installation within the teleradio complex as well as incurred costs on acquisition of land for construction (Notes 16 and 24). This acceptance of the Group's entrance into an irrevocable commitment to the Government and was reflected as a further distribution to the ultimate Shareholder and a liability of 28,614,107 thousand tenge.

As at December 31, 2011 the Group had recognized total costs of construction of this complex, supply of media and technical equipment, acquisition of land of 42,469,126 thousand tenge and prepaid advances for further construction of 2,858,297 thousand tenge and advances for supply of media and technical equipment of 2,449,597 thousand tenge. These costs are recognized as current assets held for the benefit of the ultimate Shareholder in the consolidated statement of financial position since it is expected that these assets will be transferred to the Shareholder upon completion of construction.

(in thousands of tenge unless otherwise stated)

14. OTHER CURRENT ASSETS

Other current assets comprised the following as at December 31, 2011 and 2010, and January 1, 2010:

	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
VAT recoverable	29,581,540	12,600,692	24,299,015
Other taxes prepaid	740,991	10,609,809	11,037,579
Advances paid	6,343,204	4,116,071	4,126,406
Claims	1,665,898	1,254,115	1,159,290
Prepaid expense	597,877	527,732	519,855
Transfers to institutions	291,997	292,022	292,069
Other	3,931,468	2,852,634	3,168,747
	43,152,975	32,253,075	44,602,961
Less: Allowance for doubtful debts	(4,715,601)	(4,453,489)	(4,793,529)
	38,437,374	27,799,586	39,809,432

The current VAT recoverable represents the amount the Group expects to recover against VAT liabilities in the upcoming year.

During 2011 prepaid withholding income tax on non-residents and penalty of 9,550,799 thousand tenge (included within other taxes prepaid in the table above) were refunded by the tax authorities as a result of a Supreme Court final decision made in 2010 to the benefit of the Group related to the tax audit of the Group for the years 2003-2006.

The movements in the allowance for doubtful debts related to other current assets were as follows for the years ended December 31:

	2011	2010 (restated)
Allowance for doubtful debts at the beginning of the year	(4,453,489)	(4,793,529)
Accrued during the year	(833,333)	(263,302)
Written off during the year against the allowance previously recorded	571,221	603,342
Allowance for doubtful debts at the end of the year	(4,715,601)	(4,453,489)

(in thousands of tenge unless otherwise stated)

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following as at December 31, 2011 and 2010, and January 1, 2010:

	December 31, 2010	December 31, 2010 (restated)	January 1, 2010 (restated)
Cash in current accounts in tenge	98,418,075	58,631,020	18,526,255
Cash in current accounts in US Dollars	4,416,695	18,668,910	5,976,135
Cash in current accounts in Russian rubles	225,624	1,980,123	110,841
Cash in current accounts in Swiss francs	35,779	1,194,157	133,740
Cash in current accounts in Euro	22,087	35,018	1,389,909
Short-term bank deposits in tenge	21,038,894	9,991,339	12,739,418
Short-term bank deposits in US Dollars	5,367,475	6,337,322	15,081,169
Short-term bank deposits in Euro	637,469	649,140	723,656
Petty cash	49,851	26,068	25,662
	130,211,949	97,513,097	54,706,785

Cash in current accounts earns interest at floating rates based on daily bank deposit rates ranging from 0.05% to 5.50% per annum (2010: 0.20% to 9.50% per annum, 2009: from 0.50% to 9.00% per annum).

Short-term bank deposits in tenge and foreign currency are placed for varying periods of up to three months depending on the Group's immediate cash requirements and earn interest at the respective short-term deposit rates ranging from 0.3% to 2.32% per annum (2010: 0.1% to 9.1% per annum, 2009: from 0.50% to 11.25% per annum).

As at December 31, 2011 the Group's deposits with an original maturity of less than three months and cash in current accounts, which are in banks that are related parties of the Group, amounted to 6,650,510 thousand tenge and 59,070,906 thousand tenge, respectively (December 31, 2010: deposits with an original maturity of less than three months – 301,000 thousand tenge and cash on current accounts – 32,203,735 thousand tenge, January 1, 2010: deposits with an original maturity of less than three months - 20,237,436 thousand tenge and cash on current accounts – 9,927,601 thousand tenge) (Note 34).

As at December 31, 2011 future cash inflows of nil were pledged (December 31, 2010 and January 1, 2010: 12,803,421 US Dollars) (Note 17).

16. EQUITY

Share capital consists of the following at December 31, 2011 and 2010, and January 1, 2010:

	Number of shares authorized	Number of shares issued and paid	Share capital, in thousands of tenge
As at January 1, 2010	502,040,458	486,220,457	486,220,457
Cash contributions			
Shares paid on February 10, 2010	-	4,880,000	4,880,000
Shares paid on June 25, 2010	-	9,200	9,200,000
Shares paid on July 9, 2010	-	20,800	20,800,000
As at December 31, 2010	502,040,458	491,130,457	521,100,457
Cash contributions			
Shares paid on July 28, 2011	-	18,445	17,578,867
Non-cash contributions			
Transfer of ownership in Repair Corporation Kamkor LLP to the Company (April 5, 2011)	-	10,255	10,255,000
Transfer due to contribution of legal title to railway assets (November 9, 2011, Note 5)	-	31,255	30,482,773
As at December 31, 2011	502,040,458	491,190,412	579,417,097

The Company's initial share capital was established through a series of share issuances in exchange for either cash or property, plant and equipment. The Shareholder is entitled to dividends, a part of the Company's property in case of its liquidation, and preference in purchasing the Company's shares or other securities convertible to the Company's shares.

Upon each issuance of share capital the par value is determined and any change in par value from that previously determined does not apply retrospectively.

Contributions

During 2011, the Shareholder contributed to the Company's share capital (including additional paid-in capital and unissued share capital):

(a) cash of 90,821,510 thousand tenge;
(b) non-current assets of 1,203,236 thousands tenge;
(c) the Shareholder's 100% ownership interest in Repair Corporation Kamkor LLP valued at 10,255,000 thousand tenge; and,
(d) the Shareholder's legal title on the Khromtau-Altynsarin railway assets valued at 30,482,773 thousand tenge, which were reflected in Khromtau-Altynsarin railway assets as additional paid in capital at the cost of construction financed by the Government in the amount of 21,013,822 thousand tenge (Note 5) as at December 31, 2010. The difference between the estimated value and the costs of construction incurred by the Government has been reflected within retained earnings of 9,468,951 thousand tenge.

In addition, during 2011 a fair value adjustment to loans of 10,271,770 thousand tenge less deferred tax effect of 2,054,354 thousand tenge were recognized within additional paid-in capital (Note 17).

During 2010, the Shareholder contributed to the Company's share capital 52,458,867 thousand tenge (including additional paid-in capital and unissued share capital), in the form of cash.

In addition, during 2010 a fair value adjustment to loans of 9,694,252 thousand tenge less deferred tax effect of 1,938,850 thousand tenge were recognized within additional paid-in capital (Note 17).

Dividends and distributions

Dividends

As at December 31, 2011 the Group declared dividends of 9,776,307 thousand tenge relating to 2010 (2010: 2,923,319 thousand tenge relating to 2009).

Distributions

Construction of a building for a teleradio complex for the benefit of the Shareholder

As described in Note 13 above, in May 2010 the Group entered into an irrevocable commitment with the Government to construct a building for a teleradio complex that, upon completion, will be transferred to the ultimate Shareholder. As an irrevocable commitment to transfer an asset to the Shareholder was agreed prior to December 31, 2010, the transfer of 27,129,708 thousand tenge was recognized as a distribution in the consolidated statement of changes in equity in the year ended December 31, 2010.

In March 2011, the Group confirmed acceptance of a further obligation to fit out the building with media and technical equipment to enable it to function as a teleradio complex. This resulted in the recognition of a further distribution to the Shareholder of 28,125,000 thousand tenge plus costs incurred in connection with acquisition of land for construction of 489,107 thousand tenge.

Purchase of additional shares in JSC Doszhan Temir Zholy

As discussed in Note 7, pursuant to a decree of the Shareholder, the Group used cash of 3,880,000 thousand tenge in the year ended December 31, 2010 to purchase an 8.99% investment in an entity under common control of the Shareholder, JSC Doszhan Temir Zholy (January 1, 2010: 37.03% for 1,578,000 thousand tenge). At the date of purchase, the shares had a fair value of nil. Consequently, the Group recognised the full purchase price of 5,458,000 thousand tenge as a distribution to the Shareholder.

Charity provided to the ultimate Shareholder

In May 2011 the Group provided a donation of 1,100,000 thousand tenge to the local akimat of Western-Kazakhstan oblast for recovery of damages as a result of floods. Due to the fact that this transaction was performed with the ultimate Shareholder, the Group recorded the effect of this transaction as a distribution to Shareholder.

(in thousands of tenge unless otherwise stated)

17. BORROWINGS

Borrowings, including accrued interest, comprised the following as at December 31, 2011 and 2010, and January 1, 2010:

	Currency	Installments	Interest rate	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
Short-term borrowings:						
JSC Citibank Kazakhstan:						
Loan 1	US Dollars	December 29, 2010	1-month LIBOR for USD denominated deposits + 4.5%	-	-	4,458,526
Loan 2	Tenge	April 20, 2012	4.75%	4,400,580	-	-
Notes of JSC Citibank Kazakhstan	Tenge	December 20, 2011, January 16, 2012	-	2,970,000	-	-
JSC ATF Bank	Tenge	February 2012 – October 2012	10%	2,234,538	-	-
JSC Halyk Bank of Kazakhstan	Tenge	December 2011 – April 2012	10.02%-10.5%	654,875	1,608,058	-
JSC Halyk Bank of Kazakhstan	Tenge	April 25, 2012 – October 24, 2012	5.5%-6%	7,061,333	-	-
Other loans	Tenge	March 2012	10%-15%	302,961	-	401,500
Long-term borrowings:						
ABN Amro Bank N.V.:						
Loan 1	US Dollars	16 semi-annual installments commencing October 15, 2004 (last installment, April 15, 2012)	6-month LIBOR for USD denominated deposits + 0.13%	290,291	842,676	1,407,309
Loan 2	US Dollars	32 quarterly installments commencing May 15, 2005 (last installment, May 15, 2014)	3-month LIBOR for USD denominated deposits + 0.07%	3,952,249	6,009,273	8,152,320
Loan 3	US Dollars	3 semi-annual installments commencing August 4, 2010 (last installment, August 4, 2011)	6-month LIBOR for USD denominated deposits + 1.2%	-	13,962,262	21,064,094
Japan Bank for International Cooperation ("JBIC")	Japanese Yen	37 semi-annual installments commencing December 20, 2002 (last installment, December 20, 2020)	3.00%	6,663,706	7,016,468	6,865,284
Instituto de Credito Oficial ("ICO")	US Dollars	25 semi-annual installments commencing July 9, 2009 (last installment, July 9, 2021)	2.50%	3,292,686	3,597,548	3,950,158
JSC Development Bank of Kazakhstan (Note 34):						
Loan 1	US Dollars	15 semi-annual installments commencing June 4, 2006 (last installment, June 4, 2013)	9.80%	563,005	931,766	1,314,034
Loan 2	Tenge	7 semi-annual installments commencing March 8, 2012 (last installment, March 8, 2015)	8%	1,380,506	966,755	-
JSC European Bank of Reconstruction and Development (EBRD):						
Loan 1	US Dollars	15 semi- installments commencing September 2011 (last installment, September 2018)	6-month LIBOR for USD denominated deposits + 3.25-3.35%	14,482,994	11,692,842	-
Loan 2	US Dollars	15 semi-annual installments commencing April 13, 2013 (last installment, April 13, 2020)	6-month LIBOR for USD denominated deposits + 3.25%	7,453,334	6,521,034	-
Loan 3	US Dollars, tenge	12 semi-annual installments commencing May 10, 2013 (last installment, November 10, 2018)	6-month LIBOR for USD denominated deposits + 2.95% for US Dollar tranche and all-in cost + 2.95% for tenge tranche	12,226,934	-	-

