IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to the Swiss issuing and listing Prospectus (the "**Prospectus**") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer, the Guarantors (as each term is defined in the Prospectus) Credit Suisse AG, Deutsche Bank AG London Branch, acting through Deutsche Bank AG Zurich Branch, JSC Halyk Finance, HSBC Bank plc or UBS AG as a result of such access.

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Confirmation of your representation: In order to be eligible to view this Prospectus or make an investment decision with respect to the securities, investors must be outside the United States and not be a U.S. person (within the meaning of Regulation S under the Securities Act). By accepting the e-mail and accessing this Prospectus, you shall be deemed to have represented to the Issuer, the Guarantors, Credit Suisse AG, Deutsche Bank AG London Branch, acting through Deutsche Bank AG Zurich Branch, JSC Halyk Finance, HSBC bank plc and UBS AG that you are not in the United States or a U.S. person; the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia; and that you consent to delivery of such Prospectus by electronic transmission.

Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this Prospectus who intend to subscribe for or purchase the Notes are reminded that any subscription or purchase may only be made on the basis of the information contained in this Prospectus.

This Prospectus may only be provided to persons in the United Kingdom in circumstances where Section 21(1) of the Financial Services and Markets Act 2000 does not apply to JSC "National Company "Kazakhstan Temir Zholy".

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

This Prospectus does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and Credit Suisse AG, Deutsche Bank AG London Branch, acting through Deutsche Bank AG Zurich Branch, JSC Halyk Finance, HSBC, Bank plc and UBS AG (together, the "**Joint Lead Managers**") or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of JSC "National Company "Kazakhstan Temir Zholy" in such jurisdiction.

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Joint Lead Managers or any person who controls it or any of their respective directors, officers, employees, agents or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

This Preliminary Prospectus and the information contained in this Preliminary Prospectus are subject to completion or amendment (which may be material) without notice. Under no circumstances shall this Preliminary Prospectus constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. The definitive terms of the transaction described in this Preliminary Prospectus will be described in the final version of the Prospectus (the "**Final Prospectus**"). This document has not been approved by the Swiss Stock Exchange or the National Bank of Kazakhstan or the Kazakhstan Stock Exchange. The Final Prospectus is expected to be published at a later date and will be available at the registered office of the Issuer and the Principal Paying Agent. Investors should not subscribe for any Notes except on the basis of the information in the Final Prospectus.

PRELIMINARY PROSPECTUS dated 21 MAY 2014 – SUBJECT TO COMPLETION

ҚАЗАҚСТАН ТЕМІР ЖОЛЫ

JOINT STOCK COMPANY "NATIONAL COMPANY "KAZAKHSTAN TEMIR ZHOLY"

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

CHF[●] [●]% Notes due 20[●]

Guaranteed by

JOINT STOCK COMPANY "KAZTEMIRTRANS"

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

JOINT STOCK COMPANY "LOKOMOTIV"

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

Issue Price of the Notes: [●]%

Issuer:	Joint Stock Company "National Company "Kazakhstan Temir Zholy", a joint stock company organised in the Republic of Kazakhstan, with registration number 11867-1901-AO, having its registered office at 6 Kunayev Street, Esil District, Astana, 010000, Republic of Kazakhstan (the "**Issuer**").
Guarantors	Joint Stock Company "Kaztemirtrans", a joint stock company organised in the Republic of Kazakhstan, with registration number 14750-1901-AO, having its registered office at 10 Kunayev Street, Esil District, Astana, 010000, Republic of Kazakhstan; and Joint Stock Company "Lokomotiv", a joint stock company organised in the Republic of Kazakhstan, with registration number 14689-1901-AO, having its registered office at 10 Kunayev Street, Esil District, Astana, 010000, Republic of Kazakhstan (together the "**Guarantors**", and each a "**Guarantor**"))
Joint Lead Managers:	Credit Suisse AG, Paradeplatz 8, CH-8001 Zurich, Switzerland; Deutsche Bank AG London Branch, acting through Deutsche Bank AG Zurich Branch, Uraniastrasse 9, CH-8001 Zurich; JSC Halyk Finance, 19/1 Al-Farabi Ave. "Nurly Tau" B/C, Block 3B, 6th floor, 050059, Almaty, Kazakhstan; HSBC bank plc, 8 Canada Square, London, E14 5HQ, United Kingdom; and UBS AG, Bahnhofstrasse 45, CH-8001 Zurich, Switzerland
Interest:	[●] per annum, payable annually in arrear on [●], in each year, commencing on [●]. The first interest period is a short interest period starting from (and including) the Issue Date to (but excluding) [●].
Issue Price:	[●]% of the principal amount of the Notes (before commission and expenses).
Price for Placement:	Based on supply and demand.
Form and Delivery:	CHF [●] [●]% notes due [●] (the "**Notes**") will be in bearer form and will be in the form of a permanent global note on issue (the "**Permanent Global Note**"), without interest coupons, which will be deposited with SIX SIS Ltd ("**SIS**") on or around the Issue Date. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form with interest coupons attached. Holders of the Notes (the "**Noteholders**") will not have the right to request the printing and delivery of the definitive Notes.
Denomination:	The Notes will be in the denomination of CHF 5,000 and integral multiples thereof.
Issue Date:	[●] 2014
Maturity Date and Redemption:	[●]; redemption at par.
Early Redemption:	For tax reasons or in other limited circumstances (as described in the "Terms and Conditions of the Notes"), including at the option of the Noteholders upon the occurrence of a Relevant Event (as defined in the "Terms and Conditions of the Notes"). See "Terms and Conditions of the Notes".
Reopening:	The Issuer reserves the right to reopen this series of Notes (for details see "Terms and Conditions of the Notes – Condition 16 (Further Issues)").
Status of Notes:	The obligations of the Issuer to make payments under the Notes constitute unsecured obligations of the Issuer which 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 and have the benefit of a negative pledge.
Status of Guarantee:	The obligations of each Guarantor under the Guarantee constitute unsecured obligations of the each Guarantor which 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 each Guarantor, save only for such obligations as may be preferred by mandatory provisions of applicable law and have the benefit of a negative pledge.
Listing / Trading:	Application will be made for the listing of the Notes on the SIX Swiss Exchange. The Notes will be provisionally admitted to trading on the SIX Swiss Exchange on [●]. The last trading day of the Notes on the SIX Swiss Exchange is expected to be [●]. Application has also been made for the Notes to be admitted to the "rated debt securities" category of the official list of the Kazakhstan Stock Exchange (the "**KASE**"). On 30 April 2014 and 20 May 2014, the KASE granted its consents for the admission of the Notes to the "rated debt securities" category of the official list of the KASE, which is expected to become effective on [●] 2014. No Notes may be issued, placed or listed outside of Kazakhstan without permissions of the National Bank of the Republic of Kazakhstan (the "**NBK**") for issuance and placement of the Notes outside of Kazakhstan (the "**NBK Permissions**"). The Issuer has obtained the NBK Permissions in respect of the Notes. Simultaneously with the commencement of the placement of the Notes outside of Kazakhstan, not less than 20% of the Notes must be offered through the KASE on terms similar to the offer of the Notes outside of Kazakhstan. If there is no sufficient investor interest to take up all or part of the above mentioned 20% of the Notes in Kazakhstan, then all or any remaining parts of those Notes (after take-up of the Notes in Kazakhstan) may be offered and placed outside of Kazakhstan.
Selling Restrictions:	The Notes have been offered to the public in Switzerland and Kazakhstan. The offering and sale of Notes is subject to applicable laws and regulations and the Notes may not be sold in other jurisdictions, including without limitation the United Kingdom, EEA and Kazakhstan other than in compliance with applicable laws and regulations. See "Subscription and Sale". The Notes and the Guarantees have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold within the United States or to, or for the account or benefit of, U. S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")). The Notes will be issued in compliance with U.S. Treasury Regulation §1.163-5(c)(2)(i)(C).

	Notes in bearer form are subject to United States tax law requirements and, subject to certain exceptions, may not be offered, sold or delivered within the United States or to U.S. persons. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code of 1986, and the Treasury Regulations promulgated thereunder.
Law and Jurisdiction:	The Notes, all related contractual documentation (including the Trust Deed) and any non-contractual obligations arising out of or in relation with the same will be governed by, and construed in accordance with English Law. The Issuer and each Guarantor has agreed that any claim, dispute or difference of whatever nature arising under, out of or in connection with the Notes, the Coupons or the Trust Deed shall be referred to and finally settled by arbitration in accordance with the rules of the London Court of International Arbitration as modified by Condition 22 (Governing Law and Jurisdiction).
Risk Factors:	For a discussion of certain issues that should be considered by prospective purchasers of the Notes, see "Risk Factors".
Rating of Notes:	The Notes are expected to be rated "BBB" by Fitch, "BBB-" by S&P and "Baa3 (positive)" by Moody's and will be assigned final ratings on the Issue Date.

Joint Lead Managers

CREDIT SUISSE

Deutsche Bank AG London Branch acting through Deutsche Bank AG Zurich Branch

HALYK FINANCE

HSBC

UBS Investment Bank

ISIN: [●] Swiss Security Number: [●] Common Code: [●]
The date of this Prospectus is [●] May 2014.

GENERAL INFORMATION

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 Other Information".

General Description of the Company and the Group

The Group is the largest provider of freight and passenger rail transportation in Kazakhstan and also provides access to Kazakhstan's mainline railway network and other logistic and infrastructure services to third party freight and passenger rail operators. Freight transportation is the largest component of the Group's business operations, accounting for approximately 85.0% of consolidated revenue for the year ended 31 December 2013. 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 well-being of Kazakhstan, which has limited access to navigable water routes and a partly developed road infrastructure. Overall freight turnover, which includes freight transported in third party wagons hauled by the Group, was 231.2 billion tonne-kilometres and 235.8 billion tonne-kilometres for the years ended 31 December 2013 and 2012, respectively. According to NSA data, the Group's freight turnover for the year ended 31 December 2013 accounted for 46.7% of all freight turnover in Kazakhstan by all modes of transportation and 61.0% of all freight turnover in Kazakhstan by all modes of transportation excluding pipelines for the period. Freight transportation revenue was KZT 742.8 billion, or 85.0% of total revenue, and KZT 686.1 billion, or 85.3% of total revenue, for the years ended 31 December 2013 and 2012, respectively.

The Group had total revenue of KZT 873.6 billion and KZT 804.5 billion for the years ended 31 December 2013 and 2012, respectively, and profit of KZT 118.4 billion and KZT 118.9 billion for the years ended 31 December 2013 and 2012, respectively. As at 31 December 2013, the Group had total assets of KZT 2,487.5 billion and total liabilities of KZT 1,158.3 billion. The Group's ratio of current assets to current liabilities was 1.09 as at 31 December 2013. As at 31 December 2012, the Group had total assets of KZT 2,096.6 billion and total liabilities of KZT 1,047.3 billion. The Group's ratio of current assets to current liabilities was 0.98 as at 31 December 2012.

The Company is the national railway company of Kazakhstan and controls and operates Kazakhstan's national railway system and related infrastructure. As Kazakhstan's national railway company, the Company has a natural monopoly over the provision of services on Kazakhstan's mainline railway network (constituting the use of rail tracks) and is the dominant provider of railway freight transportation and its subsidiary, JSC Passenger Transportation, is the dominant provider of passenger transportation. As at 31 December 2013, Kazakhstan's railway system had an operational length of 14,767.1 km. The Company is vested with the power to grant or deny, in accordance with Kazakhstan legislation, access to Kazakhstan's mainline railway network by third parties. As a natural monopoly, the Company is regulated by the Natural Monopoly Agency under the Law on Natural Monopolies and, as the dominant provider, is regulated by the Agency for Competition Protection under the Law on Competition. Under the Law on Competition, dominant providers are defined to include, among others, entities controlling 35% and more of the market share in respect of a service. 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.

The Company operates the mainline network and is the parent company for the holding structure through which it holds and controls assets that are necessary for the provision of the full scope of freight and passenger transportation services, construction and repair works on railway tracks, construction and repair of locomotives and rolling stock, and for other activities that are inherent to the railway industry. Kaztemirtrans owns the Group's freight railcar fleet, which is primarily provided for the Company's transportation services, if a customer uses the Group's freight cars, on an arm's length basis, 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 involve sorting rolling stock into trains. Kaztemirtrans and Lokomotiv are dominant providers of railcars and locomotive haulage services in Kazakhstan, respectively. As dominant providers under the Law on

Competition, Kaztemirtrans and Lokomotiv are subject to Government oversight. See "*Business of the Group*".

The Group has undergone, and continues to undergo, a number of restructuring initiatives in order to optimise its core business operations, as further discussed below under "Ongoing Restructuring and Development of Logistics Services".

The Company was registered as a joint stock company under the laws of the Republic of Kazakhstan for an indefinite period of time. The charter of the Company was approved by the sole shareholder on 24 December 2010 (order of Samruk-Kazyna No.94-п).

According to Article 5 of the Company's charter, the Company's purposes are: generation of profit; trouble-free and quality support of needs of the economy and public for transportation of baggage, freight baggage, freights and mail deliveries by railways; procurement of safe movement of trains and safekeeping of the transported baggage, freight baggage, freights and mail deliveries; and assurance of mobilisation readiness of the railway transport and safeguarding secret and proprietary information from disclosure. The Company was initially registered with the Ministry of Justice of the Republic of Kazakhstan on 12 February 1997 as a state enterprise. In accordance with the Government Resolution dated 15 March 2002 the Company and its subsidiaries merged to form a closed joint stock company "National Company "Kazakhstan Temir Zholy" which was subsequently re-registered as a joint stock company. Currently the Company operates under the state re-registration number 11867-1901-AO issued by the Astana City Department of Justice on 2 April 2004. The Company's business identification number (BIN) is 020540003431. See "*Business of the Group*". The Company was established by the Government and its sole shareholder is Samruk-Kazyna. See "*Share Capital and Principal Shareholders*".

Sole Shareholder and Relationship with the State

The Government indirectly wholly owns the Company through 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:

- its status as the national railway company of Kazakhstan with a natural monopoly position over the provision of services in Kazakhstan's mainline railway network;
- a strong relationship with the Government, which includes receiving significant financial support from the Government through its sole shareholder, Samruk-Kazyna, and its designation as having a significant role in the implementation of the Government's plans to develop Kazakhstan's railway infrastructure and in its transport policy;
- Kazakhstan's proximity to China, which enables the Group 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;
- operational control over the major near-border logistic facilities in Kazakhstan, including the seaport located in Aktau and the SEZ Khorgos located at the Kazakhstan-China border;
- ownership of a broad range of assets, enabling the Group to efficiently provide a range of railway transportation services;
- extended experience in providing railway transportation services; and
- active involvement in international cooperation and participation in joint projects with foreign partners.

See "*Business of the Group*".

Ongoing Restructuring and Development of Logistics Services

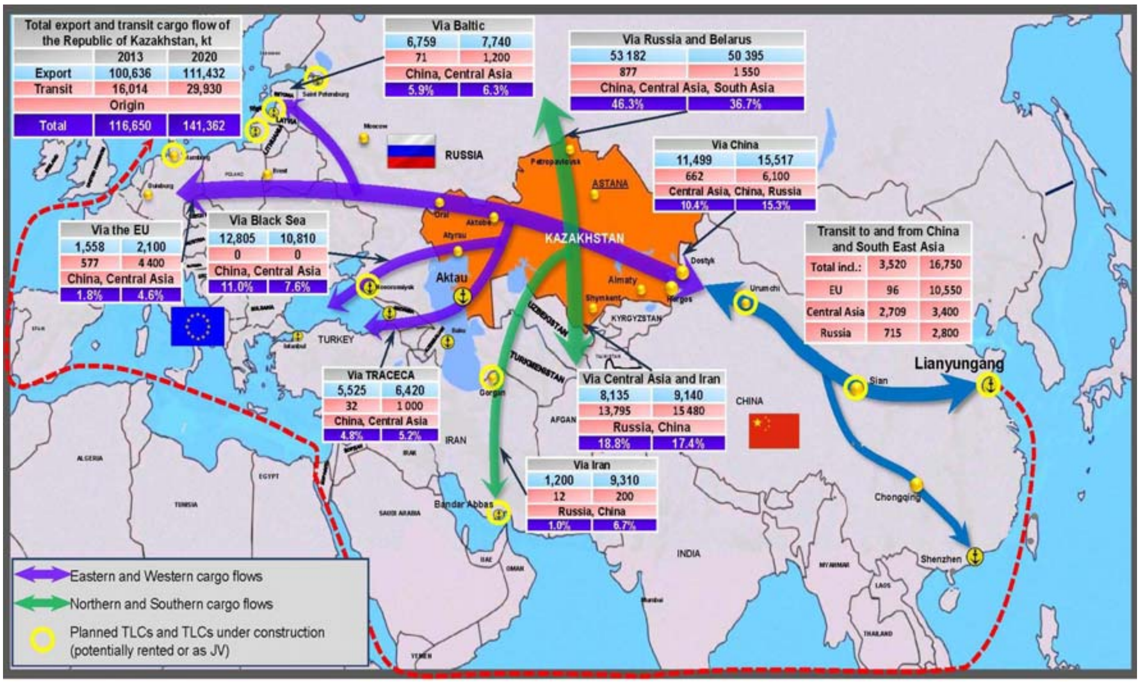
The Government has been actively reforming the railway industry in Kazakhstan since 1997. In May 2010, the Board of Directors of the Company approved a development strategy which sets forth the strategic objectives of the Group through 2020 (the "**2010 KTZ Development Strategy**") in light of ongoing Government reform measures and includes, in particular the Programme for Development of Transport Infrastructure in the Republic of Kazakhstan for the years 2010-2014 (the "**2010 Government Development Programme**"). The 2010 KTZ Development Strategy is focused primarily on improving the commercial efficiency of the Group's operations, maintaining the Group's leading position in the freight transportation market, creation of an efficient portfolio of production assets and improving the management of the Group's business. The Group is in the process of implementing measures to achieve the objectives of the 2010 KTZ Development Strategy by 2020. The 2010 KTZ Development Strategy contemplates the establishment of a holding company structure through the reorganisation, merger and liquidation of certain subsidiaries (with the Company to focus primarily on strategic development decisions in respect of the Group); the reallocation of assets, personnel and other functions into four separate business lines by 2015, consisting of mainline infrastructure, freight transportation, passenger transportation, and locomotive and rolling stock assembly; and the divestment of non-core assets. The Government supervises the restructuring through the Ministry of Transportation. See "*Business of the Group – Ongoing Restructuring*".

In December 2012, the President of Kazakhstan presented his annual Message titled "Strategy 'Kazakhstan – 2050': a new political direction for a successful state" in which, among other things, he called for the development of transit transportation, construction of the transport infrastructure system in Kazakhstan and establishment of transport and logistics facilities outside of Kazakhstan in major transit hubs. In 2013, the Company's Management Board adopted a new development strategy for the Group to implement the initiatives announced by the President and this new development strategy (the "**New KTZ Development Strategy**") is expected to be adopted by the Company's Board of Directors in the fourth quarter of 2014. The Government also took into account the President's desire to develop the logistics capabilities of Kazakhstan and it has adopted a new development programme (the "**2014 Government Development Programme**") though formally the 2010 Government Development Programme remains in effect. Before adopting the New KTZ Development Strategy, the Company, together with the Ministry of Transportation, has requested that the Government consider amending certain provisions of the 2014 Government Development Programme that the Board of Directors believes would be harmful to the Group, specifically opening of access to the mainline railway network to private freight operators and omitting provision of grants by the Government covering all losses of the national passenger carrier borne as a result of servicing socially important passenger routes. The Management of the Company, in addition to following the Company's strategies and Government's development programmes, takes into account Samruk-Kazyna's vision for the performance of the Group. Currently, the Group is implementing the 2014 Government Development Programme to the extent it is not in conflict with the 2010 Government Development Programme, the 2010 KTZ Development Strategy and the Samruk-Kazyna's policies.

Continuing restructuring initiatives from the 2010 Government Development Programme, under the 2014 Government Development Programme it is planned to establish a national freight carrier and a national passenger carrier, both being members of the Group and controlled by the Company. The Company intends to establish the national freight carrier by means of combining Kaztemirtrans, Lokomotiv (excluding passenger locomotives) and certain assets of the Company, mainly for the purpose of reallocating assets that will be necessary for such established national freight carrier to operate effectively. The national passenger carrier will be created on the basis of JSC Passengers Transportation, a wholly owned subsidiary of the Company currently responsible for the transportation of passengers. The national passenger carrier will also receive passenger locomotives and other equipment and facilities that will be required for it to render full scope of passenger transportation services. For details see "*Business of the Group – Ongoing Restructuring*".

By instruction of the President of the Republic of Kazakhstan dated 11 November 2011, the Group was chosen as the basis for establishment of a multimodal transport and logistics company with the object of performing complex management over traffic flow and secure interaction between railway, automobile, air and sea transportation, and operators of ports, terminals and warehouses. To implement the said instruction of the President, the Company created a wholly owned subsidiary, KTZ Express, formerly JSC National Centre for Transport Logistics Development, as the multimodal logistics operator to coordinate the use of railway, road, sea, and air transport modes, seaport and airport infrastructure and a network of terminals and warehouses, as well as the cargo loading operations at key gateways, to facilitate moving of cargo between the EU, Russia, the Middle East, China and South East Asia. See "*Business of the Group – Business Operations of the Group – Multimodal Transport and Logistic Services*".

In order to achieve the goals envisaged in the 2014 Government Development Programme for the logistics operator, KTZ Express will make significant capital expenditures for certain projects, including, development and modernisation of railway assets, development of airport infrastructure, construction of a network of transport and logistic centres inside and outside of Kazakhstan, development of the Aktau Seaport and purchase of vessels, among others, to create a viable infrastructure and consolidate operating assets to achieve the freight transportation and handling objectives set out in the 2014 Government Development Programme and internal plans of the Group. KTZ Express estimates that it will be required to make capital expenditures through 2020 of approximately U.S.$44.2 billion, financed from the state budget, Company's funds and borrowed funds, in order to fulfil the objective of the 2014 Government Development Programme for the logistics operator. See "*Business of the Group – Business Operations of the Group – Multimodal Transport and Logistic Services*".



*Source: Company's data

Credit Ratings

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

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

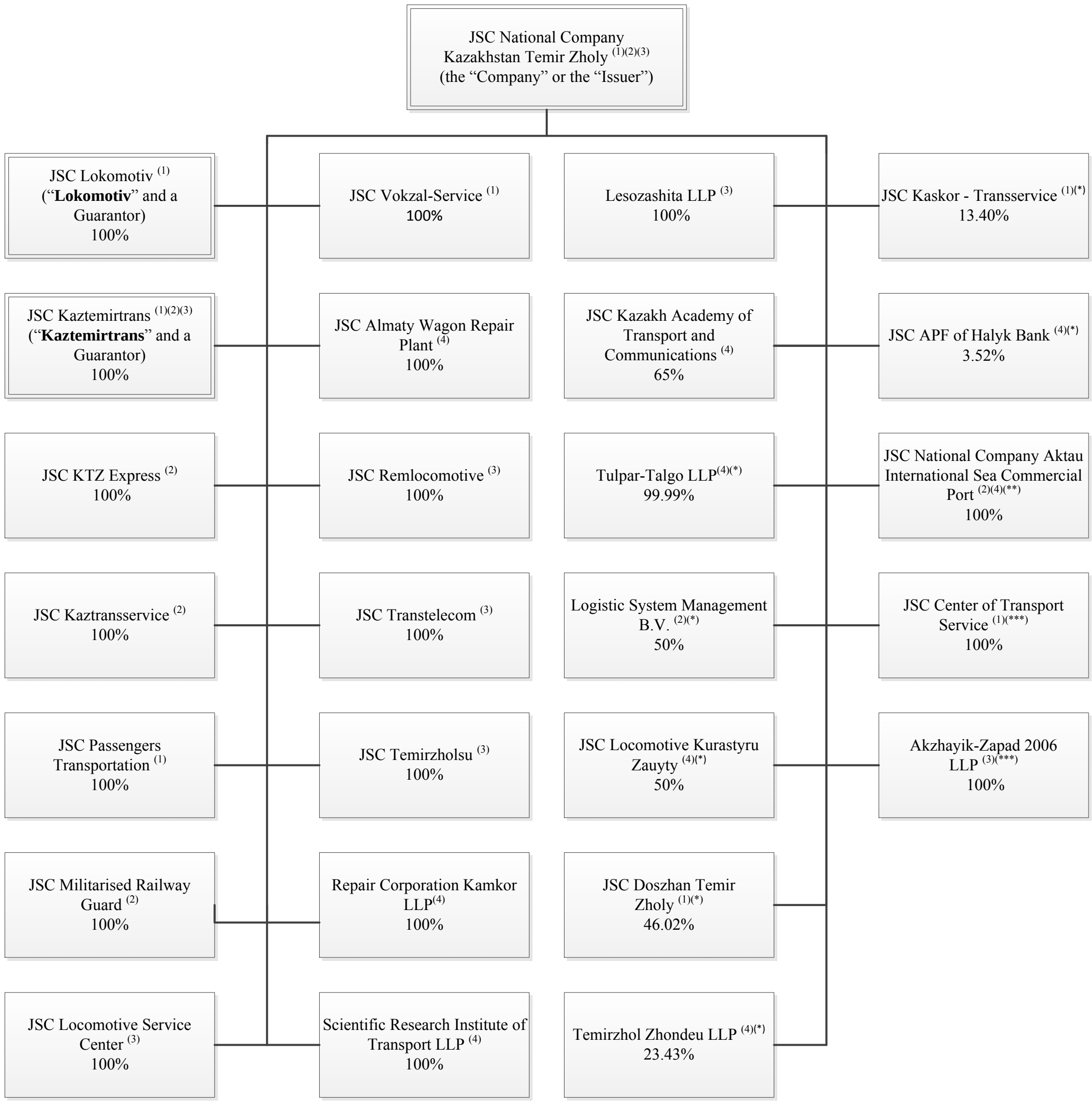
The Notes are expected to be rated BBB by Fitch, BBB- by S&P and Baa3 (positive) by Moody's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. Each of Moody's, S&P and Fitch is established 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 discussion of the principal 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 "*Operating and Financial Review of the Group – Quantitative and Qualitative Disclosures about Market Risk*".

Corporate Organisation

The chart that follows presents the Company's significant subsidiaries and associates as at the date of this Prospectus. The chart does not give effect to the future implementation of the New KTZ Development Strategy or the 2014 Government Development Programme.



(*) Associated (equity accounted) company.

(**) 100% of the shares in this company is owned by Samruk-Kazyna but was transferred under the Company's trust management to exercise functions of the transferred company's sole shareholder, save for certain matters reserved to the owner of the shares. Accordingly, such company is recognised as a subsidiary and is consolidated in the Company's financial statements.

(***) This company is currently undergoing liquidation.

(1) Transportation and infrastructural services.

(2) Logistics and infrastructure services.

(3) Support services.

(4) Non-core services, which include 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, education, scientific research and certain financing activities.