(in thousands of tenge unless otherwise stated)

	Currency	Installments	Interest rate	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
JSC National Welfare Fund Samruk-Kazyna (Note 34):						
Loan 1	Tenge	January 25, 2024	2%	21,167,565	20,504,278	-
Loan 2	Tenge	November 2036	0.75%	1,840,469	-	-
Loan 3	Tenge	December 2036	0.75%	6,890,180	-	-
Loan 4	Tenge	September 15, 2017	7.2%	15,048,000	-	-
Loan 5	Tenge	September 15, 2017	7.2%	60,192,000	-	-
JSC ATF Bank:						
Loan 1	US Dollars	19 quarterly installments, commencing November 20, 2007 (last installment, April 10, 2012)	4.51%	85,554	254,784	427,535
Loan 2	Tenge	February 2011 – May 2013	9.93%-15%	1,053,602	3,158,925	1,259,279
Loan 3	Tenge	September 20, 2017	8.48%	1,325,243	1,553,000	-
Loan 4	US Dollars	December 4, 2017	8.84%	2,108,981	2,428,091	-
Loan 5	US Dollars	9 semi-annual installments, commencing March 1, 2012 (last installment, January 27, 2016)	6-month LIBOR for USD denominated deposits + 3%	14,300,698	-	-
JSC SB HSBC Bank Kazakhstan	Tenge	12 quarterly installments, commencing April 1, 2010 (last installment, December 31, 2012)	12.50%	106,148	43,419	-
Secured notes	Euro	April 30, 2016	5.48%	305,658	380,632	489,480
JSC BTA Bank	Tenge, US Dollars	February 28, 2011	12%-16%	-	-	2,369,214
JSC Halyk Bank of Kazakhstan:						
Loan 1	Tenge	March 18, 2013	12.5%	356,868	-	-
Loan 2	Tenge	January 2012 – January 2016	7%-12%	7,783,011	-	-
JSC VTB Bank	Tenge	June 2010	16%	-	-	1,351,776
				200,493,969	81,471,811	53,510,509
Less: Current portion of borrowings				(33,119,423)	(34,001,731)	(20,758,024)
				167,374,546	47,470,080	32,752,485

(in thousands of tenge unless otherwise stated)

The bank loans disclosed above are repayable as follows:

	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
1 to 2 years	12,256,074	4,966,038	18,670,341
2 to 3 years	10,801,191	4,305,163	3,871,133
3 to 4 years	10,149,439	2,437,942	2,788,556
4 to 5 years	7,927,192	2,001,830	1,292,665
Over 5 years	126,240,650	33,759,107	6,129,790
	167,374,546	47,470,080	32,752,485

As at December 31, 2011 and 2010, and January 1, 2010 borrowings were denominated in various currencies as follows:

	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
Tenge	142,040,529	27,834,435	5,381,769
US Dollars	51,484,076	46,240,276	40,773,976
Japanese Yen	6,663,706	7,016,468	6,865,284
Euro	305,658	380,632	489,480
	200,493,969	81,471,811	53,510,509

JSC Citibank Kazakhstan

On November 30, 2009 the Group's subsidiary, JSC Locomotive, entered into an agreement for short-term loans with JSC Citibank Kazakhstan which was guaranteed by the Company. Under this agreement on October 13 and 21, 2011 the Group received loans for replenishment of working capital of 4,000,000 thousand tenge (Loan 2). The principal is repayable at maturity. The interest is payable monthly.

Notes of JSC Citibank Kazakhstan

In 2011 the Group issued notes payable of 3,580,000 thousand tenge to Ikea Tas-Group LLP for the purchase of non-current assets. Such notes mature in December 2011 through February 2012. In December 2011 the Group repaid notes of 610,000 thousand tenge.

JSC ATF Bank

Within the framework of loan agreement dated May 27, 2010, during 2011 the Group received short-term loans from JSC ATF Bank for replenishment of working capital of subsidiaries, Kamkor-Locomotive LLP and Temirzholenergo LLP, of 2,222,540 thousand tenge. The interest is payable monthly.

JSC Halyk Bank of Kazakhstan

In 2010 under a credit line agreement with JSC Halyk Bank of Kazakhstan dated March 31, 2010 the Group received loans for replenishment of working capital of the subsidiary, Kamkor-Management LLP, of 2,481,398 thousand tenge. The principal and interest are paid on a quarterly and monthly basis, respectively. The loan is guaranteed by Locomotiv 2030 LLP, subsidiary of the Company. As at December 31, 2011 the loans were partially repaid.

In 2011 under a separate credit line agreement with JSC Halyk Bank of Kazakhstan available to JSC Locomotive, a subsidiary of the Group, for the replenishment of working capital dated October 21, 2011, the Group's subsidiary obtained a loan of 7,000,000 thousand tenge. Interest is payable quarterly. Principal is payable at maturity.

ABN Amro Bank N.V.

Loan 1: In December 2003 the Group entered into a loan agreement with ABN Amro Bank N.V. to finance the purchase of locomotive modernization kits from a supplier. The effective interest rate was 6.46% for the year ended December 31, 2011 (December 31, 2010: 6.18%). Interest is paid semi-annually. As at December 31, 2011 loan was partially repaid.

Loan 2: On November 1, 2004, the Group entered into a loan agreement with ABN Amro Bank N.V. to finance the purchase of locomotive modernization kits from a supplier. Funds under the loan agreement were provided in four tranches of 71,567 thousand US Dollars (9,539,571 thousand tenge) and were received by the Group during 2005. In addition, a further two tranches totaling 40,541 thousand US dollars (5,162,855 thousand tenge) were received during 2006. The effective interest rate was 4.54% for the year ended December 31, 2011 (2010: 3.16%). Interest is paid quarterly. As at December 31, 2011 the loan was partially repaid.

Under provisions of Loan agreements 1 and 2 the Company is obliged to comply with certain non-financial covenants. The Company may, provided it submits at least thirty business days prior notice to ABN Amro Bank N.V. and the Export-Import Bank of the United States, prepay all or part of the loans (the partial repayment has a minimum of 2 million US Dollars). Any prepayment is required to be made with accrued interest on the amount prepaid without premium or penalty. The loans are guaranteed by the Export-Import Bank of the United States, JSC Locomotive and JSC Kaztemirtrans.

Loan 3: In August 2008 the Group's subsidiary, JSC Locomotive Kurastyru Zauyty, entered into a loan agreement with ABN Amro Bank N.V. to finance the project of "Construction of locomotive assembly plant in Astana". Under provisions of this loan agreement the Group could, provided it submitted at least fifteen business days prior notice to ABN Amro Bank N.V., repay all or part of the loan (the partial repayment should be 10 million US Dollars as a minimum and multiple of 5 million US Dollars). The loan was secured by the guarantees of the Company, JSC Locomotive and JSC Kaztemirtrans. The loan was fully repaid in the year ended December 31, 2011.

JBIC

In accordance with the agreement signed between the Governments of the Republic of Kazakhstan and Japan, the Group received a loan from JBIC to develop its railways network. The JBIC loan is repayable through JSC "Company for the rehabilitation and management of assets" (previously - JSC "Rehabilitation Fund"). During the year ended December 31, 2011 the effective interest rate on JBIC loan approximated 3.65% (2010: 3.49%). Interest is paid semi-annually.

ICO

The Group entered into a loan agreement with the ICO, the Financial Agent of the Kingdom of Spain Government, based on a memorandum on mutual financial co-operation between the Governments of the Republic of Kazakhstan and Spain. The Government of the Republic of Kazakhstan, acting through the Ministry of Finance, issued a guarantee in favour of ICO. The Group may, provided it submitted at least twenty five business days prior notice to ICO, prepay all or any part of the loan (the partial repayment should be of 100 thousand US Dollars as a minimum). Interest is paid semi-annually.

As at December 31, 2011 and 2010, and January 1, 2010 cash of 224,665 thousand tenge, 227,662 thousand tenge and 233,714 thousand tenge, respectively, was held in a reserve account for repayment of this loan.

JSC Development Bank of Kazakhstan

Loan 1: JSC Development Bank of Kazakhstan provided the Group's subsidiary, JSC Transtelecom, with a loan facility to finance the construction of a fiber-optic telecommunication line between Almaty and Astana. Interest is paid semi-annually.

Loan 2: In March 2010 JSC Development Bank of Kazakhstan provided the Group's subsidiary, LLP Kazakhstan Wagon Construction Company, with a loan to finance the purchase of equipment for cargo wagons production and wagon kits of 1,450,542 thousand tenge with a five-year maturity period. The loan is secured by a guarantee from JSC Kaztemirtrans and Repair Corporation Kamkor LLP. Interest is paid semi-annually (Note 34).

JSC European Bank of Reconstruction and Development

Loan 1: The Group has a credit line agreement with European Bank for Reconstruction and Development to finance the construction of a primary backbone transportation communication line. Pursuant to this credit agreement, JSC Transtelecom, a subsidiary, received a loan of 12,488,409 thousand tenge in the year ended December 31, 2010. The loan is guaranteed by the Company. During 2011, the effective interest rate on the loan was 3.46% (2010: 2.24%). Interest is paid semi-annually. As at December 31, 2011 JSC Transtelecom reclassified 11,692,842 thousand tenge from current to non-current portion in connection with entering into an amendment agreement with the bank on May 17, 2011 relating to the revision of the financial ratios levels.

Loan 2: On March 29, 2010 the Group's subsidiary, JSC Kaztemirtrans, entered into a loan agreement with JSC European Bank of Reconstruction and Development to finance the purchase of up to 1000 units of cargo wagons for 50,000 thousand US Dollars. As at December 31, 2011 within this loan agreement Group received 49,800 thousand US Dollars (7,390,320 thousand tenge). During 2011 the effective interest rate on the loan was 4.14% (2010: 2.61%). The loan is guaranteed by the Company. Interest is paid semi-annually.

Loan 3: On December 1, 2010 the Group's subsidiary, JSC Kaztemirtrans, entered into a loan agreement with the European Bank of Reconstruction and Development to finance the purchase up to 4000 units of cargo wagons for 200,000 thousand US Dollars. As at December 31, 2011 within this loan agreement Group received 12,405,402 thousand tenge. For the year ended December 31, 2011 the effective interest rate was 8.91%. The loan is guaranteed by the Company. Interest is paid quarterly.

JSC National Welfare Fund Samruk-Kazyna

Loan 1: On October 21, 2010 the Group entered into a loan agreement with the Shareholder of 30,000,000 thousand tenge. This loan is provided for the construction of railway lines: Uzen – state border with Turkmenistan and Khorgos – Zhetigen. The loan is unsecured. Interest is paid semi-annually at 2% per annum beginning from January 2011. The principal is paid at maturity. The Group is eligible for early repayment of whole or part of the loan upon an agreement of the creditor without premium or penalty.

As the loan was issued by the Shareholder, a related party, at a rate below the market rate of interest for similar loans in arms length transactions, the Group calculated the fair value of this loan and recognized an adjustment to the loan value of 9,694,252 thousand tenge less deferred tax effect of 1,938,850 thousand tenge within additional paid-in capital. To calculate the fair value of the loan, the Group used an effective interest rate of 5.4% using rates on governmental long-term treasury bonds. Amortization of the adjustment to fair value of 519,954 thousand tenge has been capitalized into cost of railways construction (2010: 81,863 thousand tenge).

Loans 2 and 3: On December 23 and 28, 2011, the Group entered into loan agreements with the Shareholder of 4,000,000 thousand tenge and 15,000,000 thousand tenge, respectively. The loans are provided for the renewal of passenger rolling stock of the subsidiary, JSC Passenger Transportation. The loans are unsecured. Interest is paid by 25 annual instalments at 0.75% per annum beginning from November and December 2012, respectively. The principal is repaid in equal annual instalments beginning after five year grace period until full repayment in November and December 2036, respectively. The Group is eligible for early repayment of whole or part of the loan upon an agreement of the creditor without premium or penalty.

As the loans were issued by the Shareholder, a related party, at a rate below the market rate of interest for similar loans in arms length transactions, the Group calculated the fair value of these loans and recognized adjustments to the loan value of 10,271,770 thousand tenge less deferred tax effect of 2,054,354 thousand tenge within additional paid-in capital. To calculate the fair value of the loans, the Group used an effective interest rate of 7.02% using rates on governmental long-term treasury bonds. Amortization of the adjustments to fair value of 1,857 thousand tenge has been recorded within finance cost in the reporting period.

Loan 4: On April 21, 2011 the Group's subsidiary JSC Locomotive received a long-term loan from the Shareholder of 15,000,000 thousand tenge. This loan is provided for the purchase of not less than 40 units of locomotives. The interest is paid quarterly. The principal is paid at maturity. The loan is guaranteed by the Company.

Loan 5: On April 21, 2011 the Group's subsidiary JSC Kaztemirtrans received a long-term loan from the Shareholder of 60,000,000 thousand tenge. This loan is provided for the purchase of not less than 3,200 units of cargo wagons. The interest is paid quarterly. The principal is paid at maturity. The loan is guaranteed by the Company.

JSC ATF Bank

Loan 1: In April 2007 JSC ATF Bank provided a loan to the Group's subsidiary, JSC Locomotive Service Centre, for the purpose of financing the purchase of locomotive modernization kits of 5,450 thousand US Dollars (655,575 thousand tenge). The effective interest rate was 8.82% for 2011 (2010: 5.72%). Interest is paid quarterly.

Loan 2: During 2005-2010 the Group's subsidiary, LLP Repair Corporation Kamkor, received loans for the replenishment of working capital, refinancing of loan from JSC BTA Bank and purchase of non-current assets of 10,153,297 thousands tenge. The principal is payable quarterly or at maturity, and the interest is payable monthly or quarterly. As at December 31, 2011 the loans were partially repaid.

Loans 3 and 4: During September and December 2010 the Group's subsidiary, LLP Kazakhstan Wagon Construction Company, received loans for financing the purchase of equipment for cargo wagons production and construction works of 1,500,000 thousand tenge and 16,441 thousand US Dollars (2,428,091 thousand tenge). The effective interest rate on these loans is 8.48% (2010: 8.7%). The principal is paid by 7 equal annual installments; the interest is paid by semi-annual installments. These loans are secured by a guarantee from Kamkor Management LLP.

Loan 5: In 2011 the Group's subsidiary, JSC Locomotive Kurastyru Zauyty, received a loan from JSC ATF Bank for refinancing debt from ABN Amro Bank N.V. obtained on August 4, 2008 for construction of a locomotives assembly plant in Astana of 13,952,650 thousand tenge (95 million US Dollars). The effective interest rate on this loan is 3.46%. The loan is guaranteed by the Company. Interest is paid semi-annually.

JSC Halyk Bank of Kazakhstan

Loan 1: During 2011 the Group's subsidiary, LLP Repair Corporation Kamkor, received a loan for replenishment of working capital and investment purposes in the amount of 1,870,000 thousand tenge. The principal is repaid quarterly or monthly. The interest is paid monthly. The loan is guaranteed by Locomotiv-2030 LLP and Repair Corporation Kamkor LLP.

Loan 2: In June 2011 the Group's subsidiary, LLP Repair Corporation Kamkor, acquired subsidiary JSC Vostokmashzavod, which had long-term loans from JSC Halyk Bank of Kazakhstan with an interest rate of 7-12% and maturity on January 13, 2012 and long-term loans with an interest rate of 8-12 % and maturity on January 15, 2016.

As at December 31, 2011 the Group's loans were secured by non-current assets (buildings, railway transport and etc.) with a carrying value of 50,007,759 thousand tenge (2010: 46,580,791 thousand tenge, January 1, 2010: 47,164,038 thousand tenge), inventories of nil (2010: nil, January 1, 2010: 151,453 thousand tenge) and future cash inflows of nil (December 31, 2010: 12,803,421 US Dollars (1,899,516 thousand tenge), January 1, 2010: 12,803,421 US Dollars (1,887,224 thousand tenge)). The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

The capitalization rate used to determine the amount of borrowing costs eligible for capitalization is ranging from 3.77% to 12%.

(in thousands of tenge unless otherwise stated)

18. DEBT SECURITIES ISSUED

The Group's debt securities issued as at December 31, 2011 and 2010, and January 1, 2010, were as follows:

	Maturity date	Interest rate, per annum	December 31, 2011	December 31, 2010	January 1, 2010
Eurobonds issued at price					
99.300% - tranche 1	May 11, 2011	6.50%	-	66,330,000	66,762,001
98.292% - tranche 2	May 11, 2016	7.00%	51,933,200	51,590,000	51,925,999
100%	October 6, 2020	6.375%	103,876,100	103,180,000	-
			155,809,300	221,100,000	118,688,000
Including/(excluding):					
Discount on debt securities issued			(560,154)	(725,341)	(981,658)
Transaction costs			(321,196)	(359,724)	-
Accrued interest on debt securities issued			2,056,610	2,653,149	1,092,377
Total Eurobonds issued			156,984,560	222,668,084	118,798,719
Less: current portion of debt securities issued			(2,056,610)	(68,927,178)	(1,092,377)
Long-term portion of debt securities issued			154,927,950	153,740,906	117,706,342

On May 11, 2006 Kazakhstan Temir Zholy Finance B.V. (the "Issuer"), a subsidiary of JSC Kaztemirtrans, issued two tranches of Eurobonds totalling 800,000 thousand US Dollars. The Eurobonds are guaranteed by the Company and its subsidiaries: JSC Kaztemirtrans and JSC Locomotive (the "Guarantors"). Interest is payable on such Eurobonds semi annually on May 11 and November 11. On May 11, 2011 the Group repaid the 5-year eurobonds (Tranche 1) of 65,493,000 thousand tenge (450 million US Dollars).

On October 6, 2010 the Issuer issued Eurobonds totalling 700,000 thousand US Dollars. Such Eurobonds are guaranteed by the Guarantors. Interest is payable semi annually on April 6 and October 6.

The Eurobonds contain covenants that place certain limitations on the Group including, but not limited to, limitations on changes in the business and the disposal of property, and limitations on mergers and consolidations with other legal entities. In the case of any payment default, or any of default as defined by the Eurobond indenture, investors are entitled to require repayment of Eurobonds.

(in thousands of tenge unless otherwise stated)

19. FINANCE LEASE LIABILITIES

The Group's finance lease liabilities as at December 31, 2011 and 2010, and January 1, 2010, were as follows:

	Minimum lease payments			Present value of minimum lease payments		
	December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010	January 1, 2010
Within one year	1,370,017	1,328,838	1,337,899	614,257	508,648	476,428
From two to five years inclusive	5,242,687	4,571,746	4,739,611	2,596,266	1,963,121	1,725,767
After five years	3,145,905	4,126,852	5,039,461	2,419,837	2,982,439	3,542,284
Net minimum lease liabilities	9,758,609	10,027,436	11,116,971	5,630,360	5,454,208	5,744,479
Less future finance charges	(4,128,249)	(4,573,228)	(5,372,492)	-	-	-
Present value of lease payments	5,630,360	5,454,208	5,744,479	5,630,360	5,454,208	5,744,479
Less liability payable within 12 months				(614,257)	(508,648)	(476,428)
Amount payable after 12 months				5,016,103	4,945,560	5,268,051

In 2004 the Group represented by the subsidiary JSC Transtelecom entered into a non-cancelable finance lease arrangement for telecommunication equipment (the "finance lease") with LLP TeleKRONA. The term of the finance lease is 14.5 years with an optional renewal term of one year. In accordance with the terms of the lease agreement, the Group received telecommunication equipment in installments through the end of 2010. In 2010 and 2009 the Group received telecommunication equipment for 3,506 thousand tenge and 853,108 thousand tenge, respectively. The interest rate implicit in the lease is 18.25% per annum.

On December 11, 2008 the Group represented by the subsidiary JSC Kaztemirtrans entered into a finance lease state purchase agreement with JSC BRK Leasing, a related party, to provide 340 units of rolling stock to its subsidiary JSC Center of Transport Service. In 2008 the Group received 190 cistern wagons with a carrying value of 1,028,838 thousand tenge. In 2009 the Group received the residual 150 cistern wagons with a carrying value of 712,852 thousand tenge. The interest rate implicit in the lease is 10.50% per annum. This contract is secured by a guarantee from the Company effective during the whole maturity period.

On December 28, 2011 the Group represented by LLP Temirzhol Zhondeu, subsidiary of Repair Corporation Kamkor LLP, entered into a finance lease state purchase agreement with JSC Islam Bank Al Hilal to purchase 2 units of track equipment. In 2011 the Group received such track equipment with a carrying value of 1,021,007 thousand tenge and initial direct acquisition costs were 21,022 thousand tenge. The interest rate is 16.3% per annum. This contract is secured by a guarantee from the subsidiary LLP Temirzholenergo of 290,000 thousand tenge effective during the whole maturity period.

All lease liabilities are denominated in tenge.

(in thousands of tenge unless otherwise stated)

20. EMPLOYEE BENEFIT OBLIGATIONS

Social tax and pension contributions

The Group pays social tax, which is expensed as incurred, based on the current statutory requirements of the Republic of Kazakhstan. The social tax charges in 2011 and 2010 were 17,329,248 thousand tenge and 18,108,569 thousand tenge, respectively.

The Group also withholds and contributes 10% from the salaries of its employees as the employee's contribution to their cumulative pension funds. According to legislation of the Republic of Kazakhstan, pension contributions are the responsibility of employees, and the Group has no current or future obligations to make payments to employees following their retirement, apart from those stipulated by the Agreement with the Labor Union.

Defined benefits scheme

Employee benefit obligations are payable in accordance with the Labor Union Agreement concluded between the Group and its employees for 2009-2011 and 2012-2014.

The total liability payable in accordance with this agreement comprised the following as at December 31, 2011 and 2010, and January 1, 2010:

	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
Present value of defined benefit obligation	19,440,922	15,760,105	14,213,388
Liability falling due within one year	(1,985,504)	(1,697,299)	(1,025,608)
Liability falling due after one year	17,455,418	14,062,806	13,187,780

The defined benefit scheme is unfunded.