In May 2010, the Company adopted the 2010 KTZ 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. Under the 2014 Government Development Programme the number of the Group's business lines will be increased by one, namely, the establishment of the national multimodal transport and logistics operator. See *"Business of the Group – Ongoing Restructuring and Initiatives*" and See "*Risk Factors – Risk Factors Relating to the Group –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*". For description of businesses operated by the Guarantors, see "*The Guarantors*".

General Description of the Guarantors

The Guarantee with respect to the Notes will be provided, on a joint and several basis, by two of the Issuer's material subsidiaries, Kaztemirtrans and Lokomotiv. For the year ended 31 December 2013, the aggregate combined revenue of the Guarantors as a group (excluding all intra-group items and investments) was KZT 93.9 billion, which amounted to 10.8% of the Group's total revenue for that period. As at 31 December 2013, the aggregate combined assets of the Guarantors as a group (excluding all intra-group items and investments) were KZT 763.6 billion, which accounted for 30.7% of the Group's total assets.

The aggregate combined revenue of the Guarantors and the Company as a group (excluding all intra-group items and investments) for the year ended 31 December 2013 was KZT 773.1 billion, which amounted to 88.5% of the Group's total revenue for that period. The aggregate combined assets of the Guarantors and the Company as a group (excluding all intra-group items and investments) as at 31 December 2013 were KZT 2,134.4 billion, which amounted to 85.8% of the Group's total assets.

In line with the privatisation programme announced by Samruk-Kazyna in May 2014, the Company expects to sell 49% of its shares in Kaztemirtrans to a strategic investor by the end of 2014. See "*Risk Factors – Risk Factors Relating to the Group – The Group is controlled by the Government, and may engage in activities and enter into transactions that are not in the Company's commercial interests and/or that conflict with the interests of the Noteholders*" and "*Business of the Group – Ongoing Restructuring and Initiatives – 2014 Government Development Programme and the New KTZ Development Strategy*".

As part of the corporate re-organisation of the Group pursuant to the 2010 KTZ Development Strategy, the Company intends to create a subsidiary (with the Company's majority shareholding) by combining Kaztemirtrans, Lokomotiv and certain assets of the Company as described elsewhere in this Prospectus. See "*Business of the Group – Ongoing Restructuring and Initiatives*". Following the combination, which is expected to be completed by 2020, the combined entity will become a guarantor of the Notes in accordance with Condition 6. See "*Terms and Conditions of the Notes*".

For details about the Guarantors see "*The Guarantors*".

Presentation of Financial and Other Information

The term "**Group**" is used in this Prospectus to refer collectively to the Issuer and its consolidated subsidiaries. The Issuer 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, unless otherwise specifically stated.

The Annual Financial Statements have been prepared in accordance with IFRS as adopted by the International Accounting Standards Board and were audited by the Group's independent auditors, whose report is included elsewhere in this Prospectus.

As a result of certain changes in the presentation of financial information, the comparative information as at 31 December 2012 and for the year then ended included in the Annual Financial Statements differs from that previously reported by the Group in its consolidated statement of financial position as at 31 December 2012 and the consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended (the "**2012 Annual Financial Statements**").

IAS 19 Employee Benefits

According to the Amendments to IAS 19, in preparing the Annual Financial Statements the Group has revised comparative information as at 1 January 2012 and for the year ended 31 December 2012.

Business Combination under Common Control

In accordance with the Government Resolution No.1539 dated 4 December 2012 and based on the trust management agreement concluded between Samruk-Kazyna and the Company, Samruk-Kazyna transferred 100% of shares of the Aktau Seaport to the Company for trust management. As the transfer of shares of the Aktau Seaport represents a business combination under common control, in preparing the Annual Financial Statements the Company has restated comparative information as of and for the year ended 31 December 2012 as if the Aktau Seaport had been acquired with effect from the earliest period presented in the Annual Financial Statements, being 1 January 2012.

Change in Classification

In 2013, the Group revised its presentation of interest received on bank deposits in the consolidated statement of cash flows. The Group now presents the interest received on bank deposits within operating activities, where previously it was presented within investing activities. As a result, the Group has reclassified comparative information for the year ended 31 December 2012, included in the Annual Financial Statements, in accordance with the presentation of financial information adopted for the year ended 31 December 2013.

Non-IFRS Measures

This Prospectus contains non-IFRS measures and ratios, including EBRD EBITDA and Group EBITDA, that are not required by, or presented in accordance with, IFRS. The Group presents these non-IFRS measures because it uses them in the analysis of its business, financial position and results of operations. The Group defines Group EBITDA as profit for the year from continuing operations before income tax, finance costs, depreciation and amortisation, and EBRD EBITDA as consolidated operating profit of the Group before goodwill amortisation, net interest expense, tax, any share of the profit of any associated company or undertaking, except for dividends received in cash by the Group or any of its subsidiaries and extraordinary and exceptional items, after adding back all amounts provided for depreciation and amortisation. Neither Group EBITDA nor EBRD EBITDA is a measure of financial performance presented in accordance with IFRS. Accordingly, these measures should not be considered as alternatives to profit for the period as measures of operating performance or to cash flows from operating activities as measures of liquidity. These non-IFRS measures also have important limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of the Group's results of operations as reported under IFRS. The Group's calculation of these measures 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 these measures in assessing its performance and, in the case of EBRD EBITDA, compliance with certain debt covenants. In addition, the Company believes that Group EBITDA and the ratios based on these measures 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. The Group uses EBRD EBITDA, as defined in certain of the Group's debt agreements, as a key measure in assessing compliance with certain debt covenants. EBRD EBITDA deviates from Group EBITDA as used in this Prospectus as it is calculated in accordance with the definition set out in the relevant debt agreements.

For the Group's calculation of Group EBITDA and EBRD EBITDA and for a reconciliation of Group EBITDA and EBRD EBITDA to profit for the year for the Group, see "*Selected Consolidated Financial and Other Information of the Company – Non-IFRS Measures and 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 NBK, NSA, and other third party sources that are believed by the Group 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 Joint Lead 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 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 Company 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 Company 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 Company, 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 Company 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 and the Guarantors, are inherently subject to uncertainties and contingencies, some of which are beyond our control.

Information on Web-Sites

The web-sites of the Company, the Guarantors or any other member of the Group do not form any part of this Prospectus. No reliance may be placed for any purposes whatsoever on the information contained on the web-sites of any member of the Group or on the completeness or accuracy of any of them. No representation or warranty, express or implied, is made or given by or on behalf of the Company or any of its subsidiaries, shareholders, directors, officers or employees or any other person as to the accuracy, completeness or fairness of the information or opinions contained on the Group's web sites. Accordingly, no member of the Group, any of their respective financial advisers, affiliates, advisers, representatives or any other person shall have any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of the Group's web-sites or their contents or otherwise.

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, references to a particular "**Condition**" are references to the relevant Condition set out under "*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, references to "**CHF**" are to Swiss Francs 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 high, low, 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 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	***Period high***	***Period low***	***Period average***
2009	148.36	151.40	120.79	146.67
2010	147.40	148.46	146.41	146.54
2011	148.40	148.36	145.17	146.62
2012	150.74	150.86	147.50	148.30
2013	153.61	154.52	150.23	152.14
January 2014	155.54	155.54	154.06	154.79
February 2014	184.06	184.95	155.46	172.44
March 2014	182.04	184.08	181.78	182.33
April 2014	182.05	182.07	182.01	182.04
May 2014 (through 20 May 2014)	182.01	182.14	182.01	182.03

Source: NBK

The Tenge/U.S. Dollar rate on 20 May 2014 was KZT 182.01 = U.S.$1.00

The following table sets out certain, high, low, period-end and average Tenge/Swiss Franc 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 Swiss Franc in the past are not 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 CHF1.00			
	Period-end	***Period high***	***Period low***	***Period average***
2009	143.01	150.04	104.54	135.60
2010	156.76	156.76	125.71	140.84
2011	165.93	203.40	150.59	157.65
2012	165.09	165.09	151.02	158.18
2013	172.34	174.03	155.52	164.23
January 2014	173.11	173.55	169.75	171.71

	KZT per CHF1.00			
	Period-end	***Period high***	***Period low***	***Period average***
February 2014	206.55	208.32	171.81	192.67
March 2014	204.86	209.24	204.86	206.90
April 2014	206.97	207.81	204.00	206.24
May 2014 (through 20 May 2014)	204.14	208.25	203.77	206.18

Source: NBK

The Tenge/Swiss Franc rate on 20 May 2014 was KZT 204.14 = CHF1.00

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.

Availability of Documents

Copies (and English translations where the documents in question are not in English) of the following documents may be inspected at and are available from the offices of Credit Suisse AG, the Principal Paying Agent, at Uetlibergstrasse 231, CH-8045 Zurich, Switzerland (phone: +41 44 333 49 73, e-mail: newissues.fixedincome@credit-suisse.com), during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) so long as the Notes are listed on the SIX Swiss Exchange and on the KASE:

(a) this Prospectus and any supplements thereto;

(b) the Agency Agreement;

(c) the Trust Deed (including the Guarantees);

(d) the annual report and consolidated accounts of the Issuer for the financial years ended 31 December 2013 and 2012 including, in each case, the audit report relating to such accounts;

(e) the constitutive documents of each of the Issuer and the Guarantors; and

(f) copies of the authorisations listed below.

Authorisations

Each of the Issuer and the Guarantors has obtained all necessary consents, approvals and authorisations in Kazakhstan in connection with its entry into, and the performance of its obligations under the documents to be entered into by the Issuer and the Guarantors in relation to the issue of the Notes and the entry into the Guarantees. The execution of the documents to be entered into by the Issuer and the Guarantors in relation to the issue of the Notes does not require separate approval by the management of the Issuer or the Guarantors, but is covered by a general management approval. The issue of the Notes and the execution of documents to be entered into by it in relation to the issue of the Notes was approved by a resolution of the Board of Directors of the Issuer dated 26 March 2014 and by resolution of the Management Board of the Issuer dated 21 April 2014 and by resolutions of the Board of Directors of each of JSC Kaztemirtrans and JSC Lokomotiv, each dated 14 May 2014.

No consents, approvals, authorisations or orders of any governmental authorities are required by the Issuer under the laws of Kazakhstan for the issue of, and performance of its obligations under, the Notes, except for permissions of the NBK for issue and placement of debt securities on the territory of foreign state, and no consents, approvals, authorisations or orders of any governmental authorities are required by either of the Guarantors under the laws of Kazakhstan for entry into, and performance of their obligations under, the Guarantees.

No Material Change

Save as disclosed in this Prospectus, since 31 December 2013 there has been no material change or any development involving a prospective material adverse change in the assets and liabilities, financial position or profits and losses of the Issuer, the Guarantors or the Group.

Recent Developments

Save as disclosed in this Prospectus (including the documents incorporated by reference herein), there has been no significant change in the Issuer's, the Guarantor's or the Group's business since 31 December 2013.

Litigation

Save as disclosed in this Prospectus, there is no litigation or other legal or administrative or arbitration proceedings against or affecting the Issuer, the Guarantors or any of their respective subsidiaries, current or pending or, to the best of the knowledge and belief of the Issuer and the Guarantors, threatened before any court, tribunal, arbitration panel or agency where these are of material importance to the Issuer's and the Guarantor's assets and liabilities or profits and losses.

Trustee

BNY Mellon Corporate Trustee Services Limited (the "**Trustee**"), will act as trustee for the Noteholders in accordance with the terms of an English law governed Trust Deed. The Trust Deed may be inspected at the offices of BNY Mellon Corporate Trustee Services Limited.

Noteholders may remove the Trustee by Extraordinary Resolution passed at a meeting of Noteholders, subject to certain conditions more fully discussed in "*Terms and Conditions of the Notes*".

The Trustee may retire at any time on giving at least 30 days' notice in writing to the Issuer and the Guarantors of its intention so to do provided there remains a Trustee in place after such retirement.

A new Trustee may be appointed by the Issuer, subject to approval by an Extraordinary Resolution at a meeting of Noteholders.

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and the Couponholders and no Noteholder or Couponholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing.

For more detailed discussion of the competence of the Trustee and the conditions in which the Trustee may be replaced, see "*Terms and Conditions of the Notes*".

Representative

In accordance with Article 43 of the listing rules of SIX Swiss Exchange, the Issuer has appointed Credit Suisse AG as representative to lodge the listing application with SIX Exchange Regulation.

Contractual Patents and Licences

The Issuer believes that it is not dependent on any contractual patents and licences save for a licence to transport hazardous materials and perform certain types of survey works, including engineering and geodetic works, a licence for the performance of certain types of construction-assembly works; a licence for the performance of certain types of project activities; a licence authorising activity in connection with the acquisition, storage, usage, distribution, transportation, realisation and utilisation of certain controlled chemicals, or "precursors".

The Guarantors believe that they are not dependent on any contractual patents and licences.

Paying Agent

Payments in respect of the Notes and coupons will be made only at the paying agent's offices in Switzerland. For the purpose of the Notes, the Issuer has, under the Paying Agency Agreement, appointed Credit Suisse AG as principal paying agent in Switzerland (the "**Principal Paying Agent**").

Publication

So long as the Notes are listed on SIX Swiss Exchange and on the KASE and so long as the rules of SIX Swiss Exchange or the KASE so require, all notices in respect of the Notes will be validly given, (i) by means of electronic publication on the following internet website of SIX Swiss Exchange at www.six-exchange-regulation.com/publications/published_notifications/official_notices_en.html and the internet website of the KASE at www.kase.kz or (ii) otherwise in accordance with the regulations of SIX Swiss Exchange and the KASE.