A reconciliation of the present value of the obligation with specified payments is as follows for the years ended December 31:

	2011	2010 (restated)
Total liability taken over at the beginning of the year	15,760,105	14,213,388
Current service cost	847,525	643,278
Past service cost	478,643	2,493,760
Interest cost	1,409,404	1,267,114
Benefits paid during the year	(1,816,422)	(1,381,628)
Actuarial loss/(gain) recognized during the year	2,628,792	(917,447)
Plan reduction, sequester	(10,305)	(2,582)
Unrecognized past service cost	143,180	(555,778)
Total liability at the end of the year	19,440,922	15,760,105

The past service cost recognized for the years ended December 31, 2011 and 2010 primarily resulted from changes in the Labor Union Agreement, differences between the actual annual salary increase and the estimated annual increase, and demographic changes.

(in thousands of tenge unless otherwise stated)

The total service cost, including current service, past service cost, interest cost, and the actuarial loss/(gain) for the year of 5,497,239 thousand tenge and 2,928,345 thousand tenge recognized during 2011 and 2010, respectively, was recorded in the consolidated statement of comprehensive income within cost of sales (Note 26) and general and administrative expenses (Note 27).

The estimates of the Group's obligations were made on the basis of the published statistical data regarding mortality and the actual Group's data concerning the number, age, sex and years of service of the employees and pensioners and the Group's turnover statistics. Other principal assumptions at the reporting date were as follows:

	2011	**2010**	**January 1, 2010**
Discount rate	6.0%	6.50%	6.50%
The expected rate of future annual material assistance increases	5.38%	5.80%	5.50%
The expected rate of future annual minimum salary increases	3.38%	3.80%	5.50%
The expected rate of future annual railway ticket price increases	5.38%	4.80%	4.50%

21. INCOME TAX

Entities based in Kazakhstan are subject to income tax on taxable profit as determined under the laws of the Republic of Kazakhstan. The income tax rate was 20% in both 2011 and 2010. In the 2009 tax legislation, the tax rate was expected to decrease from 20% to 17.5% in 2013, however, changes to legislation were subsequently introduced and the rate was revised to 20% effective from January 1, 2011.

Income tax expense comprised the following for the years ended December 31:

	2011	**2010 (restated)**
Current income tax expense	1,923,274	5,279,119
Deferred income tax expense	31,369,398	36,266,422
	33,292,672	41,545,541

(in thousands of tenge unless otherwise stated)

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense reported in the consolidated financial statements was as follows for the years ended December 31:

	2011	2010 (restated)
Profit before taxation	156,521,491	108,082,293
Statutory tax rate	20%	20%
Theoretical tax expense at the statutory rate	31,304,298	21,616,459
Tax effect of expenses/(gains) that are not deductible/(not taxable) for tax purposes:		
Change of income tax related to previous years	(549,473)	(15,171)
Non-deductible expenses	3,921,089	5,021,060
Effect of unused tax losses not recognized as deferred tax assets	(1,383,242)	(1,366,991)
Effect of change in tax rates	-	16,290,184
Income tax expense reported in the consolidated financial statements	33,292,672	41,545,541

Deferred tax balances calculated by applying the statutory tax rates in effect at the respective reporting dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the consolidated financial statements, are as at follows at December 31, 2011 and 2010, and January 1, 2010:

	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
Deferred tax assets:			
Tax losses carried forward	4,151,057	1,964,911	5,508,146
Unused vacation provision	1,940,527	1,628,686	1,375,886
Provision for impairment of investments	-	-	236,700
Differences in accounts receivable	1,370,037	988,867	1,018,326
Allowance for obsolete and slow-moving inventories	347,783	384,961	475,555
Accrued liabilities	1,008,478	1,041,200	99,161
	8,817,882	6,008,625	8,713,774
Deferred tax liabilities:			
Property, plant and equipment and other non-current assets	(123,544,465)	(88,607,230)	(54,792,885)
Adjustment of loan to fair value	(3,872,470)	(1,922,478)	-
	(127,416,935)	(90,529,708)	(54,792,885)
Total net deferred tax liabilities	(118,599,053)	(84,521,083)	(46,079,111)

(in thousands of tenge unless otherwise stated)

	2011	2010 (restated)
Net deferred income tax liability as at the beginning of the year	(84,521,083)	(46,079,111)
Recorded in the consolidated statement of comprehensive income	(31,369,398)	(36,266,422)
Recorded in the consolidated statement of changes in equity	(2,054,354)	(2,175,550)
Acquired through business combination	(654,218)	-
Net deferred income tax liability as at the end of the year	(118,599,053)	(84,521,083)

The Group has unrecognised deferred tax assets relating to tax losses carried forwards. In management's opinion, it is not probable that there will be sufficient taxable income available in the future against which such deferred tax assets can be utilized. Total tax effect of unrecognised tax loss carryforwards as at December 31, 2011 amounted to 1,182,414 thousand tenge (December 31, 2010: 4,396,135 thousand tenge, January 1, 2010: 8,159,204 thousand tenge).

In addition to the above, as at December 31, 2010 the Group has revised its estimates and has not recognized the deferred tax asset on impairment losses on its investment in JSC Doszhan Temir Zholy of 1,091,600 thousand tenge (January 1, 2010: deferred tax asset of 236,700 thousand tenge), as taxable profit on this associate is unlikely based on the opinion of the Group's management (Note 7).

Due to changes in tax legislation of the Republic of Kazakhstan, effective from January 1, 2010, tax losses carried forward, incurred after January 1, 2009, expire for tax purposes ten years after the date they are incurred. Tax losses carried forward, incurred before January 1, 2009, in the Republic of Kazakhstan expire for tax purposes three years from the date they are incurred. Therefore, the part of the tax losses carried forward by the Group as at December 31, 2011, expired for tax purposes in 2011.

22. TRADE ACCOUNTS PAYABLE

Trade accounts payable comprised the following as at December 31, 2011 and 2010, and January 1, 2010:

	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
Accounts payable for services	19,079,181	14,917,446	16,325,347
Accounts payable for inventory	24,215,243	25,871,434	21,384,092
Accounts payable for property, plant and equipment	25,881,271	15,732,934	5,703,728
Other accounts payable	1,787,833	946,668	1,504,971
	70,963,528	57,468,482	44,918,138

(in thousands of tenge unless otherwise stated)

As at December 31, 2011 and 2010, and January 1, 2010 trade accounts payable were denominated in various currencies as follows:

	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
Tenge	69,056,345	49,713,878	40,304,990
US Dollars	665,951	6,537,609	1,308,515
Swiss Francs	794,170	830,858	2,942,017
Other currencies	447,062	386,137	362,616
	70,963,528	57,468,482	44,918,138

23. OTHER TAXES PAYABLE

Other taxes payable comprised the following as at December 31, 2011 and 2010, and January 1, 2010:

	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
VAT	2,838,143	2,122,472	2,368,041
Personal income tax	2,300,654	1,842,539	1,629,736
Social tax	1,157,760	867,923	833,040
Social contribution	834,215	645,302	799,331
Property tax	58,806	132,165	231,130
Withholding tax from non-residents	-	-	1,174,000
Fines and penalties on income tax from non-residents	-	-	1,126,123
Fines and penalties on corporate income tax	-	-	776,308
Other	589,804	537,359	43,685
	7,779,382	6,147,760	8,981,394

In 2008 tax audits of the Group for the period from 2003 to 2006 were conducted by the Kazakhstan governmental tax authorities. During 2008 the Group recorded a tax liability of 1,174,000 thousand tenge related to withholding tax and a liability of 1,902,431 thousand tenge related to the estimate amount of fines and penalties. During 2010 these matters were resolved resulting in a reversal of previously created provisions by the Group in total of 2,967,221 thousand tenge.

(in thousands of tenge unless otherwise stated)

24. OTHER CURRENT LIABILITIES

Other current liabilities comprised the following as at December 31, 2011 and 2010, and January 1, 2010:

	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
Construction commitment for benefit of the Shareholder	55,743,815	27,129,708	-
Advances received from customers	33,733,056	26,425,497	28,293,855
Salaries payable	9,653,013	9,570,619	8,669,153
Unused vacation provision	9,702,634	8,143,431	6,879,430
Deferred income	10,439,209	6,278,617	3,440,142
Obligatory pension contributions	3,030,830	2,504,107	2,174,528
Provision for additional payments to employees living in regions of environmental disaster	3,223,972	302,951	12,299
Other current liabilities	8,128,498	7,336,026	3,689,456
	133,655,027	87,690,956	53,158,863

As described in Notes 13 and 16 above in 2011 and 2010, the Group entered into irrevocable commitments to construct and equip a building for a teleradio complex in Astana. The value of that commitment as at December 31, 2011 was estimated by management to be the value of the related construction contract, namely 27,129,708 thousand tenge, the contract for supply of media and technical equipment for installation within the teleradio complex, namely 28,125,000 thousand tenge and expenses related to acquisition of land for construction of 489,107 thousand tenge. The commitment amount has been recognised as a current "Construction commitment" above, and is considered current due to the expectation that the commitment will be fulfilled within twelve months from the reporting period end.

As at December 31, 2011 and 2010, and January 1, 2010 the Group accrued unused vacation provision, estimated based on quantity of unused vacation days and average salary per day, and provision for additional payments to employees living in regions of environmental disaster, estimated according to the labor legislation.

As at December 31, 2011 and 2010, and January 1, 2010 current salaries payable and other current liabilities were primarily payable in tenge.

25. OTHER REVENUE

Other revenue for the years ended December 31 comprised the following:

	2011	2010 (restated)
Revenue from the sale of goods and provision of services to third parties	21,633,849	11,616,553
Penalties received	4,091,062	2,884,775
	25,724,911	14,501,328

(in thousands of tenge unless otherwise stated)

Revenue from the sale of goods and provision of services to third parties consists primarily of profit on the sale of inventory and scrap to other third parties, communication services and sales of electricity to third parties.

Penalties received represent mainly revenue earned on the assessment of penalties on late pickup of cargo cars fines and penalties for breach of contract terms.

26. COST OF SALES

Cost of sales for the years ended December 31 comprised the following:

	2011	2010 (restated)
Personnel costs, including short-term provisions	170,725,908	153,190,333
Fuels and lubricants	78,261,229	64,518,931
Services	46,714,969	18,238,543
Depreciation and amortization	57,015,002	50,367,504
Materials and supplies	59,148,299	59,518,772
Electricity	25,421,805	22,184,263
Wagon usage fee	16,948,107	18,412,949
Operating lease expenses	1,338,082	1,789,782
Lease of communication channels	1,946,403	2,066,206
Employee benefit expenses (Note 20)	4,651,104	2,389,503
Professional services	2,293,065	1,919,977
Business trip expenses	2,431,754	2,036,197
Personnel training	753,789	647,608
Other	2,630,746	138,315
	470,280,262	397,418,883

Personnel costs, including short-term provisions, for the years ended December 31 comprised the following:

	2011	2010 (restated)
Personnel costs	151,869,400	135,958,082
Social tax	14,730,067	15,985,542
Provision for additional payments to employees living in regions of environmental disaster (Note 24)	3,034,690	203,591
Unused vacation provision expense	1,091,751	1,043,118
	170,725,908	153,190,333

(in thousands of tenge unless otherwise stated)

27. GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expense for the years ended December 31 comprised the following:

	2011	2010 (restated)
Personnel costs, including short-term provisions	30,787,927	26,323,483
Property tax and other taxes	14,831,621	9,266,651
Charities and sponsorship	8,058,680	6,225,450
Depreciation and amortization	3,608,515	2,147,929
Social activities	1,498,552	482,386
Business trip expenses and representative expenses	1,453,265	1,239,012
Professional services	1,419,623	1,313,930
Consulting, audit and legal services	1,315,939	1,240,973
Allowances for doubtful debts (Note 9, 11, 14)	1,118,705	1,275,820
Services	1,179,746	724,298
Materials	928,124	687,596
Employee benefit expenses (Note 20)	846,135	538,842
Advertising expenses	778,253	691,268
Bank services	739,558	739,125
Provision on legal claims	590,447	3,801,217
Operating lease expenses	222,754	527,044
Allowance for unrecoverable VAT receivable (Note 9)	(9,905,425)	8,998,670
Other expenses	3,299,957	2,940,532
	62,772,376	69,164,226

Personnel costs, including short-term provisions, for the years ended December 31 comprised the following:

	2011	2010 (restated)
Personnel costs	27,627,934	23,896,763
Provision for additional payments to employees living in regions of environmental disaster (Note 24)	189,282	99,360
Social tax	2,589,190	2,114,361
Unused vacation provision expense	381,521	212,999
	30,787,927	26,323,483

28. FINANCE INCOME

Finance income for the years ended December 31 comprised the following:

	2011	2010 (restated)
Interest income on short-term investments and bank deposits	4,310,730	3,240,572
Other finance income	333,517	49,119
	4,644,247	3,289,691

(in thousands of tenge unless otherwise stated)

For the years ended December 31, 2011 and 2010 the Group's finance income included interest income on short-term investments and bank deposits of 443,365 thousand tenge and 740,771 thousand tenge, respectively, placed with related parties (Note 34).

29. FINANCE COSTS

Finance costs for the years ended December 31 comprised the following:

	2010	2010 (restated)
Interest expense on debt securities issued	11,226,015	9,411,475
Interest expense on loans	7,036,280	2,255,778
Finance lease charge	1,054,963	1,081,798
Amortization of discount on debt securities issued	197,974	249,880
	19,515,232	12,998,931

30. BUSINESS COMBINATION

The following acquisitions by the Group's subsidiary Repair Corporation Kamkor LLP took place in June 2011. Each business combination was accounted for using the acquisition method:

	Main activity	Acquisition date	Share	Purchase consideration
JSC Vostokmashzavod	1) Production of machinery products; 2) Production and repair of mining equipment.	June 3, 2011	50.82%	121,136
Almaty VKM Service LLP	Repair, modernization and construction of new railway wagons	June 9, 2011	100%	390,000

Included in the profit for the year is loss of 605,546 thousand tenge attributable to the additional business generated by JSC Vostokmashzavod, and loss of 4,988 thousand tenge attributable to Almaty VKM Service LLP. Revenue for the year includes 1,430,315 thousand tenge in respect of JSC Vostokmashzavod and 12,986 thousand tenge in respect of Almaty VKM Service LLP.

If these business combinations had been effective at January 1, 2011, the revenue of the Group from continuing operations would have been 781,893 thousand tenge higher, and the profit for the year from continuing operations would have been 392,780 thousand tenge lower.

(in thousands of tenge unless otherwise stated)

The allocation of purchase consideration of businesses acquired is based on the fair value of assets and liabilities acquired. Net assets acquired and related gains from acquisition as well as goodwill are presented as follows:

	JSC Vostokmash-zavod	Almaty VKM Service LLP
ASSETS		
Non-current assets		
Property, plant and equipment	11,547,183	56,537
Intangible assets	26,021	-
Other non-current assets	48,475	1,982
Total non-current assets	**11,621,679**	**58,519**
Current assets		
Inventories	597,033	60
Trade accounts receivable	73,152	5,049
Prepaid income tax	25,207	-
Other current assets	141,258	130
Cash and cash equivalents	959	5,097
Total current assets	**837,609**	**10,336**
Total assets	**12,459,288**	**68,855**
Non-current liabilities		
Borrowings	4,560,209	-
Debt securities issued	556,200	-
Deferred income tax liability	656,200	-
Other non-current liabilities	16,133	-
Total non-current liabilities	**5,788,742**	-
Current liabilities		
Borrowings	2,568,390	-
Trade accounts payable	287,012	231
Other taxes payable	30,862	941
Other current liabilities	1,679,311	18
Total current liabilities	**4,565,575**	**1,190**
Total liabilities	**10,354,317**	**1,190**
Net assets acquired	**2,104,971**	**67,665**
Cash consideration paid	121,136	390,000
Add: non-controlling interests (49.18% in JSC Vostokmashzavod)	1,035,225	-
Less: fair value of net assets acquired	(2,104,971)	(67,665)
(Bargain purchase gain)/goodwill	(948,610)	322,335

(in thousands of tenge unless otherwise stated)

As at December 31, 2011 the Group increased its share in JSC Vostokmashzavod from 50.82% to 93.64% through the issuance of shares for 704,978 thousand tenge.

Goodwill related to the acquisition of Almaty VKM Service LLP because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of using operating assets for production purposes, namely, repairs of wagon wheel pairs.

31. EARNINGS PER SHARE

Basic earnings per share are calculated based on the weighted average number of ordinary shares outstanding during 2011 and 2010. Basic and diluted per share data are the same, as there is no material dilution.

	2011	2010 (restated)
Earnings for the year (thousand tenge)	122,886,900	65,917,640
Weighted average number of ordinary shares	491,150,379	490,566,676
Basic and diluted earnings per share (tenge)	250	134

32. FINANCIAL AND CONTINGENT LIABILITIES

Capital and operating lease commitments

Capital commitments

As at December 31, 2011, the Group had committed to contracts for the construction of Uzen – state border with Turkmenistan and Khorgos – Zhetigen railways, the primary backbone transport communication net, the plant for production of passenger wagons in Astana, the capital repair of railways, the activities related to expansion of Dostyk station, and the purchase of cargo and passenger electric locomotives, cargo and passenger wagons and backbone locomotives totalling 467,859,430 thousand tenge (December 31, 2010: 174,970,828 thousand tenge). This amount includes commitments for purchase of passenger electric locomotives from joint venture Electric locomotives assemble plant LLP for the amount of 296,298,948 thousand tenge with supply till December 31, 2020 and also commitments for purchase of passenger wagons from joint venture Tulpar-Talgo LLP for the amount of 55,726,027 thousand tenge with supply till December 31, 2014.

Operating lease commitments

As at December 31, 2011 the Group had operating lease commitments of 699,019 thousand tenge, which are all due within one year (December 31, 2010: 649,358 thousand tenge).

Contingent liabilities

Legal claims

The Group is subject to various legal proceedings related to business operations, such as property damage claims. The Group does not believe that pending or threatened claims of these types, individually or in aggregate, are likely to have any material adverse effect on the Group's consolidated financial position, results of operations, or cash flows.

Kazakhstan taxation contingencies

Kazakhstan legislative acts and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are quite usual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan laws, decrees and related regulations are severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the additional taxes accrued. Interest is assessed at 22.5%.

As a result, penalties and interest can result in amounts that are multiples of any incorrectly reported taxes resulting in an understatement.

During 2011 the tax authorities conducted tax audits of the Group for the period of 2007-2010. As at December 31, 2011 the said tax audits are not complete. The Group did not accrue tax provisions as the Group's management believe that future tax payments arising as a consequence of such tax audits are not probable.

Due to the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, related to the years under audit and the subsequent years may be in excess of the amount expensed to date and accrued as at December 31, 2011. It is not practicable to determine the amount of any unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

Insurance

The insurance market is still in the early stage of development in Kazakhstan and, in common with other state-owned enterprises, the Group does not, with the exception of obligatory passenger insurance with regard to personal injury, death and loss or damage to passenger property, maintain any insurance against the risk of damage to any of its properties, assets or equipment (including infrastructure, rolling stock and stations) nor against business interruption or third party liability in respect of property or environmental damage arising from accidents to the Group's property or relating to the Group's operations. The Group maintains the required insurance coverage under policies purchased from commercial insurance operators in Kazakhstan.

Other contingencies

In June 2011 Kazakh Transit Telecommunications LLP (hereinafter – "KT&T") brought an action against the Group's subsidiary, JSC Transtelecom, for non-compliance with its obligations under the agreement on joint activity № 63-1/16 dated April 27, 2006, and claimed a reimbursement of penalties of 20,000 thousand tenge (in terms of state fees paid) for failure to make timely payments for the use of KT&T's equipment. On September 13, 2011 the court of the first instance made a decision to recover from the Group the full claim amount. An appeal of the Group was dismissed in February 2012. In March 2012 the Group filed a cassation appeal.

The total amount of penalty charges for late lease payments for the period from July 2008 to August 2009, calculated by KT&T is equal to 1,281,478 thousand tenge. Based on the history of relations between the Group and KT&T related to a number of previous trials, Group management have concluded that payment of the full penalty charges claimed by KT&T is not probable. The Group intends to work with KT&T towards a negotiated settlement.

Based on the foregoing, as at December 31, 2011 the Group has established a provision of 500,000 thousand tenge.

Guarantees

On October 27, 2011 joint venture Tulpar-Talgo LLP, established with the participation of Company's subsidiary JSC Remlocomotive, concluded a credit agreement with JSC SB RBS (Kazakhstan) for replenishment of working capital in the amount of 5,000,000 thousand tenge. In accordance with the loan agreement the Company provided a guarantee of 5,000,000 thousand tenge.

(in thousands of tenge unless otherwise stated)

33. SUBSIDIARIES

Subsidiary	Nature of activities	Country of residence	Percentage holding, % 2011	2010 (restated)	January 1, 2010 (restated)
1. JSC Kaztemirtrans	Operation of cargo wagons	Kazakhstan	100	100	100
2. JSC Passenger Transportation	Passenger transportation	Kazakhstan	100	100	100
3. JSC Locomotive	Locomotive haul services	Kazakhstan	100	100	100
4. JSC National centre on development of transport logistics (JSC Remwagon)	Formation of transport and logistics	Kazakhstan	100	100	100
5. JSC Temirzholsu	Utilities	Kazakhstan	100	100	100
6. JSC Temirzholzhilu	Utilities	Kazakhstan	100	100	100
7. JSC Remlocomotive	Repair of locomotives	Kazakhstan	100	100	100
8. JSC Almaty Wagon Repair Plant	Repair of wagons	Kazakhstan	100	100	100
9. OJSC Zheldorremmash	Repair of locomotives	Kazakhstan	100	100	100
10. JSC Locomotive Service Center	Repair of locomotives	Kazakhstan	100	100	100
11. JSC Kaztransservice	Transit cargo transportation	Kazakhstan	100	100	100
12. JSC Transtelecom	Communication services	Kazakhstan	100	100	100
13. OJSC Zheldorvodoteplosnabzhenie	Utilities	Kazakhstan	100	100	100
14. LLP Lesozashita	Protection of railway transportation property from unfavorable weather conditions	Kazakhstan	100	100	100
15. JSC Center of Transport Service	Operating of local railway lines	Kazakhstan	100	100	100
16. JSC Militarized Railway Guard	Security services	Kazakhstan	100	100	100
17. Kazakhstan Temir Zholy Finance B.V.	Financial services	Kingdom of Netherlands	100	100	100
18. LLP Kazykurt Yug	Flushing and steaming of wagons	Kazakhstan	100	100	100
19. LLP Ertys Service	Flushing and steaming of wagons	Kazakhstan	100	100	100
20. LLP Akzhaiyk Zapad 2006	Flushing and steaming of wagons	Kazakhstan	100	100	100
21. JSC Locomotive Kurastyru Zauyty	Assembly of locomotives	Kazakhstan	100	100	100
22. Repair Corporation Kamkor LLP	Repair of railway rolling stock and mainline railway track	Kazakhstan	100	100	100
23. JSC Vokzal-service	Railway stations activities	Kazakhstan	100	-	-
24. LLP Kazakhstan Wagon Construction Company	Production of cargo wagons	Kazakhstan	66.7	66.7	66.7

As at December 31, 2011 the following subsidiaries of the Company were in the process of liquidation: OJSC Zheldorremmash and LLP Akzhaiyk Zapad 2006.