Language

The language of this prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

RESPONSIBILITY STATEMENT

The Issuer and the Guarantors, having made all reasonable enquiries, accept responsibility for this Prospectus and confirm that this Prospectus contains all information which is material in the context of the issue and offering of the Notes, that the information contained in this Prospectus is correct to the best of their knowledge and that no material facts or circumstances have been omitted.

The Issuer and the Guarantors have extracted substantially all of the information contained in this Prospectus concerning the Kazakhstan transport market and its competitors, which may include estimates or approximations, from publicly available information, including press releases and public filings made under various securities laws. The Issuer and the Guarantors accept responsibility for correctly extracting such information from such sources and confirms that such information has been correctly extracted from such sources. In addition, some of the information contained in this Prospectus has been extracted from official data published by Government agencies and internationally reliable sources like the World Bank and the International Monetary Fund. The Issuer and the Guarantors confirm such information has been accurately reproduced and is able to ascertain from the information published by such third parties that no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used. The Issuer and the Guarantors accept responsibility for correctly extracting such information from its sources and confirms that such information has been correctly extracted from its sources. However, the Issuer and the Guarantors have relied on the accuracy of such information without carrying out an independent verification. The official data published by Kazakhstan republican and local authorities may be less complete and less reliable than similar data in Western countries. Official statistics may also be compiled on a different basis than that used in Western countries. Any discussion of matters related to Kazakhstan in this Prospectus may, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The accuracy of some official data released by the Government may be questionable.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note nor execution of the Guarantee shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve an adverse change, in the condition (financial or otherwise) of the Issuer and/or the Guarantors since the date of this Prospectus.

[●], 2014

Joint Stock Company “National Company Kazakhstan Temir Zholy” as Issuer

By:
Title:
Address: 6 Kunayev street, Esil District,
Astana, 010000,
Republic of Kazakhstan

Joint Stock Company “Kaztemirtrans” as Guarantor

By:
Title:
Address: 10 Kunayev street, Esil District,
Astana, 010000,
Republic of Kazakhstan

Joint Stock Company “Lokomotiv” as Guarantor

By:
Title:
Address: 10 Kunayev street, Esil District,
Astana, 010000,
Republic of Kazakhstan

This Prospectus does not constitute an offer to sell the Notes, or an invitation by or on behalf of the Issuer, the Guarantors, the Joint Lead Managers (each as defined under "*Overview of the Offering*") to subscribe for or purchase any Notes.

The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantors and the Joint Lead Managers to inform themselves about and to observe any such restrictions. The Notes and the Guarantees have not been and will not be registered under the Securities Act and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S). Further information with regard to restrictions on offers and sales of the Notes and the distribution of this Prospectus is set out under "*Subscription and Sale*".

The Notes are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold, or delivered within in the United States or to United States persons. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder.

No person is authorised to provide any information or make any representation not contained in this Prospectus and any information or representation not contained in this Prospectus must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantors, the Trustee or the Joint Lead Managers. The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date. The websites of the Issuer and its subsidiaries do not form any part of the contents of this Prospectus.

None of the Issuer, the Guarantors, the Joint Lead Managers or any of the respective representatives makes any representation to any offeree or purchaser of the Notes, regarding the legality of an investment by such offeree or purchaser under relevant investment or similar laws. Each investor should consult with their own advisors as to the legal, tax, business, financial and related aspects of any purchase of the Notes.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess this Prospectus. Any consents or approvals that are needed in order to purchase any Notes must be obtained by such prospective purchaser. The Issuer, the Guarantors and the Joint Lead Managers are not responsible for compliance with these legal requirements. The appropriate characterisation of any Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase such Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which any Notes constitute a legal investment for prospective investors whose investment authority is subject to legal restrictions. Such prospective investors should consult their legal advisors regarding such matters.

The Joint Lead 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 derivatives transactions with, the Issuer, the Guarantors or any of their respective affiliates (including the shareholder of the Issuer).

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE JOINT LEAD MANAGERS AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS PROSPECTUS, AND NOTHING CONTAINED IN THIS PROSPECTUS IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE. NONE OF THE JOINT LEAD MANAGERS ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED IN THIS PROSPECTUS.

EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN ANY NOTES ISSUED UNDER THIS PROSPECTUS MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF THE ISSUER AND THE GROUP AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT, WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE, AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

THE NOTES AND THE GUARANTEES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. 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 NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

THE JOINT LEAD MANAGERS RESERVE THE RIGHT TO REJECT ANY OFFER TO PURCHASE THE NOTES IN WHOLE OR IN PART AND TO SELL TO ANY PROSPECTIVE INVESTOR LESS THAN THE FULL AMOUNT OF NOTES SOUGHT BY SUCH INVESTOR. THE JOINT LEAD MANAGERS AND CERTAIN RELATED ENTITIES MAY ACQUIRE A PORTION OF THE NOTES FOR THEIR OWN ACCOUNTS.

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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 2010 KTZ Development Strategy or, if adopted, the New KTZ 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 above list of important factors is not exhaustive. When relying on forward-looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the

Issuer and the Group operate. Such forward-looking statements speak only as at the date on which they are made, and are not subject to any continuing obligations under the listing rules of the SIX Swiss Exchange Ltd. 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.

ENFORCEMENT OF FOREIGN JUDGMENTS

The Issuer and 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.

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*". However 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. Since there is no such treaty in effect between Kazakhstan and England, decisions of the English courts will not be enforced in Kazakhstan. 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.

Additionally, the mainline railway system and facilities necessary for its operation owned by the Issuer are listed in the Register of Strategic Assets approved by the Government Resolution No. 651 dated 30 June 2008 as a "strategic asset", which is defined by 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 Issuer's assets.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following summary consolidated financial information as at 31 December 2013 and 31 December 2012 (restated) and for the years ended 31 December 2013 and 31 December 2012 (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 Other Information", "Risk Factors", "Capitalisation", "Operating and Financial Review of the Group" and "Business of the Group" as well as the Annual Financial Statements, together with the related notes thereto appearing elsewhere in this Prospectus.

Statement of Comprehensive Income Data

	For the year ended 31 December		
	2013(1)	**2013**	**2012 (restated)**
	(unaudited)		
	(U.S.$ in thousands)	*(KZT in thousands)*	
Revenue			
Freight transportation	4,835,625	742,800,361	686,097,952
Passenger transportation	478,805	73,549,271	63,484,428
Government grants	155,464	23,880,765	22,148,264
Other revenue	217,013	33,335,306	32,728,012
Total revenue	5,686,906	873,565,703	804,458,656
Cost of sales	(3,755,368)	(576,862,081)	(549,358,013)
Gross profit	1,931,538	296,703,622	255,100,643
General and administrative expense	(612,950)	(94,155,179)	(79,619,964)
Selling expenses	(1,005)	(154,403)	(193,391)
Loss from impairment of property, plant and equipment	(9,918)	(1,523,433)	(101,945)
Other income and expenses	24,837	3,815,236	5,661,151
Finance income	37,131	5,703,644	4,353,838
Finance costs	(246,152)	(37,811,417)	(30,024,236)
Foreign exchange loss	(52,162)	(8,012,635)	(4,109,145)
Share of profit of associates and joint ventures	2,813	432,057	489,452
Share of loss of joint ventures	(30,605)	(4,701,206)	(561,661)
Profit before taxation	1,043,528	160,296,286	150,994,742
Income tax expense	(254,206)	(39,048,623)	(31,022,566)
Loss for the year from discontinued operations	(18,307)	(2,812,097)	(1,109,451)
Profit for the year	771,015	118,435,566	118,862,725

(1) The Group's presentation currency is the Tenge. Solely for the convenience of the reader these figures have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 31 December 2013 which was KZT 153.61 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. On 11 February 2014, the Tenge devalued against the U.S. Dollar by 18.6 %. 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 "*Risk Factors – Risk Factors relating to the Republic of Kazakhstan – The NBK currency exchange rate policy could have an adverse impact on the Group and Kazakhstan's public finances and economy*".

Statement of Financial Position Data

	As at 31 December	As at 31 December	
	2013(1)	**2013**	**2012 (restated)**
	(unaudited)		
	(U.S.$ in thousands)	*(KZT in thousands)*	
Property, plant and equipment	12,889,795	1,980,001,428	1,644,295,010
Other non-current financial assets	12,519	1,922,971	1,874,213
Total non-current assets	14,465,747	2,222,083,387	1,818,358,676
Cash and cash equivalents	558,921	85,855,902	69,706,429
Other current financial assets	239,501	36,789,673	48,366,850
Total current assets	1,727,712	265,393,885	278,215,287
Total assets	16,193,459	2,487,477,272	2,096,573,963
Total equity	8,652,894	1,329,171,023	1,049,310,608
Non-current borrowings(2)	4,145,865	636,846,391	556,363,912
Total non-current liabilities	5,957,031	915,059,597	762,381,501
Current borrowings(3)	242,078	37,185,647	37,305,851
Total current liabilities	1,583,534	243,246,652	284,881,854
Total liabilities	7,540,565	1,158,306,249	1,047,263,355

(1) The Group's presentation currency is the Tenge. Solely for the convenience of the reader these figures have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 31 December 2013 which was KZT 153.61 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. On 11 February 2014, the Tenge devalued against the U.S. Dollar by 18.6 %. 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 "*Risk Factors – Risk Factors relating to the Republic of Kazakhstan – The NBK currency exchange rate policy could have an adverse impact on the Group and Kazakhstan's public finances and economy*".

(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		
	2013(1)	2013	2012 (restated)
	(unaudited)		
	(U.S.$ in thousands)	*(KZT in thousands)*	
Net cash flows from operating activities	1,670,605	256,621,708	228,909,935
Net cash flows used in investing activities	(3,121,703)	(479,524,821)	(499,239,739)
Net cash flows from financing activities	1,554,057	238,718,678	206,664,909
Net increase/(decrease) in cash and cash equivalents	102,959	15,815,565	(63,664,895)
Cash and cash equivalents at the beginning of the year	453,918	69,726,277	133,596,150
Effect of foreign exchange rates on cash and cash equivalents	2,045	314,060	(204,978)
Cash and cash equivalents at the end of the year	558,921	85,855,902	69,726,277

(1) The Group's presentation currency is the Tenge. Solely for the convenience of the reader these figures have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 31 December 2013 which was KZT 153.61 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. On 11 February 2014, the Tenge devalued against the U.S. Dollar by 18.6 %. 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 "*Risk Factors – Risk Factors relating to the Republic of Kazakhstan – The NBK currency exchange rate policy could have an adverse impact on the Group and Kazakhstan's public finances and economy*".

Non-IFRS Measures and Financial Ratios

	As at and for the year ended 31 December		
	2013(1)	2013	2012
	(unaudited)		
	(U.S.$ in thousands)	*(KZT in thousands, except ratios)*	
Group EBITDA(2)	1,876,681	288,276,999	257,761,871
EBRD EBITDA(3) to Finance costs	—	7.7	8.6
Current ratio(4)	—	1.09	0.98
Coverage ratio(5)	—	5.2	6.0
Total debt	4,387,944	674,032,038	593,669,763
Total debt to equity ratio(6)	—	0.5	0.6
Total debt to Group EBITDA(7)	—	2.3	2.3
Net debt(8)	3,829,022	588,176,136	523,963,334
Net debt to Group EBITDA	—	2.04	2.03

(1) The Group's presentation currency is the Tenge. Solely for the convenience of the reader figures as at 31 December 2013 have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 31 December 2013 which was KZT 153.61 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. On 11 February 2014, the Tenge devalued against the U.S. Dollar by 18.6 %. 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 "*Risk Factors – Risk Factors relating to the Republic of Kazakhstan – The NBK currency exchange rate policy could have an adverse impact on the Group and Kazakhstan's public finances and economy*".

(2) The Group defines Group EBITDA as profit from continuing operations before taxation, before finance costs, depreciation and amortisation. Group EBITDA is not a measure of financial performance presented in accordance with IFRS. 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. See "*Presentation of Financial and Other Information*" for an explanation regarding the use of these measures. Group EBITDA is computed as follows:

	For the year ended 31 December		
	2013[(1)]	**2013**	**2012**
	(unaudited)		
	(U.S.$ in thousands)	*(KZT in thousands)*	
Profit before taxation	1,043,528	160,296,286	150,994,742
Finance costs	246,152	37,811,417	30,024,236
Depreciation and amortisation(*)	587,001	90,169,296	76,742,893
Group EBITDA	1,876,681	288,276,999	257,761,871

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

(3) The Group defines EBRD EBITDA as the total consolidated operating profit of the Group before taking into account (1) goodwill amortisation, (2) Net Interest Expense, (3) Tax, (4) any share of the profit of any associated company or undertaking, except for dividends received in cash by the Group or any of its Subsidiaries and (5) extraordinary and exceptional items, after adding back all amounts provided for depreciation and amortisation. EBRD EBITDA is not a measure of financial performance presented in accordance with IFRS. Accordingly, it 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 Other Information*" for an explanation regarding the use of this measure.

EBRD EBITDA is computed as follows:

	For the year ended 31 December		
	2013[(1)]	**2013**	**2012**
	(unaudited)		
	(U.S.$ in thousands)	*(KZT in thousands)*	
Profit before taxation	1,043,527	160,296,286	150,994,742
Depreciation and amortisation	587,001	90,169,296	76,742,893
Finance costs	246,152	37,811,417	30,024,236
Finance income	37,131	(5,703,644)	(4,353,838)
Share of profit of associates	2,813	(432,057)	(489,452)
Extraordinary items (foreign exchange loss)	52,162	8,012,635	4,109,145
EBRD EBITDA	1,888,900	290,153,933	257,027,726

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

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

(6) 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.