During 2011 the Group revised its plans with regard to liquidation of subsidiaries OJSC Zheldorvodoteplosnabzhenie and JSC Remwagon. In accordance with the Program on development of railway transport in the Republic of Kazakhstan till 2020 OJSC Zheldorvodoteplosnabzhenie and JSC Temirzholzhilu will be merged with subsidiary JSC Temirzholsu. In July 2011 the Group reorganized its subsidiary JSC Remwagon into a new entity, JSC National Centre on Development of Transport Logistics.

In April 2011 the Shareholder transferred its ownership interest in Repair Corporation Kamkor LLP to the Company. As discussed in Note 4, these financial statements have been retrospectively restated to reflect the inclusion of Repair Corporation Kamkor LLP effective January 1, 2010.

In addition, the Group obtained control over a subsidiary, JSC Kazakhstan Wagon Construction Company with the Group's share of 66.7% as a result of the combination of interests of Repair Corporation Kamkor LLP of 33.4% and subsidiary JSC Kaztemirtrans of 33.3% (Note 4).

In 2011 JSC Remlocomotive jointly with Siemens established Temir Zhol Electrification LLP, whereby JSC Remlocomotive owns a 51% of share. The primary activity of this entity is implementation of railways electrification projects.

In 2010 JSC Remlocomotive jointly with Ansaldo STS S.p.A established Kazakhstan-TJ-Ansaldo STS Italia LLP, whereby JSC Remlocomotive owns a 51% of share. The primary activity of this entity is providing research, development, construction and assembling services, as well as production of goods for railway transport.

Also during 2010, JSC Almaty Wagon Repair Plant jointly with Slovakian company ZOS–VYVOJ, s.r.o. established NurZholBarys LLP for design and production of wagons for diesel trains, where JSC Almaty Wagon Repair Plant owns a 51% of share.

34. RELATED PARTIES TRANSACTIONS

For the purposes of these consolidated financial statements, 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. Also parties under common control with the Group are considered to be related. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The Group's policy with respect to the approval of transactions with related parties is that the transaction should be approved by management by a majority of votes but not less than three quarters of the elected members. If the Management Board is not available to approve the transaction, then a majority of the members of the Board of Directors who are not interested in the transaction may vote to approve the transaction. If all members of the Board of Directors are interested, then a majority of the independent directors may vote to approve the transaction. If the independent directors are not available to approve the transaction, then the Shareholder may approve it.

(in thousands of tenge unless otherwise stated)

Related parties may enter into transactions that unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of related party relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding as at December 31, 2011 and 2010, and January 1, 2010 not outlined elsewhere in these notes, are detailed below.

Amounts due to and from related parties (profit oriented state-owned entities), recorded within trade accounts payable, other current liabilities, trade accounts receivable, other current and non-current assets as well as the transactions with related parties (commercial organizations, fully controlled by the government) as at December 31, 2011 and 2010, and January 1, 2010 were as follows:

	Due from related party			Due to related party		
Company name	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
JSC National Company KazMunaiGas	90,848	132,384	27,242	697,254	284,103	340,845
JSC Kazpost	150,302	137,742	83,571	8,935	8,228	-
JSC Kazakhtelecom	16,775	30,548	-	35,874	29,842	63,076
JSC National Nuclear Company Kazatomprom	6,033	10,836	-	86,291	85,075	83,241
JSC KEGOC	2,858	3,109	-	16	108	26,295
JSC National Company Kazakhstan Engineering	87,693	156,262	-	364,705	482,097	148,702
JSC Samruk-Energo	15,046	15,667	26,016	4,220	8,590	-
JSC Air Astana	199	645	-	9,539	7,931	4,371
LLP Samruk-Kazyna Contract	275	-	-	5,095	8,182	1,148
JSC KOREM	-	-	-	1,912	1,856	2,531
LLP JV Betpak Dala	-	-	-	2,841	2,479	2,218
SEC Sary-Arka	-	-	364	-	-	-
LLP JV Katco	-	-	-	1,065	3,001	11,130
JSC Kazyna Capital Management	2	51	-	-	-	2
JSC International Airport Atyrau	-	-	-	424	766	1,331
JSC GSM Kazakhstan JSC Kazakhtelecom	13,283	11,270	19,811	2,504	199	-
JSC Alliance Bank	-	1	-	-	40	7
JSC Development Bank of Kazakhstan	24	24	-	-	-	-
JSC BTA Bank	326	10	-	273	2,025	-
JSC Temir Bank	62	42	-	164	-	-
JSC Astana Finance	92	-	-	-	-	1,962,860
Other	-	-	-	1,633	1,133	934
	383,818	498,591	157,004	1,222,745	925,655	2,648,691

(in thousands of tenge unless otherwise stated)

Transactions with related parties (profit oriented state-owned entities) were as follows for the years ended December 31:

	Sales of services		Purchases of services	
	2011	2010	2011	2010
Company name		**(restated)**		**(restated)**
JSC National Company KazMunaiGas	4,710,471	7,061,091	120,920	1,207,467
JSC Kazpost	711,013	692,916	190,214	81,435
JSC Kazakhtelecom	227,312	266,622	531,266	587,655
JSC National Nuclear Company Kazatomprom	714,763	449,012	123,170	80,684
JSC KEGOC	8,049	8,912	3,152,105	2,922,614
JSC National Company Kazakhstan Engineering	406,294	81,774	1,871,887	708,488
JSC Samruk-Energo	150,468	128,804	283,513	236,136
JSC Air Astana	57,263	44,113	137	-
JSC GSM Kazakhstan JSC Kazakhtelecom	125,023	191,526	12,960	532
LLP JV Betpak Dala	3,923	1,580	-	-
LLP JV Katco	7,470	9,157	-	-
JSC Kazyna Capital Management	211	70	-	-
JSC International Airport Atyrau	4,323	8,820	-	-
JSC KOREM	-	-	16,497	15,712
LLP Samruk-Kazyna Contract	-	-	75,313	71,584
JSC Alliance Bank	1,712	1,936	-	-
JSC Development Bank of Kazakhstan	687	-	3,062	620
JSC BTA Bank	3,398	2,116	100,853	74,413
JSC Temir Bank	1,347	1,634	1,582	-
JSC Astana Finance	1,225	442,983	202	-
Other	9,777	7,568	-	-
	7,144,729	9,400,634	6,483,681	5,987,340

The services provided by related parties include repair works and other costs of providing services. The services provided to related parties include cargo transportation services. Sales to and purchases from related parties are at prices intended to be consistent with market rates. Outstanding balances at year-end are unsecured and interest free with settlement is made in cash. There have been no guarantees provided or received for any related party receivables or payables.

In addition, as at December 31, 2011 the Group acquired inventories in the amount of 3,678,511 thousand tenge (2010: 508,844 thousand tenge) and non-current assets in the amount of 1,075,339 thousand tenge (2010: 2,063,769 thousand tenge).

At December 31, 2011 and 2010, and January 1, 2010 the Group has created bad debt provisions of 68,716 thousand tenge, 99 thousand tenge and 84 thousand tenge, respectively, against the receivables from related parties.

In addition to services related to operating activities, the Group has various related party transactions related to its investments and financing including the following:

(a) as at December 31, 2011 and 2010, and January 1, 2010, the Group's borrowings in the amount of 3,292,686 thousand tenge, 3,597,548 thousand tenge and 3,950,158 thousand tenge, respectively, were guaranteed by the Government of the Republic of Kazakhstan (Note 17);
(b) as at December 31, 2011 and 2010, and January 1, 2010, the Group has loans of 1,943,511 thousand tenge, 1,898,521 thousand tenge and 1,314,034 thousand tenge, respectively, from JSC Development Bank of Kazakhstan (Note 17);
(c) as at December 31, 2011 and 2010, and January 1, 2010 the Group's finance lease liabilities to JSC Development Bank of Kazakhstan amounted to 1,377,070 thousand tenge, 1,566,059 thousand tenge and 1,754,901 thousand tenge, respectively;
(d) as at December 31, 2011 the Group has loans of 105,138,214 thousand tenge (December 31, 2010: 20,504,278, January 1, 2010: nil) from the Shareholder. The loans received in 2011 were recognized at amortized cost and reflect a discount of 10,271,770 thousand tenge, less a deferred tax effect of 2,054,354 thousand tenge, due to such loans being issued to the Company at less than fair value (2010: discount of 9,694,252 thousand tenge, less a deferred tax effect of 1,938,850 thousand tenge) (Note 17);
(e) as at January 1, 2010, the Group has loans of 2,369,214 thousand tenge from JSC BTA Bank (Note 17);
(f) as at December 31, 2011 and 2010, and January 1, 2010, the Group has loans of 15,856,087 thousand tenge, 1,608,058 thousand tenge and nil tenge, respectively, from JSC Halyk Bank of Kazakhstan (Note 17);
(g) as at December 31, 2011 the Group has loans of 301,583 thousand tenge from JSC Alliance Bank;
(h) as at December 31, 2011 and 2010, and January 1, 2010 the Group deposited cash on current and deposit accounts with JSC Halyk Bank of Kazakhstan, JSC Kazkommertsbank, JSC BTA Bank, JSC Alliance Bank, JSC Temir Bank and JSC Development Bank of Kazakhstan. In 2010 JSC Kazkommertsbank was disposed from the list of related parties. The Group recognized finance income from these bank current accounts and deposits in the amount of 443,365 thousand tenge and 740,771 thousand tenge during the years ended December 31, 2011 and 2010, respectively. The deposits with these banks at December 31, 2011 and 2010, and January 1, 2010 consist of the following:

(in thousands of tenge unless otherwise stated)

	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
JSC Halyk Bank of Kazakhstan			
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 15)	65,337,934	32,148,533	7,855,497
Deposits with maturity period of 3 to 12 months (Note 12)	3,004,657	32,914,415	10,173,176
JSC Kazkommertsbank			
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 15)	-	-	20,787,238
JSC BTA Bank			
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 15)	305,685	317,397	1,513,586
JSC Alliance Bank			
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 15)	54,710	17,042	5,495
Deposits with maturity period of 3 to 12 months (Note 12)	59,500	22,000	-
JSC Temir Bank			
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 15)	23,014	21,760	3,221
JSC Development Bank of Kazakhstan			
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 15)	73	3	-
Restricted cash	224,665	227,662	233,714

Amounts due to and from associates and joint ventures, recorded within trade accounts payable, other current liabilities, trade accounts receivable, other current and non-current assets, as at December 31, 2011 and 2010, and January 1, 2010, and transactions with associates and joint ventures for the years then ended are as follows:

	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
Due			
From associates and joint ventures	8,744,826	139,504	-
To associates and joint ventures	1,021,768	582,312	166,533

	2011	2010 (restated)
Transactions with associates and joint ventures		
Sales	2,431,273	989,946
Purchases	3,008,922	2,313,901

(in thousands of tenge unless otherwise stated)

The transactions entered into with associates and joint ventures primarily related to repair services and are entered into at terms consistent with that of third parties.

As at December 31, 2011 amounts due to and from associates and joint ventures include advances paid to Tulpar-Talgo LLP for acquisition of passenger wagons of 8,723,511 thousand tenge (2010: nil).

Compensation of key management personnel of the Group

Key management personnel comprise members of the Group's Management Board and Board of Directors and other key managers, totaling 23 persons as at December 31, 2011 (December 31, 2010: 30 persons). Compensation to key management personnel for the years ended December 31 was as follows:

	2011	**2010 (restated)**
Salaries	318,382	228,763
Social tax	36,203	25,500
Income tax	34,383	25,052
Pension deductions	28,420	21,950
Bonuses	46,358	18,128
Social deductions	2,144	1,990
Total	465,890	321,383

35. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments consist of borrowings, cash and cash equivalents, and short-term deposits as well as accounts receivable and accounts payable. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and credit risk. The Group further monitors the market risk and liquidity risk arising from all financial instruments.

Capital risk management

The Group manages capital insufficiency risk to ensure that the Group can continue as a going concern with maximum increase in profits for the founders by optimizing the balance of debt and equity.

The Group's capital structure includes share capital, additional paid-in capital, foreign currency translation reserve and retained earnings.

Significant accounting policies

The significant accounting policies and adopted methods, including criteria of recognition, evaluation basis and the basis on which income and expenses are recognized with respect to each class of financial assets, financial liabilities and equity instruments are disclosed in Note 2 to the consolidated financial statements.

(in thousands of tenge unless otherwise stated)

Financial risk management objectives

Management of risk is an essential element of the Group's operations. The Company monitors and manages financial risks relating to the Group's operations through internal reports on risks which analyze the exposure to risk by the degree and size of risks. These risks include the market risk (including currency risk, fair value interest rate risk and price risk), liquidity risk and cash flow interest rate risk. A description of the Group's risk management policies in relation to those risks follows.

Interest rate risk

The interest rate risk to the Group is the risk of changes in market interest rates reducing the overall return on its investments and increasing cash outflow on its borrowings. The Group limits its interest rate risk by monitoring changes in interest rates in the currencies in which its cash and cash equivalents, short-term investments and borrowings are denominated, and by maintaining a balance between its loans with fixed and floating interest rates.

The Group's exposure to interest risk relates primarily to the Group's long-term and short-term debt. The weighted average effective interest rates were as follows as at December 31, 2011 and 2010, and January 1, 2010:

	December 31, 2011 (% per annum)	December 31, 2010 (% per annum) (restated)	January 1, 2010 (% per annum) (restated)
Short-term borrowings:			
Tenge	5.65	10.43	15.00
US Dollars	-	-	4.73
Long-term borrowings:			
Tenge	7.03	6.28	14.42
US Dollars	6.10	6.14	5.85
Japanese Yen	3.65	3.49	3.67
Euro	6.56	6.11	5.87

(in thousands of tenge unless otherwise stated)

Interest rate sensitivity analysis

The following table shows the allocation of changes in the interest income, interest rates and net interest income between changes in the volume and changes in the rate. The fluctuations between the volume and the rate were calculated on movement in the average balances and changes in interest rates on average, interest bearing assets and average interest bearing liabilities.

	2011/2010 Change due to increase/(decrease)		Total change	Change in interest rate, %	2010/2009 Change due to increase/(decrease)		Total change	Change in interest rate, %
	Volume	Rate			Volume	Rate		
Finance income:								
Short-term deposits	(439,348)	-	(439,348)	-	(348,010)	-	(348,010)	-
Other financial assets	1,793,904	-	1,793,904	-	974,978	-	974,978	-
Finance costs:								
Bank loans	4,776,823	3,679	4,780,502	0.01%	(67,156)	(197,611)	(264,767)	(0.93%)
Finance lease	(26,835)	-	(26,835)	-	752,460	-	752,460	-
Debt securities	1,762,634	-	1,762,634	-	1,499,644	-	1,499,644	-

The following table reflects the Group's sensitivity to 1% increase and decrease in the interest rates. The sensitivity analysis is based on an assumption that the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. The positive figure indicates the increase in profits for the reporting period in case of lowering the interest rate. In case of interest rate increasing, there will be an equal and opposite effect on profits.

	2011	2010 (restated)
Bank loans	528,392	389,852

Foreign currency risk

The Group's short-term and long-term foreign currency debts are denominated in US Dollars and Japanese Yen and are presented in the consolidated financial statements in tenge. A change in the tenge value against foreign currencies will result in a foreign exchange gain or loss.

The Group limits foreign currency risk by monitoring changes in exchange rates in the currencies in which its cash, short-term deposits and borrowings are denominated. The Group's primary exposure is related to the Group's long-term borrowings, which are primarily denominated in US dollars. The Group maintains a portion of its cash in US dollars in order to partially offset any foreign currency gain or loss on the borrowings.

Foreign currency sensitivity analysis

The Group is mainly exposed to risk of change in US Dollar, Russian ruble, Swiss franc and Japanese yen.

(in thousands of tenge unless otherwise stated)

The following table reflects the Group's sensitivity to 10% increase and decrease in the value of tenge with respect to relevant foreign currencies. The sensitivity analysis is based on the amounts outstanding at the end of the period. The sensitivity analysis includes (a) external loans and accounts payable and (b) accounts receivable of the Group, when the loan or accounts payable/receivable are denominated in the currency differing from the currency of the creditor or debtor. The following table indicates changes in financial assets and liabilities, in case of strengthening of tenge by 10% with respect to the relevant currency.

The positive figure indicates the increase in profits for the reporting period and negative indicates the decrease in profits. In case of weakening of tenge by 10% with respect to the relevant currency, there will be an equal and opposite effect on profits.

	Effect of change in the exchange rate as at December 31, 2011					
	US Dollars	**Euro**	**Swiss Francs**	**Russian Rubles**	**Japanese Yen**	**Total effect**
Financial assets:						
Cash and cash equivalents	(978,417)	(65,956)	(3,578)	(22,562)	-	(1,070,513)
Other financial assets	(2,852,216)	-	-	-	-	(2,852,216)
Trade accounts receivable	(47,914)	-	(138,302)	(6,446)	-	(192,662)
						(4,115,391)
Financial liabilities:						
Trade accounts payable	66,595	3,187	79,417	41,520	-	190,719
Loans and accrued interest	5,148,408	30,566	-	-	666,371	5,845,345
Debt securities	15,698,456	-	-	-	-	15,698,456
						21,734,520
Net effect						17,619,129

	Effect of change in the exchange rate as at December 31, 2010 (restated)					
	US Dollars	**Euro**	**Swiss Francs**	**Russian Rubles**	**Japanese Yen**	**Total effect**
Financial assets:						
Cash and cash equivalents	(2,500,623)	(68,416)	(119,416)	(198,012)	-	(2,886,467)
Other financial assets	(9,220,584)	-	-	-	-	(9,220,584)
Trade accounts receivable	(33,786)	-	(157,637)	(1,062)	-	(192,485)
						(12,299,536)
Financial liabilities:						
Trade accounts payable	653,761	1,957	83,086	36,656	-	775,460
Loans and accrued interest	4,624,028	38,063	-	-	701,647	5,363,738
Debt securities	22,266,808	-	-	-	-	22,266,808
						28,406,006
Net effect						16,106,470

(in thousands of tenge unless otherwise stated)

The carrying value of financial assets and financial liabilities, denominated in foreign currencies as at December 31, 2011 and 2010, and January 1, 2010 is as follows:

	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
Financial assets:			
Cash and cash equivalents	10,705,129	28,864,670	23,415,450
Other financial assets	28,522,160	92,205,839	14,310,740
Trade accounts receivable	1,926,615	1,924,841	3,903,303
	41,153,904	122,995,350	41,629,493
Financial liabilities:			
Trade accounts payable	1,907,183	7,754,604	4,613,148
Loans and accrued interest	58,453,440	53,637,376	48,128,740
Debt securities	156,984,560	222,668,084	118,798,719
	217,345,183	284,060,064	171,540,607

Credit risk

Credit risk arising from the inability of a party to meet the terms of the Group's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Group to that party. It is the Group's policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to credit risk is represented by the carrying value of each financial asset. The Group considers that its maximum exposure is reflected by the amount of trade accounts receivable (Note 11) and other current assets (Note 14), net of allowances for doubtful debts recognized at the reporting date.

Concentrations of credit risk may arise from exposures to a single debtor or to groups of debtors having similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions.

The maximum exposure to credit risk with regard to trade accounts receivable and by geographic regions were as following as at the reporting date:

	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
Within the country	2,641,528	3,278,583	3,500,840
Outside the country	1,926,615	1,924,841	3,903,303

Procedures are in force to ensure that sales are only made to customers with an appropriate credit history and that an acceptable credit exposure limit is not exceeded. Credit risk is minimized by the fact that the Group operates on a prepayment basis with the majority of its customers. Prepayments are secured by bank guarantees.

The Group does not guarantee the obligations of other parties.

(in thousands of tenge unless otherwise stated)

As at December 31, 2011 and 2010, and January 1, 2010 the allocation of trade accounts receivable by the aging was as following:

	December 31, 2011	December 31, 2010 (restated)	January 1, 2010 (restated)
Not overdue	4,256,293	4,463,217	2, 928, 225
3-6 months overdue	289,829	523,009	912,775
6-12 months overdue	22,021	217,198	3,563,143
	4,568,143	5,203,424	7,404,143

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Group manages market risk through the periodic estimation of potential losses that could arise from adverse changes in market conditions.

Liquidity risk

The Group manages short-term, mid-term and long-term financing liquidity risk in accordance with requirements of the Shareholder. The Group manages the liquidity risk by maintaining adequate reserves, bank loans and accessible credit lines by constant monitoring of the projected and actual cash flows and comparison of maturities of financial assets and liabilities.

(in thousands of tenge unless otherwise stated)

The following tables reflect contractual terms of the Group's financial liabilities. The table was prepared based on the undiscounted cash flows on financial liabilities on the basis of the earliest date at which the Company can be required to pay. The table includes cash flows both on interest and principal.