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

(8) Net debt represents total debt less cash and cash equivalents.

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:	Joint Stock Company "National Company Kazakhstan Temir Zholy"
Guarantors:	Joint Stock Company "Kaztemirtrans" Joint Stock Company "Lokomotiv"
Joint Lead Managers:	Credit Suisse AG, Deutsche Bank AG London Branch acting through Deutsche Bank AG Zurich Branch, JSC Halyk Finance, HSBC Bank plc and UBS AG.
Trustee:	BNY Mellon Corporate Trustee Services Limited
Principal Paying Agent:	Credit Suisse AG
The Issue:	CHF[●] [●]% Notes due 20[●]
Issue Price:	[●]% of the principal amount of the Notes.
Issue Date:	[●] 2014
Maturity Date:	[●] 20[●]
Interest Rate:	The Notes will bear interest at the rate of [●]% per annum from and including [●] 2014 to but excluding the Maturity Date.
Yield:	[●]%
Interest Payment Dates:	Interest will be payable annually in arrear on [●] in each year, commencing on [●] 2014.
Withholding Taxes:	All payments by the Issuer under the Notes will be made without the imposition of any withholding taxes. According to the laws in effect on the date of this Prospectus, payments of interest from the Issuer to Noteholders 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*". In the event that any taxes, duties, assessments or governmental charges are imposed, levied, collected, withheld or assessed by 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 Guarantees), 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, general, 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 Guarantees 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 Guarantees:

Pursuant to the Guarantees, 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 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 permit to arise or subsist 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:	The Issuer and 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, 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 Kazakhstan. See "*Terms and Conditions of the Notes – Redemption, Purchase and Cancellation – Redemption for Tax Reasons*".
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 as principal obligor under the Trust Deed and the Notes or in place of any Guarantor as guarantor of the Issuer's payment obligations 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 are expected to amount to approximately CHF [●] (approximately U.S.$[●] million at the CHF/U.S.$ exchange rate as at [●] May 2014, CHF [●] per U.S.$1.00) after deduction of fees and expenses related to the offering. A portion of the net proceeds from the offering will be on-lent by the Company to its subsidiary KTZ Express, which will use the monies to finance its capital expenditures and for other general corporate purposes, and the balance of the net proceeds from the offering will be used by the Company to finance its own capital expenditures and for its general corporate purposes.
Form of the Notes:	The Notes will initially be represented by a Permanent Global Note in bearer form, without coupons, which will be deposited with SIS. The Permanent Global Note will be exchangeable in certain limited circumstances in whole but not in part (free of charge to the holder) for Definitive Notes with interest coupons attached.

	Neither the Issuer nor the Noteholders shall at any time have the right to request the printing and delivery of Definitive Notes.
	Interests in the Global Note will be subject to certain restrictions on transfer. See "*Terms and Conditions of the Notes – Form, Denomination and Title*".
NBK Permissions	No Notes may be issued, placed or listed outside of Kazakhstan without the prior permissions of the NBK for the issuance and placement of the Notes outside Kazakhstan. The NBK Permissions in relation to the Notes were granted on 6 May 2014.
Listing and Trading:	Application has been made to list the Notes on the SIX Swiss Exchange. 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. On 30 April 2014 and 20 May 2014, the KASE granted its consents for the admission of the Notes to the "rated debt securities" category of the official list of the KASE, which is expected to become effective on [●] 2014.
	ISIN: [●]
	Swiss Securities Number [●]
	Common Code: [●]
Clearing	SIX SIS Ltd, Olten, Switzerland
	Additional clearing organisations: Euroclear Clearstream
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 and the Trust Deed will be governed by, and construed in accordance with, English law.
Selling Restrictions:	The Notes and the Guarantees (together, the "**Securities**") have not and will not be registered under the Securities Act or the securities laws of any state of the United States and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S). Notes in bearer form are subject to U.S. tax law requirements. The Notes have been offered to the public in Switzerland and Kazakhstan.
	The offering and sale of Notes is subject to applicable laws and regulations, and the Securities may not be sold in other jurisdictions, including without limitation the United Kingdom, the EEA and Kazakhstan, other than in compliance with applicable laws and regulations. See "*Subscription*

and Sale"

Ratings: The Notes are expected to be rated BBB by Fitch, BBB- by S&P and Baa3 (positive) by Moody's. The Issuer's current long-term debt ratings by Moody's, S&P and Fitch are Baa3 (positive), BBB- (stable) and BBB (stable), respectively.

Kaztermirtrans' current long-term debt ratings are Ba1 (positive) by Moody's and BBB- (stable) by S&P.

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 Moody's, S&P 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

The Group believes that the following factors may affect its ability to fulfil its obligations under the Notes and the Guarantee, as applicable. Some of these factors are contingencies which may or may not occur and the Group is 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 Guarantee are also described below. If any of the risks described below actually materialises, each of the Group member's 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 Guarantee.

The Group believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes, or of the Guarantors to otherwise perform their respective obligations under the Guarantee, as applicable, may occur for other reasons that may not be considered significant risks by the Group 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.

Risk Factors Relating to the Group

The Group and the railway industry in Kazakhstan have undergone and are continuing to undergo significant restructuring, which may materially and adversely affect the ability of the Group to conduct its business.

The Government has been actively reforming the railway industry in Kazakhstan since 1997. Reforms of the railway industry in Kazakhstan, together with implementation of the 2010 KTZ Development Strategy and, if adopted, the New KTZ Development Strategy, will require significant changes to the structure of the Group. In May 2010, the Board of Directors of the Company adopted the 2010 KTZ Development Strategy, which sets forth the development strategy of the Group through 2020 in light of the ongoing Government reform measures, and conforms to the 2010 Government Development Programme. The aim of the 2010 KTZ Development Strategy is to build a more efficient organisational structure in order to enhance commercial and operational performance of the Group in order to enable the Group to compete more effectively in the increasingly competitive environment being promoted by the Government. Following the new initiatives announced by the President in his annual Message, the 2014 Government Development Programme was adopted in January 2014. The 2014 Government Development Programme requires the Group to develop multimodal transportation services and to integrate transportation services with logistics infrastructure, an area in which the Group does not have significant experience. Further, the Company believes that certain provisions of the 2014 Government Development Programme, in particular, the requirement to open access to the mainline railway network to private freight operators and leaving out provision of grants by the Government covering all losses of the national passenger carrier borne as a result of servicing socially important passenger routes, could be harmful to the Group's interests and in order to mitigate this, the Company, together with the Ministry of Transportation, has developed a package of proposed amendments to the 2014 Government Development Programme. Furthermore, given the developments in the governmental policy for the transport industry and adoption by Samruk-Kazyna of its new development strategy, the Company is currently working out the New KTZ Development Strategy which has been approved by the Company's Management Board and is expected to be adopted by the Company's Board of Directors in the fourth quarter of 2014. Prior to adoption by the Company's Board of Directors, the New KTZ Development Strategy may be revised to bring it into line with the 2014 Government Development Programme and, possibly, with the amendments that the Company has proposed to the Government. See "*General Information – Ongoing Restructuring and Development of Logistics Services*". There can be no assurance that the Government will accept any amendments to the 2014 Government Development Programme, as proposed by the Company, or have regard for the Group's commercial interests. Should the Government refuse to accept the Company's proposed changes, the Group will have to follow the governmental course as is currently outlined in the 2014

Government Development Programme and the Company will have to adjust the New KTZ Development Strategy accordingly, which may have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The success of the 2010 KTZ Development Strategy and, in future, the New KTZ Development Strategy will depend on the Group's ability to restructure its businesses effectively, adapt its management structure and managerial personnel to reflect the significant changes in its operational structure and implement cost efficiency measures. 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 promoting competition as part of the 2014 Government Development Programme, or in the new areas envisaged by the 2014 Government Development Programme. See "*Business of the Group – Ongoing Restructuring and Initiatives*". If the Group is not able to implement these restructuring measures or adapt to new circumstances that result from the Government reforms, or changes in the reforms, in the railway industry or the implementation of the 2010 KTZ Development Strategy or the New KTZ Development Strategy, it may result in disruptions and difficulties in the Group's operations and further increases in operating expenses, any of 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 2010 KTZ Development Strategy, or, if implemented, the New KTZ Development Strategy as well as the Group's ability to implement the 2010 KTZ Development Strategy or the New KTZ 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 is required to comply with commitments arising from Kazakhstan's participation in multilateral and bilateral international treaties and in international organisations.

The Group is subject to Kazakhstan foreign policy relating to arrangements in the railway industry. For example, the Group's operations are, and will be, subject to the Customs Union and SES formed by Kazakhstan, Belarus and Russia. In December 2010, the SES members signed a treaty that regulates certain matters of access to railway transportation services, including tariff policies, which took legal effect on 1 January 2012. According to the treaty, each SES member undertook to unify tariffs for export, import and domestic freight transportation, by 1 January 2013. After 1 January 2013 and depending on certain factors, including, among others, promotion of competitive ability, creation of favourable conditions for transportation of goods by railways and acquisition of new freight flows, the treaty allows railway administrations of the SES member states to change their unified tariffs up to certain caps set by national laws of the respective state. As at the date of this Prospectus, the Company has unified its tariffs for export, import and domestic transportation. With respect to transit freights, the treaty provides that the parties shall apply the unified tariff effective 1 January 2013. However, since 1 January 2014 the Russian railways operator has been applying its own transit tariffs for the transportation of the transit freights instead of the unified tariff on the basis that the treaty shall not prejudice the rights and obligations of the parties under other treaties, including Russia's obligations as a member of the World Trade Organisation. In order to maintain parity and observe its obligations under the CIS Tariff Agreement and CIS Tariff Policies, as annually reviewed and agreed by the CIS member states, the Company has also started to apply its own transit tariff, which is different to the Russian transit tariff, effective 1 January 2014 See "*Business of the Group – Government Regulation and Tariffs – Freight Tariff Regulation and Pricing – Freight Tariffs*". Under the treaty, the SES members also agreed to provide government owned and private transportation operators of the member states with equal access to mainline infrastructure and associated facilities effective 1 January 2015, provided that the following principles are followed: i) standard requirements to the transportation operators, as may be established by each member state, ii) maintenance by the transportation operators of the rolling stock to an agreed standard, iii) access to the infrastructural services is dependent upon crossing capacities and engineering capabilities of the infrastructure, iv) unified pricing (tariff) policy, v) availability of information regarding scope of services, rendering procedures, tariffs, charges and commissions for the services applicable to all participants. However the SES members are currently renegotiating this commitment as a result of concerns regarding the effect that equal access to the mainline infrastructure may have on the railway industries of the member states. Furthermore, it is currently anticipated that within the forthcoming creation of the Eurasian Economic Union, relating to the further economic integration of Kazakhstan, Belarus and Russia, the states will adopt a codified agreement which would restrict equal access to the mainline infrastructure between the member states, leaving the access open only for infrastructure on the near-border territories.

Failure by the Group to adapt its operations to the rules of the SES or acceptance by Kazakhstan of any international commitments that are not in accordance with the interests of the Group, could make it difficult for the Group to compete effectively with railway companies of the SES states or enjoy the benefits that the SES may bring to its member states. 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 historically experienced liquidity problems.

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, Government grants, below market-rate loans and borrowings from Samruk-Kazyna, and other loans and borrowings (including the Notes). 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 2013, the Group's consolidated current assets were KZT 265.4 billion and its consolidated current liabilities were KZT 243.2 billion, resulting in a liquidity ratio of 1.09 of current assets to current liabilities. Adverse economic conditions in Kazakhstan, or on Kazakhstan or global financial markets, may result in the Group being 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 Company and the Guarantors to meet their obligations under the Notes and the Guarantee.

Adverse global financial and macro-economic conditions may adversely impact the Group's operations.

The global economy and financial markets are subject to significant volatility, and in recent years market participants have faced limitations on access to financing and, from time to time significant liquidity constraints. The global financial crisis significantly affected Kazakhstan's economy, causing a decrease in Kazakhstan's GDP, a collapse in the real estate market, restructurings and failures of banks, significant declines in debt and equity prices and a substantial outflow of capital. Many lenders and institutional investors reduced, and in certain cases ceased, funding to borrowers in Kazakhstan, as well as internationally, which significantly reduced the liquidity in the global financial system. During this period resolution of bank solvency crisis was one of the top priorities for the Government of Kazakhstan. For example in 2009, the Government acting through Samruk-Kazyna bailed out BTA Bank, the largest commercial bank in Kazakhstan, in terms of assets, liabilities and equity, at the time of the bailout, through a combination of capitalisation, loan financing and conversion of deposits into equity. There can be no assurance that such measures will succeed in returning stability to the banking sector in Kazakhstan or that the global banking and financial markets will not experience further disruption. Continued instability in global credit markets could have a material adverse effect on the Group's access to capital and, as a result, its business, prospects, financial condition, cash flows or results of operations.

The Group's results of operations and financial condition are dependent on economic conditions in Kazakhstan and the availability of goods for transportation by railways.

The Group's results of operations are highly dependent on economic conditions in Kazakhstan, which, in turn, are significantly influenced by global economic conditions. In particular, railway freight transportation volumes in Kazakhstan are highly correlated with Kazakhstan's GDP reflecting the dependence of Kazakhstan's economy on commodity exports, including oil and oil products, coal, iron ore and grain, amongst others, and the corresponding volumes of commodities that are transported by rail. In 2009, driven by declining commodities demand and pricing in global markets and corresponding drops in industrial production and trade, Kazakhstan's GDP declined by 13.6% against 2008, according to the NSA. 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. Kazakhstan's economy began to recover in 2009 and grew by 1.2%, 7.3%, 7.5%, 5.0% and 6.0% for the years ended 31 December 2009, 31 December 2010, 2011, 31 December 2012 and 31 December 2013, respectively, and the IMF estimates Kazakhstan's GDP growth in 2014 at 5.7% and 6.1% in 2015. Affected by the economic downturn of 2008, in 2009 the Group had a decline in total freight transportation turnover by 8.2%, however reflecting the recovery and growth of Kazakhstan's economy the Group's total freight transportation turnover increased by 8.1%, 4.9% and 5.5% in 2010, 2011 and 2012, respectively, but notwithstanding the overall GDP growth slightly decreased by 2.0% in 2013 due to lower volumes of transported grain and grain products resulting from the poor harvest in 2012 and 2013. There can be no assurance that Kazakhstan's economy and, in turn, the Group's freight transportation turnover, will continue to grow at the same rates or at all in future periods. If the Kazakhstan economy ceases to grow or experiences decreasing growth rates 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.

Economic conditions in Kazakhstan are, in turn, highly dependent on a number of large economic projects and enterprises. While the Group is not individually dependent on any one particular customer, a significant decline in freight demand by one or more of its major customers may nevertheless have a material and adverse effect on the Group's results of operations. For example, delays in production at the Kashagan oil field resulted in a significant decline in volumes of crude oil transported by the Group in the first quarter of 2014 against the planned volumes for this period.

Kazakhstan's economy may also be adversely 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, which could materially adversely affect the Group's business, prospects, financial condition, cash flows or results of operations.

Maintenance, modernisation and upgrades of the Group's railway and logistics infrastructure requires significant funding.

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, a significant part of which are approaching the end of their useful lives, is 27 years for locomotives and 27 years for rolling stock, with regulated useful lives of 22 to 40 years for locomotives (depending on type) and 22 to 35 years for rolling stock (depending on type), respectively. In addition the Group lacks adequate storage capacities at cargo terminals and warehouses at certain key rail cities in Kazakhstan, and has insufficient capacity to efficiently transfer the high volume of freight crossing into and from China at 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. Although a new Altynkol station located at the Kazakhstan-China border was commissioned in December 2012, and is expected to attract certain freight flows coming from China to relieve load of Dostyk station, it is not currently fully operative due to insufficient supporting infrastructure pending development of the SEZ Khorgos. 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.

In addition, the Group is required to make significant capital expenditures in connection with developing its logistics business. Capital expenditures in certain logistics projects through 2020 are expected to amount to approximately U.S.$44.3 billion, of which approximately U.S.$30.9 billion is expected to be received from the state budget. See "*Business of the Group – Business Operations of the Group – Multimodal Transportation and Logistics Services*". While the Group currently receives financial support from Samruk-Kazyna and the Government, no assurance can be given that the Group will be able to obtain any such support in the future and that it will have access to sufficient financing on acceptable terms or at all.

Modernisation and expansion projects are capital-intensive, and accessing such financing on commercially reasonable terms, or at all, may be possible only in favourable market conditions or with the support of the Government. For example, the Group was required to reduce its capital expenditures substantially in 2009 as a result of the financial crisis, as it could no longer fully fund investments from operating cash flow or external sources. Since 2009, reflecting Government support as well as the Group's financial and economic policy, the Group's investments into renewal and modernisation of infrastructure and rolling stock has significantly increased. For the year ended 31 December 2013, the Group's capital expenditure (defined as Capital expenditures for property plant and equipment in the Annual Financial Statements of the Group) was KZT 429.3 billion, and for the year ended 31 December 2012, the Group's capital expenditure was KZT 473.9 billion. 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 and the logistics business, its operations may be adversely affected by equipment failures and accidents attributable to poor conditions of the railway system and related infrastructure, and underperformance of the logistics facilities. Moreover, such accidents may significantly increase expenditures relating to upkeep and repair of the railway system and related infrastructure and assets, 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 and rolling stock may limit the Group's ability to operate its business.

A significant part of the Group's locomotives and rolling stock are approaching the end of their useful lives, with an average age of 27 years for the Group's locomotives and 27 years for the Group's rolling stock, with regulated useful lives of 22 to 40 years for locomotives (depending on type) and 22 to 35 years for rolling stock (depending on type), and require replacement. Although the Group has purchased locomotives and rolling stock in recent years in an effort to upgrade or replace its locomotives and rolling stock, and 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 and locomotives 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 and locomotives 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. A failure 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, could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group is controlled by the Government, and may engage in activities and enter into transactions that are not in the Company's commercial interests and/or that conflict with 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. Samruk-Kazyna, as the Government's national management holding company, has 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 direct control and core businesses or to acquire assets for its business in transactions that are not on an arm's length basis, such as the teleradio complex in Astana that the Government directed the Group to construct and transfer to Samruk-Kazyna for no consideration. The Group incurred total costs of KZT 58.9 billion for the construction of the teleradio complex, supply of media and technical equipment and acquisition of land. In July 2012 the teleradio complex building, together with the land on which it is situated, was donated to the Department of State Property and Privatisation of Astana City, which in its turn accepted the teleradio complex and put it on the balance sheet of the Information and Archives Committee of the Ministry of Culture and Information of the Republic of Kazakhstan (the "**Information and Archives Committee**") pursuant to the Order of the Chairman of the State Property and Privatisation Committee of the Ministry of Finance of the Republic of Kazakhstan (the "**State Property Committee**") No.678 dated 16 July 2012. In July 2012, the Government directed the Group to construct a multifunctional ice palace in Astana at the Group's expense. In October 2012, the Group entered into a contract with a construction company for a construction price of KZT 25.1 billion, which in 2013 was renegotiated and reduced by KZT 141 million. As at 31 December 2013 the Group made an advance payment of KZT 2.9 billion to the construction company and incurred costs of construction in the amount of KZT 7.9 billion. The Group is expected to further incur costs of construction of the ice palace, which may be significant, until completion which is planned for June 2015. Although the Group plans to make applications to the Government for reimbursement of its expenses incurred as a result of construction of the teleradio complex and the ice palace from the state budget, there can be no assurance that the Government will fully or partially reimburse such expenses to the Company.

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. For example, in 2013 the Group entered into a commitment to Samruk-Kazyna to donate to Mangistau municipality social facilities built by the Group in the amount of KZT 965 million as part of social and economic development of Mangistau oblast.

Generally, the Group does not have a clear estimate of final amounts of expenses required for the social duty projects until completion of their construction, and the final amounts of expenses of such projects may differ from the initially planned expenses significantly.

Due to the Company's status as a national company, the Government may also direct changes in the Group's structure, including the acquisition or disposition of Group assets. For example, the privatisation programme announced by Samruk-Kazyna in May 2014 envisages the sale of up to 49% of the shares in Kaztemirtrans to a strategic investor. While the Company aims to negotiate certain conditions when agreeing the share sale and purchase agreement with the strategic investor which include (i) the future merger of Kaztemirtrans and Lokomitv to establish the national freight carrier, and (ii) that the merged company will accede as a guarantor under the Notes and the Guarantee. However there can be no assurance that the Company will be able to negotiate these conditions with the strategic investor or to enforce such conditions once the merged company has been formed, or that it will be able to prevent the strategic investor from taking actions which could hinder or prevent the establishment of the national freight carrier.

These and similar actions by the Government and/or Samruk-Kazyna could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group has received, and relies on, support from the Government

The Group has historically received, and continues to rely on, capital contributions and below market-rate loans from Samruk-Kazyna and other forms of Government financial assistance to finance its operations and fund capital expenditures. For example, in 2012 and 2013 the Group received financial support from Samruk-Kazyna, the Company's sole shareholder, in the form of below-market rate loans in the aggregate amount of KZT 62.9 billion and KZT 202.5 billion, respectively. Proceeds from the loans were utilized for the construction of railway lines between Zhezkazgan and Beineu, and Arkalyk and Shubarkol, and for the renewal of passenger cars rolling stock fleet of JSC Passenger Transportation. In 2012, the Company also received a capital contribution in the amount of KZT 4 billion from Samruk-Kazyna for the purpose of funding the construction of railway lines between Zhezkazgan and Beineu and between Arkalyk and Shubarkol, and a contribution of non-current assets of KZT 5.5 billion, while in 2013 Samruk-Kazyna contributed KZT 30 billion in the Company's share capital to fund further the construction of the Zhezkazgan – Beineu railway line and transferred non-current assets of KZT 3.0 billion. 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 Samruk-Kazyna privatisation programme, adopted in May 2014 contemplates the sale of a 10% minus one share interest in the Company through a "People's IPO", a programme to stimulate public ownership in state-owned companies. 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, whether as a result of decreased Government ownership or otherwise. 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 Group is indirectly controlled by the Government, the Company and the Guarantors are legal entities separate from the Government and agencies of the Government. The Notes, and interest due or to become due in respect of the Notes, constitute obligations only of the Company and the Guarantees constitute obligations only of the Guarantors. The Notes and the Guarantees do not constitute obligations of, nor are they guaranteed by, Samruk-Kazyna, the Government or any agency thereof.

The status of the Company as a monopoly and the dominant entity and the position of the Guarantors as dominant entities may result in limitations on the Group's operations.

As Kazakhstan's national railway company, the Company has a monopoly over Kazakhstan's mainline railway network, and the Group holds dominant position in railway passenger and freight transportation and, as such, the Group's operations are regulated by the Natural Monopoly Agency and the Agency for Competition Protection. The Natural Monopoly Agency regulates activities of the Group by establishing tariffs for domestic, import and export freight transportation by rail, tariffs for the mainline railway network access services and tariffs for international, interregional, intercity and suburban passenger transportation. In determining tariffs, the Natural Monopoly Agency considers a number of factors, including the financial condition and investment needs of the Group. However, the Government, through the Natural Monopoly Agency, may 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. As of the date of this Prospectus, JSC Passenger Transportation, a wholly owned subsidiary of the Company, is designated by the Government as the national passenger carrier. Given the social significance of the passenger transportation, tariffs for the provision of passenger rail services are kept low to ensure affordable passenger rail services to all members of the public. 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. As a result, the revenue generated from passenger operations services and transportation of certain freights has historically been insufficient to meet the operational costs of these services. If the Natural 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 Natural Monopoly Agency are at levels which do not meet the Group's budget, the Group may generate insufficient revenue to cover its operating costs, may experience a reduction in liquidity and may be unable to repay its borrowings, including the Notes, when due, to meet its obligations as they mature and commitments or provide for planned capital expenditures, including implementing its 2010 KTZ Development Strategy or, if adopted, the New KTZ Development Strategy. Moreover, the Group may not be permitted to discontinue unprofitable or economically inefficient services by the Government, which would mean that the Group would have to continue to provide the service on unfavourable terms to the Group. Such development will 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, Kaztemirtrans and Lokomotiv are subject to Government oversight. As part of its oversight, the Government may interfere with their respective operations, for example by making the dominant entities strictly adhere to their investment programmes, included in the tariffs, and demand a return of revenue, should the entity fail to comply with such programmes, which could result in a material adverse effect on their respective businesses, prospects, financial conditions, cash flows or results of operations and, as a result, their ability to make payments under the Guarantee.

Under the 2010 Government Development Programme the Company is allowed to increase tariffs by 15% during the period from 2011 through 2014 following which, starting from 2015, it may perform indexation of tariff rates by the rate of inflation. Although the 2010 Government Development Programme does not cover 2015 and subsequent years and the 2014 Government Development Programme does not set forth any similar plans for the tariff indexation and, instead, envisages revision of tariff policies to turn it towards market mechanism, the Company believes that it will be able to implement indexation of tariffs on inflation rates after 2014. However, there can be no assurance that the Company will be allowed to exercise the said indexation, and that the revision of the tariff policies will bring any benefits to the Company's tariff structure. As a result, the Group may suffer a material adverse effect on its business, prospects, financial condition, 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. According to the NSA, in 2013 and 2012, total freight turnover in Kazakhstan by type of transportation amounted to: 231.2 billion tonne-kilometres (46.9%) and 235.8 billion tonne-kilometres (49.4%), respectively, by railway; 116 billion tonne-kilometres (23.5%) and 106.9 billion tonne-kilometres (22.4%), respectively, by pipeline; 145 billion tonne-kilometres (29.4%) and 132.3 billion tonne-kilometres (27.6%), respectively, by road; 2.7 billion tonne-kilometres (0.5%) and 2.8 billion tonne-kilometres (0.6%), respectively, by water and 63.2 million tonne-kilometres (0.01%) and 59.5 million tonne-kilometres (0.01%), respectively, by air.

The Group faces 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 generally more cost efficient than rail transportation for these products. According to the NSA, freight turnover by pipeline increased by 8.5% in 2013, as compared to 2012, and the Group expects that from 2014 to 2017, there will be a decrease in the amount of crude oil and oil products which it transports largely as a result of increased competition from pipelines. Notably, Tengizchevroil LLP, the Group's largest oil shipping client, recently announced that it will switch to transporting its produced crude oil by pipelines. See "*Business of the Group – Business Operations of the Group – Multimodal Transportation and Logistics Services*". Increased competition faced by pipeline transportation may materially adversely affect the Group's business, prospects, financial condition, cash flows or results of operations.

The Government is also developing Kazakhstan's highway infrastructure to foster short- and medium-distance truck transportation. Freight turnover by road increased by 1.6% of total transportation in 2013, compared to 2012. Additionally, although private rail transportation 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 with consignors. Many of these private companies are affiliated with the Group's existing customers and could, over time, provided the open access to the mainline railway network remains as provided under the 2014 Government Development Programme, reduce such customers' reliance on the Group's railcars and containers. 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's business is highly dependent on economic conditions in the countries bordering Kazakhstan and maintaining good relations with the neighbouring countries to have open access to international commodities markets.