	Interest rate	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	Greater than 5 years	Total
2011							
Non-interest bearing:							
Trade accounts payable	-	50,647,466	1,634,843	18,681,219	-	-	70,963,528
Accrued salary	-	9,653,013	-	-	-	-	9,653,013
Other current liabilities	-	3,030,830	-	8,128,498	-	-	11,159,328
Notes of JSC Citibank Kazakhstan	-	2,970,000	-	-	-	-	2,970,000
Interest bearing:							
ABN Amro Bank N.V (Loan 1)	6-month LIBOR for USD denominated deposits + 0.13%	-	-	301,909	-	-	301,909
ABN Amro Bank N.V (Loan 2)	3-month LIBOR for USD denominated deposits + 0.07%	-	570,635	1,706,816	1,976,227	-	4,253,678
Japan Bank for International Cooperation ("JBIC")	3.00%	-	-	966,910	3,606,531	3,191,991	7,765,432
Instituto de Credito Oficial ("ICO")	2.50%	-	-	401,759	1,523,850	1,556,526	3,482,135
JSC Development Bank of Kazakhstan (Loan 1)	9.80%	-	-	419,228	195,635	-	614,863
JSC Development Bank of Kazakhstan (Loan 2)	8.00%	-	261,124	252,443	1,035,856	-	1,549,423
EBRD (Loan 1)	6-month LIBOR for USD denominated deposits + 3.25-3.35%	-	1,307,557	1,291,771	9,597,381	4,315,421	16,512,130
EBRD (Loan 2)	6-month LIBOR for USD denominated deposits + 3.25%	-	-	289,076	4,823,540	3,717,097	8,829,713
EBRD (Loan 3)	6-month LIBOR for USD denominated deposits + 2.95% for US Dollar tranche, 6-month LIBOR for USD denominated deposits + 2.95% and all-in cost for tenge tranche	-	158,628	441,182	9,770,850	4,544,684	14,915,344
JSC NWF Samruk-Kazyna (Loan 1)	2.00%	300,000	-	300,000	2,400,000	34,500,000	37,500,000
JSC NWF Samruk-Kazyna (Loan 2)	0.75%	-	-	26,083	310,476	4,109,524	4,446,083
JSC NWF Samruk-Kazyna (Loan 3)	0.75%	-	-	100,313	1,164,286	15,410,565	16,675,164
JSC NWF Samruk-Kazyna (Loan 4)	7.20%	-	270,000	819,000	4,323,000	15,810,000	21,222,000
JSC NWF Samruk-Kazyna (Loan 5)	7.20%	-	1,092,000	3,300,000	17,532,000	63,288,000	85,212,000
JSC ATF Bank (Loan 1)	4.51%	-	43,513	42,830	-	-	86,343
JSC ATF Bank (Loan 2)	9.93-15.00%	35,636	1,148,578	1,928,843	359,998	-	3,473,055
JSC ATF Bank (Loan 3)	8.48%	-	58,945	269,248	1,129,864	237,734	1,695,791
JSC ATF Bank (Loan 4)	8.84%	-	-	536,951	1,825,962	379,290	2,742,203
JSC ATF Bank (Loan 5)	6-month LIBOR for USD denominated deposits + 3.00%	-	1,810,745	1,786,479	11,752,255	-	15,349,479
JSC SB HSBC Bank Kazakhstan	12.50%	5,435	23,099	85,644	-	-	114,178
Notes payable	5.48%	-	-	83,165	261,652	-	344,817
JSC Halyk Bank of Kazakhstan	5.5-6.0%	28,111	58,667	7,258,333	-	-	7,345,111
JSC Citibank Kazakhstan	4.75%	17,997	34,833	4,418,789	-	-	4,471,619
JSC Halyk Bank of Kazakhstan	10.02-12.50%	1,018,752	-	84,239	298,612	-	1,401,603
JSC Halyk Bank of Kazakhstan (Loan 2)	7.00-12.00%	895,582	545,656	2,185,109	5,559,839	-	9,186,186
Other loans	10.0-15.0%	2,962	306,000	-	-	-	308,962
Debt securities	6.38-7.00%	-	-	10,328,066	91,080,551	130,369,400	231,778,017
Finance lease	8.50-18.25%	-	-	1,370,017	5,242,687	3,145,905	9,758,609
		68,605,784	9,324,823	67,803,920	175,771,052	284,576,137	606,081,716

(in thousands of tenge unless otherwise stated)

	Interest rate	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	Greater than 5 years	Total
2010 (restated)							
Non-interest bearing:							
Trade accounts payable	-	45,482,998	3,448,979	8,536,505	-	-	57,468,482
Accrued salary	-	9,570,619	-	-	-	-	9,570,619
Other current liabilities	-	2,504,107	-	7,336,026	-	-	9,840,133
Interest bearing:							
ABN Amro Bank N.V (Loan 1)	6-month LIBOR for USD denominated deposits + 0.13%	-	-	602,225	299,685	-	901,910
ABN Amro Bank N.V (Loan 2)	3-month LIBOR for USD denominated deposits + 0.07%	-	566,868	1,697,206	4,215,780	-	6,479,854
ABN Amro Bank N.V (Loan 3)	6-month LIBOR for USD denominated deposits + 1.20%	-	7,062,141	6,985,479	-	-	14,047,620
Japan Bank for International Cooperation ("JBIC")	3.00%	-	-	940,217	3,516,118	3,842,747	8,299,082
Instituto de Credito Oficial ("ICO")	2.50%	-	-	407,028	1,546,430	1,912,241	3,865,699
JSC Development Bank of Kazakhstan (Loan 1)	9.80%	-	-	412,623	609,863	-	1,022,486
JSC Development Bank of Kazakhstan (Loan 2)	8.00%	-	40,058	315,486	1,331,785	-	1,687,329
JSC SB HSBC Bank Kazakhstan	14.30	6,228	-	17,614	25,954	-	49,796
JSC NWF Samruk-Kazyna	2%	156,667	-	300,000	2,400,000	35,100,000	37,956,667
EBRD (Loan 1)	6-month LIBOR for USD denominated deposits + 3.25%	-	106,041	11,586,801	-	-	11,692,842
EBRD (Loan 2)	6-month LIBOR for USD denominated deposits + 5%	-	-	351,478	4,342,119	5,011,235	9,704,832
ATF Bank (Loan 1)	4.27%	-	44,954	132,246	85,697	-	262,897
ATF Bank (Loan 2)	9.93-15%	-	-	585,699	2,852,105	-	3,437,804
ATF Bank (Loan 3)	8.48%	-	57,501	338,150	1,166,704	470,142	2,032,497
ATF Bank (Loan 4)	8.84%	-	-	561,623	1,939,349	783,989	3,284,961
Notes payable	5.48%	-	-	88,442	315,909	35,221	439,572
Halyk bank of Kazakhstan	10.02-12.50%	-	-	298,151	1,451,871	-	1,750,022
Debt securities	6.38-7.00%	-	-	78,083,664	40,756,100	187,430,839	306,270,603
Finance lease	10.50-18.25%	-	272,333	1,056,505	4,571,746	4,126,852	10,027,436
		57,720,619	11,598,875	120,633,168	71,427,215	238,713,266	500,093,143

(in thousands of tenge unless otherwise stated)

The following table reflects expected maturities of Group's financial assets. The table was prepared based on undiscounted contractual terms of financial assets, including interest received on these assets, except when the Company expects the cash flow in a different period.

	Interest rate	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	Greater than 5 years	Indefinite settlement term	Total
2011								
Interest bearing:								
Short-term deposits	1.40%	16,776,139	10,251,143	-	-	-	-	27,027,282
Interest on short-term deposits	1.40%	19,886	49,097	-	-	-	-	68,983
Other financial assets	3.59%	-	21,491,293	29,317,157	-	-	-	50,808,450
Interest on other financial assets	3.59%	-	362,262	827,266	-	-	-	1,189,528
Cash and cash equivalents	0.05-5.5%	93,891,750	-	-	-	-	-	93,891,750
Non-interest bearing:								
Cash and cash equivalents	-	9,276,361	-	-	-	-	-	9,276,361
Trade accounts receivable	-	623,541	-	5,590,335	-	-	5,204,454	11,418,330
		120,587,677	32,153,795	35,734,758	-	-	5,204,454	193,680,684
2010 (restated)								
Interest bearing:								
Short-term deposits	3.32%	1,615,200	15,344,455	-	-	-	-	16,959,655
Interest on short-term deposits	3.32%	1,642	97,470	-	-	-	-	99,112
Other financial assets	3.99%	-	-	121,607,832	-	-	-	121,607,832
Interest on other financial assets	3.99%	-	-	2,410,910	-	-	-	2,410,910
Cash on bank accounts	0.20-9.50%	60,389,924	-	-	-	-	-	60,389,924
Non-interest bearing:								
Cash and cash equivalents	-	20,145,372	-	-	-	-	-	20,145,372
Trade accounts receivable	-	555,795	18,448	4,629,181	-	-	4,944,335	10,147,759
		82,707,933	15,460,373	128,647,923	-	-	4,944,335	231,760,564

Fair values of financial instruments

Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between knowledgeable willing parties according to arm's length conditions, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is needed to arrive at a fair value, based on current economic conditions and the specific risks attributable to the instrument.

The following methods and assumptions are used by the Group to estimate the fair value of these financial instruments:

Cash and cash equivalents

The carrying value of cash and cash equivalents approximates their fair value due to the short-term maturity of these financial instruments.

(in thousands of tenge unless otherwise stated)

Trade and other receivables and payables

For assets and liabilities maturing within twelve months, the carrying value approximates fair value due to the relatively short-term maturity of these financial instruments.

For financial assets and liabilities maturing in over twelve months, the fair value represents the present value of estimated future cash flows discounted at year-end market rates. Average year-end market borrowing rates were as follows as at December 31, 2011 and 2010, and January 1, 2010:

	December 31, 2011 (% per annum)	December 31, 2010 (% per annum) (restated)	January 1, 2010 (% per annum) (restated)
Tenge			
with maturity from 1 to 5 years	11.40	12.40	14.30
with maturity over 5 years	6.90	10.40	11.80
Foreign currencies			
with maturity from 1 to 5 years	6.80	4.00	11.60
with maturity over 5 years	4.30	12.00	8.60

Borrowings

The estimate for loans from banks was made by discounting the scheduled future cash flows of individual loans through estimated maturity using prevailing market rates as at the respective year-end for debt with a similar maturity and credit-rating profile. The Group's bank loans are is mostly provided by international development institutions and foreign banks. As a result, the interest rates attributable to these loans although lower than those obtainable from private commercial institutions in the Republic of Kazakhstan are considered to be the market interest rates for this category of lenders. The fair value of the Eurobonds has been determined based on average prices at which deals have been executed prior as at the reporting date.

As at December 31, 2011 and 2010, and January 1, 2010 the fair value of financial assets and financial liabilities, except for borrowings, was not significantly different from its cost. Cost and fair value of long-term loans, excluding loans from international development institutions and those backed by governments, and Eurobonds as at December 31 is presented as follows:

	December 31, 2011		December 31, 2010 (restated)		January 1, 2010 (restated)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities						
Borrowings	190,537,577	191,410,469	70,857,795	70,252,794	37,835,041	38,863,753
Eurobonds	156,984,560	163,978,223	222,668,084	233,977,417	118,798,719	115,520,811

The fair value of the loans from development institutions and those backed by the government have not been disclosed as it is not possible to estimate at what rate the Group could make similar borrowings from these parties and the rates from commercial banks would be significantly different. The fair value of these loans would vary significantly if calculated based on rates from commercial banks.

36. EVENTS AFTER THE REPORTING DATE

Loans

Under the credit line agreement with JSC Halyk Bank of Kazakhstan #KS 01-11-20 dated October 21, 2011 the Group's subsidiary, JSC Locomotive, received additional loans for replenishment of working capital of 3,000,000 thousand tenge with interest rate of 6% per annum and maturity on October 24, 2012.

In January 2012 within the framework of loan agreement the Group's subsidiary, Repair Corporation Kamkor LLP received loan of 1,223,461 thousand tenge from SB JSC Sberbank of Russia.

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