The Group's business is substantially dependent on exports of products from, and imports of products to, Kazakhstan. The volumes of such shipments vary based on economic conditions in those countries, and the demand for commodities and other products produced in Kazakhstan, as well as their shipments to Kazakhstan or transport through Kazakhstan to other countries. Accordingly, economic conditions in those countries have a significant impact on demand for the Group's transportation services. Moreover, the Group's plans to expand its logistics and transhipment services will make it increasingly dependent on economic conditions in other countries. Should economic conditions in such countries be substantially impaired, it may have a material adverse effect on the Group's exports, imports and transit transportation operations, and the ability to offer logistics services to the Group's customers in these countries.

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 agreed to implement certain arrangements securing non-discriminatory access of clients to railway transportation services on the territory of each member state, balance of interests between clients and railway administrations and ensuring access of railway administrations of either party to the agreement to internal markets of the other parties, which however may be renegotiated and changed under the forthcoming establishment of the Eurasian Economic Union. See "*–The Group and the railway industry in Kazakhstan have undergone and are continuing to undergo significant restructuring, which may materially and adversely affect the ability of the Group to conduct its business*" and "*Business of the Group – Government Regulation and Tariffs – Freight Tariff Regulation and Pricing – Freight Tariffs*". As part of the SES, these countries have agreed to cooperate on the basis of compensation of economically justifiable expenses relating to services provided within the SES, the development of infrastructure and tariff transparency. Further, due to the role assigned by the 2014 Government Development Programme, the Group is at the forefront of Kazakhstan's intention to be a large transit player on the trade route between China and the EU. As such, the Group has been, continues to be and has future plans for being, intensively involved in cooperation with foreign and international partners. For example, the Group has agreed with an operator of the Lianyungang seaport (China) to construct a logistics terminal that will be an outside gate for the Group to sea trade routes. See "*Business of the Group – Multimodal Transportation and Logistic Services – Domestic and External Transport and Logistic Centres*". The Group has also completed construction of the railway line between Uzen and the border of Turkmenistan to shorten by almost 600 kilometres the eastern branch of the international corridor North-South for a faster delivery by railways of goods moving to and from the Northern Europe and the Middle East states. However, should access to these or other export routes be materially impaired, this could adversely impact the economy of Kazakhstan. Moreover, adverse economic factors in regional markets may adversely impact Kazakhstan's economy.

The 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. The Group determined 23 critical IT systems supporting the following 5 business processes of the Company:

- "organisation of goods train service", including documentation of consignor lists, support by engineering office, receipt of source information from stations, making up of trains, departure and arrival procedures;
- "sale of tickets", including ensuring sale of passenger tickets and good functioning of ticket office terminals;
- "accounting and book-keeping", including preparation of reports, conduct of receipts and expenditure transactions and exercise of settlements with counterparties;
- "effecting of transport payments", including issue and processing of payment cards, support of transport fare collector and automated workstation; and
- "supplier storefront" internet sale of railway tickets to the public.

One of the Group's major IT projects currently under design is the automated system for management and development of personnel. The system will represent a platform for the integration and computerisation of several processes relating to recording, storage and processing of personnel information. It is expected that the system will be embedded by the end of 2014. See "*Business of the Group – Information Technology*".

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 implement any such advanced technologies successfully 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 controls and operates the national railway system and related infrastructure, and is 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, which could have a material adverse effect on the Group's businesses, prospects, financial condition, cash flows or results of operations. Furthermore, as a carrier and operator of rolling stock, members of the Group may also be responsible for spillage or leakage from railcars while transporting environmentally sensitive materials. Such incidents may result in Government fines or other litigation, which, in turn, could have a material adverse effect on the Group's businesses, prospects, financial condition, cash flows or results of operations.

The insurance market is relatively undeveloped in Kazakhstan. While the Group maintains an insurance programme pursuant to requirements of Samruk-Kazyna, the Group does not procure insurance coverage to the same extent as would have been customary in more developed economies in Western Europe and North America. Except for holding the required statutory insurance coverage, including with respect to mandatory insurance of civil responsibility of the owners of vehicles before third parties, mandatory insurance of the employer's liability against harm to life and health of the employees while executing their job duties, mandatory, environmental insurance and mandatory insurance of civil responsibility of the transporter before passengers, and certain types of voluntary property insurance and insurance over the leased rolling stock pursuant to financial lease agreements, the Group does not maintain any other 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 were 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. In addition, such events 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, 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.

For the years ended 31 December 2013, 2012 and 2011, fuel and lubricants accounted for 15.3%, 15.1% and 16.6%, 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 98.6%, 96.9% and 97.1% in 2013, 2012 and 2011, 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 Natural Monopoly Agency for approval, which include all of the Group's freight tariffs, except for transit tariffs. However, any increases in these tariffs can be made only once a year, provided a relevant regulatory 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 Natural 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, which could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

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. Moreover, any efforts to implement hedging arrangements may be subject to a prior approval by Samruk-Kazyna.

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. The Group is exposed to foreign currency exchange rate risk on selected receivables, mainly including revenue generated from transit freight and passenger transportation (for which the tariffs are denominated in the Swiss Francs but mostly received in the Tenge), and 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. Although the Group takes efforts to mitigate or hedge its foreign currency exchange risks, there can be no assurance that such foreign currency exchange risks will adequately be hedged or mitigated, and a failure to do so may have a material adverse effect on the Group's businesses, prospects, financial condition, cash flows or results of operations. See "*Operating and Financial Review – Key Factors and Trends Affecting the Group's Financial Condition and Results of Operation – Changes in Exchange Rates*".

As at 31 December 2013, 67% of the Group's borrowings and debt securities were denominated in U.S. Dollars. On 11 February 2014, the NBK announced that it would allow the Tenge to depreciate to around KZT 185 to the U.S. Dollar representing a decline of around 19%. According to the NBK the new exchange rate of the Tenge against the U.S. Dollar was introduced to support Kazakhstan producers in their competition with goods originating from partner states, and as such, strengthen their position within the Customs Union. As a result of the devaluation, the Company estimates that it incurred a foreign exchange loss of KZT 80.9 billion for the three months ended 31 March 2014, compared to KZT 95.8 million foreign exchange gain for the same period in 2013. There can be no assurance that another 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 and other foreign currencies, a devaluation of the Tenge would have a serious net negative impact on the Group's financial condition and results of operations. While 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 these reserves may be insufficient to offset foreign currency loss fully. If the Tenge further experiences a significant devaluation relative to the U.S. Dollar, it will 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 other designated or prohibited persons, and Noteholders may be deemed to provide indirect assistance or support to transactions with such sanctioned countries and persons and entities.

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, Switzerland and other countries and the United Nations imposing economic sanctions or export controls. 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, persons and/or entities. In particular, the Group's transactions with parties in Iran may be subject to the United States Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010, which amended the United States Iran Sanctions Act (the "**Iranian Sanctions**").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 the border of Kazakhstan, and, although currently 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 or other jurisdictions that are subject to territorial sanctions, these volumes have increased in recent years, and the Group plans to further increase these volumes. The Group does not believe its operations violate the Iranian Sanctions or similar sanctions imposed by other jurisdictions. 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 five 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 the Group were found to be in violation of the Iranian Sanctions or similar sanctions, significant penalties could be imposed as well as other obligations, restrictions, or prohibitions, any of which 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, persons and entities that are subject to sanctions administered by the United States Treasury Department's Office of Foreign Assets Control ("**OFAC**") and United States Department of State and equivalent sanctions or measures imposed by Her Majesty's Treasury of the United Kingdom, other member states of the EU, Switzerland or other countries. Starting in March 2014, the United States, European Union and a number of other jurisdictions have on a series of occasions imposed sanctions, asset freezes, travel limitations and other measures against Russian and Ukrainian officials and a number of Russian banks and corporate entities in response to action taken with respect to the Crimea, and further such measures may be imposed. The Group may engage in transactions with such persons or entities controlled by such persons. Moreover, Kazakhstan law, international treaties to which Kazakhstan is a party and the nature of the Group's business may result in the Group being unable to refrain from engaging in transactions with countries, persons or entities that may be the subject of OFAC or other 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 imposition of additional trade and economic sanctions, including further sanctions by the United States, the EU or other countries relating to events in Ukraine and the Crimea, could potentially limit or prevent the Group from dealing with certain persons and entities in Russia, impose additional legal compliance costs and risks on the Group's business operations, or limit or prevent some of the Group's customers from making payments to the Group. As such, the sanctions may have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

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

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 survey, construction 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, suspension, termination or 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. Such restrictions may have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

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 require maintaining a ratio of EBRD EBITDA to finance costs of 3.5 or more, a ratio of total debt to equity of 0.75 or less, and a ratio of total debt to EBRD EBITDA of 3.75 or less, with compliance computed using the definitions contained in the relevant loan and guarantee agreements; Samruk-Kazyna requires maintenance of a ratio of total debt to Group EBIDTA (defined as profit from continuing operations from before taxation, before finance cost, amortisation, depreciation) of 3.5 or less. 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 Debt and Financial Stability Management Policy of Samruk-Kazyna and in its existing loan and guarantee agreements. Failure by the Group to comply with the covenants and restrictions in its financing arrangements may constitute an event of default under relevant financial arrangements and could result in an acceleration of debt repayments if the Group is unable to obtain timely waivers for such non-compliance from the lenders. As a result, the Group might be required to restructure its indebtedness, 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 2010 KTZ 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 a collective bargaining agreement for 2012-2014 with the Trade Union. The vast majority of the Group's employees are members of the Trade Union. The collective bargaining agreement with the Trade Union provides 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 2010 KTZ 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 2010 KTZ 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 2010 KTZ Development Strategy or otherwise) without violating the terms of the collective bargaining agreement with the Trade Union could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Furthermore, the Group has limited experience and operational history in multimodal transport and logistics services, and few personnel have experience in these areas. The Group may be unable to hire specialists with appropriate skills or knowledge in these areas. The Group seeks to hire personnel with relevant experience and to cooperate with companies having wide international experience in these activities, such as Dubai Ports World, Flughafen Zurich AG, Lufthansa Consulting, DB Schenker, as well as implementing its own educational and training programmes. Nevertheless, any inability to find sufficient number of appropriately qualified personnel 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.

Companies located in emerging markets, such as Kazakhstan, may be more susceptible to perturbations in economy and market disruptions, which could result in them experiencing financial difficulties. In addition, the availability and the cost of credit to entities operating within the emerging markets are significantly influenced by levels of investor confidence in these markets generally, and, as such, any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market could affect the price or availability of funding for entities within any of these markets).

Investors in emerging markets, such as Kazakhstan, should be aware that these markets are subject to greater risk because of their developing nature, including, in some cases, significant legal, economic and political risks. Investors should also note that emerging markets, such as Kazakhstan, are subject to rapid change and, although the Group believes the information presented in this Prospectus to be true, accurate and up-to-date, such information 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 have from time to time 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.

Uncertainties also exist in the implementation of further market-based economic reforms in Kazakhstan. 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 private 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 hinder private investment in Kazakhstan in the future, which may, in turn, materially and adversely affect the Group's business, prospects, financial condition, cash flows or results of operations.

The Group is substantially 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. The President has been the President since 1991 (President Nazarbayev is not subject to limits for the number of terms of office), 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 in 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.

The business environment and investments in Kazakhstan may be materially and adversely affected by political tensions and conflicts in neighbouring countries.

Ethnic, religious, historical and other divisions have on occasion given rise to tensions and, in certain cases, military conflict among and between countries bordering Kazakhstan or that are markets for products exported from Kazakhstan, or sources of imports to Kazakhstan. Most recently, since March 2014 there have been heightened levels of tension between Russia and Ukraine, in particular relating to the Crimea, resulting in increased military activity on the border between Russia and Ukraine, a referendum on the accession of Crimea to Russia and the subsequent accession of Crimea to Russia in March 2014. These tensions also resulted in the imposition by the United States, the European Union and a number of other countries of sanctions, asset freezes, travel limitations and certain other measures against specified Ukrainian and Russian individuals, Russian banks and other entities, and further sanctions may be imposed on other individuals and entities. See also "– *Risk Factors Relating to the Group — 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 other designated or prohibited persons, and Noteholders may be deemed to provide indirect assistance or support to transactions with such sanctioned countries, persons and entities*".

The events in Ukraine have had an adverse effect on the Ukrainian and Russian economies, and it is currently not known how this may affect the economy of Kazakhstan. While these factors have to date had limited direct effects in Kazakhstan, further such developments could materially and adversely affect economic activity in Kazakhstan, the willingness by international and other investors to invest in countries that border or have significant economic and political ties to Russia such as Kazakhstan, and the demand for transit of goods through Kazakhstan. Any or all of these factors could have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

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, establish the term for repayment of currency proceeds and limits of the volumes, amounts and currency of settlements under currency transactions; and (iv) 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.

Kazakhstan's membership obligations under the Articles of Agreement of the International Monetary Fund provide that residents cannot be restricted from making payments and transfers for international transactions without the approval of the Fund. As at the date of this Prospectus, the President has not invoked these provisions. 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.

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 2009 Tax Code, which became effective 1 January 2009, 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 widely 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 almost 180 countries, during 2013 Kazakhstan was ranked number 140, 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 in improving corporate governance and anti-corruption measures, which has resulted in the development by the Company of a corporate code of business ethics, guidelines for revelation and prevention of fraud, and policies as to protection of whistle blowers, as well as a risk and control matrix, and the Company has carried out training as to perception of corruption and business etiquette awareness. However, the perception of corruption in Kazakhstan 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 exchange rate of the Tenge against foreign currencies has fluctuated significantly.

On 11 February 2014, the NBK devalued the Tenge by 18.6% to KZT 184.5 per U.S.$1.00. This time the NBK reasoned the devaluation by a number of factors, including outflow of capital from developing countries causing higher pressure on currencies of these countries and increasing volatility on global financial and commodity markets, continuing devaluation of the Russian Rouble against the U.S. Dollar, status of the balance of payment of Kazakhstan, increasing expectations for devaluation and arrangement of conditions to reduce inflation. As in 2009, the 2014 devaluation was also aimed at promotion of export competitiveness of Kazakhstan goods. As at 31 December 2013 and 31 December 2012, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 153.61 per U.S.$1.00 and KZT 150.74 per U.S.$1.00, respectively. From 31 December 2012 to 31 December 2013, the Tenge depreciated against the U.S. Dollar by approximately 1.9%, and as at 20 May 2014, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 182.01 per U.S.$1.00.

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 any 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.

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 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 Guarantee

The Notes and the Guarantees are structurally subordinated to the indebtedness of the Guarantors' subsidiaries, and to the indebtedness of the Company's subsidiaries other than the Guarantors.

The Guarantee is 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 Guarantee or to make any funds available for that purpose, whether by dividends, distributions, loans or other payments. Accordingly, Noteholders do not have any claim as a creditor against any of the Company's subsidiaries that are not Guarantors, and the Notes are effectively subordinated in right of payment to all of the debt and other obligations of the subsidiaries of the Company that are not Guarantors, and the debt and other obligations of the subsidiaries of the Guarantors in the event of the bankruptcy or insolvency of any such company.

The right of the Company or any of the Guarantors to receive any assets of any of the Guarantors' subsidiaries in the event of their bankruptcy, liquidation or reorganisation will be effectively subordinated to the claims of the creditors of that subsidiary, including trade creditors. In addition, to the extent that the Company or a Guarantor is a creditor of any of its subsidiaries or associates, the rights of the Company or such Guarantor, as the case may be, as a creditor are subordinate to any security interest in the assets of the Company's or the Guarantor's subsidiaries or associates and any indebtedness of those entities senior to that held by the Company or the respective Guarantor. As at 31 December 2013, the Guarantors had KZT 622.3 billion of total liabilities (excluding intercompany liabilities), and the Company had KZT 422.6 billion of total liabilities (excluding intercompany liabilities). Collectively, the Guarantors accounted for 30.7% of the Group's total assets and 10.8% of its revenue, in the year ended 31 December 2013, and the Company together with the Guarantors, on a standalone basis, accounted for 85.8% of the Group's total assets, and 88.5% of its revenue, in the year ended 31 December 2013. Although all of the Guarantors' assets are controlled by the Company, the structural subordination risk will become more significant as the Group effectuates the restructuring pursuant to the 2010 KTZ Development Strategy or, if adopted, the New KTZ Development Strategy, which contemplate a transfer of the assets and operations of the Issuer to its subsidiaries. See "*– Risk Factors Relating to the Group - The Group and the railway industry in Kazakhstan have undergone and are continuing to undergo significant restructuring, which may materially and adversely affect the ability of the Group to conduct its business*", "*General Information – Ongoing Restructuring and Development of Logistics Services*" and "*Business of the Group – Ongoing Restructuring and Initiatives*".

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 Switzerland 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, Modification, Waiver and Substitution".

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

In order for payments of interest due on the Notes to be exempt from Kazakhstan withholding tax, it will be necessary for the Notes to be admitted to the official list of the KASE as at the date of accrual of interest.

In order for gains realised by Non-Kazakhstan Holders in relation to the disposal, sale, exchange or transfer of the Notes to be exempt from Kazakhstan withholding tax, it will be necessary for the Notes to be admitted to the official list of the KASE or the SIX Swiss Exchange as at the date of such disposal, sale, exchange or transfer of the Notes and sold through open trades on such stock exchanges.

In order for gains realised by Kazakhstan Holders in relation to the disposal, sale, exchange or transfer of the Notes to be exempt from Kazakhstan income tax, it will be necessary for the Notes to be admitted to the official list of the KASE as at the date of such disposal, sale, exchange or transfer of the Notes and sold through open trades on KASE.

Application has been made for the consent of the KASE for the admission of the Notes to the "rated debt securities" category of the official list of the KASE. It is expected that the admission of the Notes to the "rated debt securities" category of the official list of the KASE will become effective on or about [●] 2014. It is expected that gains and payments of interest on the Notes would be exempt from withholding and income taxes due to the favourable treatment available for securities admitted to the official list of the KASE under Kazakhstan legislation in effect as of the date of this Prospectus (as further described in "Taxation – Kazakhstan Taxation"). No assurance can be given that the Notes will remain admitted to the official list of the KASE as at each Interest Payment Date or during the term of the Notes, or that the tax and securities laws in the Republic of Kazakhstan will not change materially, resulting in such tax relief no longer being available.

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 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.

On 24 March 2014, the European Council adopted an EU Council Directive amending and broadening the scope of the requirements described above. In particular, the changes expand the range of payments covered by the EU Savings Directive to include certain additional types of income, and widen the range of recipients payments to whom are covered by the EU Savings Directive, to include certain other types of entity and legal arrangement. Member States are required to implement national legislation giving effect to these changes by 1 January 2016 (which national legislation must apply from 1 January 2017).

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 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.

Trading in the clearing systems is subject to minimum denomination requirements.

The Notes will initially only be issued in global form, and held through the clearing systems. Interests in the Permanent Global Note will trade in book-entry form only, and notes in definitive form, or Definitive Notes, 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 Intermediary will be the sole holder of the Permanent Global Note representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the Permanent Global Note representing the Notes will be made to Credit Suisse AG, as principal paying agent, who will make payments to the clearing systems for distribution to the Noteholders. Thereafter, these payments will be credited to accounts of participants who hold book-entry interests in the Permanent Global Note representing the

Notes and credited by such participants to indirect participants. After payment to the Intermediary 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.

Noteholders may be subject to exchange rate risks and exchange controls.

The Issuer will pay principal and interest on the Notes in the Swiss Francs. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Swiss Francs. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Swiss Franc or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Swiss Franc 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.

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 Swiss 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 at the date of this Prospectus, the 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.

Credit ratings do not reflect all risks.

The Issuer's credit ratings are an assessment by the relevant rating agencies of the Issuer'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 Issuer'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.

The insolvency laws of Kazakhstan may preclude holders of the Notes from recovering payments due on the Notes.

The Issuer and the Guarantors are organised in Kazakhstan and are subject to the Bankruptcy Law of Kazakhstan. The Bankruptcy Law may prohibit the Issuer and the Guarantors from making payments pursuant to the Notes or, as the case may be, the Guarantee under certain circumstances. From the moment bankruptcy proceedings are initiated in court, a Kazakhstan debtor is prohibited from paying any debts outstanding prior to the bankruptcy proceedings, subject to specified exceptions. After the initiation of bankruptcy proceedings, creditors of the debtor may not pursue any legal action to obtain payment to set aside a contract for non-payment or to enforce the creditor's rights against any asset of the debtor except within the scope of the bankruptcy procedure in accordance with the priority established by law. Further, the Bankruptcy Law provides, inter alia, that any dispositions of the debtor's property made within the period beginning three years (or a lesser period in certain cases) prior to commencement of the bankruptcy proceedings on unfavourable terms or not in compliance with the debtor's foundation documents may be clawed back by a Kazakhstan court. Since Kazakhstan's courts are not experienced with complex commercial issues, it is difficult to predict the outcome of a bankruptcy proceeding. Moreover, by the Bankruptcy Law the bankruptcy manager is obliged to amend, terminate, refuse to implement or challenge the validity of a contract committed prior to the initiation of the bankruptcy proceedings, as well as to require the return of the debtor's assets in accordance with a resolution of the creditors' committee (i.e. at some of the creditors' discretion) appointed by the meeting of the creditors.

USE OF PROCEEDS

The net proceeds from the issue of the Notes are expected to amount to approximately CHF [●] (approximately U.S.$[●] million at the CHF/U.S.$ exchange rate as at [●] May 2014, CHF [●] per U.S.$1.00) after deduction of fees and expenses related to the offering. A portion of the net proceeds from the offering will be on-lent by the Company to its subsidiary KTZ Express, which will use the monies to finance its capital expenditures and for other general corporate purposes, and the balance of the net proceeds from the offering will be used by the Company to finance its own capital expenditures and for its general corporate purposes.

CAPITALISATION

The following table sets out the current indebtedness and capitalisation of the Company as at 31 December 2013. The following table should be read in conjunction with "*Selected Consolidated Financial and Other Information of the Company*", "*Operating and Financial Review of the Group*" and the Annual Financial Statements and the related notes thereto.

	As at 31 December 2013
	(KZT in thousands)
Current indebtedness	
Borrowings	34,868,844
Current portion of debt securities issued	1,866,159
Current portion of finance lease liabilities	450,644
Total	**37,185,647**
Long-term indebtedness	
Borrowings	295,369,338
Debt securities issued	338,063,638
Finance lease liabilities	3,413,415
Total	**636,846,391**
Equity	
Share capital	683,932,991
Additional paid-in capital (1),(2),(3) and unissued share capital	242,447,850
Foreign currency translation reserve	(144,081)
Retained earnings	388,868,887
Equity attributable to owner of the Company	1,315,105,647
Non-controlling interests	14,065,376
Total equity	**1,329,171,023**
Total capitalisation(4)	**1,966,017,414**

(1) In 2013, the Group received an additional contribution of KZT 30,000,000 thousand from its shareholder, for which shares had not yet been issued as at 31 December 2013. The purpose of this contribution was to further fund the construction of the railway line Zhezkazgan – Beineu. As at 31 December 2013, this contribution was recorded as additional paid-in capital.

(2) In 2013 the shareholder transferred 100% ownership interest in JSC "National Company "Aktau International Sea Commercial Port" valued at KZT 26,233,840 thousand to the Group for trust management. This transaction was recorded as additional paid-in capital.

(3) During 2013 a fair value adjustment to loans of KZT 185,274,910 thousand less deferred tax of KZT 37,054,982 thousand was recognized within additional paid-in capital.

(4) Consists of the sum of long term indebtedness and total equity.

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 2013.

On 31 January 2014 Lokomotiv drew a loan in amount of EUR 4.6 million (taking into account COFACE premium). The loan is to be repaid by semi-annual instalments until full repayment in 2025. The loan is guaranteed by the Company. On 28 March 2014 Lokomotiv drew a loan in amount of EUR 7.979 million (taking into account a COFACE premium) with full maturity in 2027. Interest for both drawdowns is set at 3.04%. These two drawdowns were disbursed in accordance with an Additional agreement #2 dated 27 May 2013 in the total amount of EUR 157.7 million to the loan facility agreement with HSBC France, HSBC Bank plc, SB HSBC Kazakhstan JSC, Societe Generale, 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 loan facility agreement is guaranteed by the Company.

On 28 March 2014 Lokomotiv drew a loan in amount of EUR 29.8 million (taking into account a COFACE premium). The loan is to be repaid by semi-annual instalments until full repayment at 2024. Interest is set at 4.8%. This drawdown had been disbursed in accordance with the Additional agreement #1 dated 31 May 2012 for a total amount of EUR 172.1 million to the loan facility agreement with HSBC France, HSBC Bank plc, SB HSBC Kazakhstan JSC, Societe Generale, 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 loan facility agreement is guaranteed by the Company.

On 17 January 2014, 12 February 2014, 17 March 2014, 17 April 2014 and 15 May 2014 JSC Transtelecom drew a loan in the amount of KZT 680,933 thousand, KZT 697,936 thousand, KZT 686,799 thousands, KZT 931,817 thousand and KZT 736,916 thousand, correspondingly, due in July 2020 within the framework of a credit agreement with Eurasian Development Bank JSC for implementation of "Energy Dispatcher of Haulage" automatic control systems project. The principal is due semi-annual instalments after a grace period 17 July 2015. Interest at rate of 7.7% is paid in semi-annual instalments. The Company guaranteed JSC Transtelecom's obligations under the loan.

In February 2014, the official exchange rate of Tenge to U.S. Dollar fell by 18.6% which the Company estimates resulted in a foreign exchange loss in amount of KZT 80.9 billion for the three months ended 31 March 2014. Due to the February 2014 devaluation of the Tenge the Company estimated it experienced a loss for the first quarter 2014.

On 17 April 2014 Samruk-Kazyna passed a resolution approving dividends in the amount of KZT 16.2 billion amounting to 13.98% of profit for the year ending 31 December 2013. The payment of dividends to the shareholder is due 20 days after date of the resolution and the Company requested the Chairman of the Management Board of Samruk-Kazyna to defer the payment. However there can be no assurances that such deferral will be granted. According to the legislation of Kazakhstan in case of untimely payment of a dividend the shareholder is entitled to receive the penalties in amount of official refinancing rate set by National Bank as of the date of the actual payment of the dividend.

The Company currently intends to procure loans in the aggregate amount of KZT 155.7 billion, including loans at below-market rates from Samruk-Kazyna in the amount of KZT 18.9 billion, for purposes of renewal and acquisition of passenger cars. See also "*Risk Factors – Risk Factors Relating to the Group – The Group has historically received and continues to rely on support from the Government*". See "*Operating and Financial Review of the Group – Borrowings*".

SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION OF THE COMPANY

The following selected consolidated financial information as at 31 December 2013 and 31 December 2012 (restated) and for the years then ended has been extracted (without material adjustment) from the Annual Financial Statements, which are included elsewhere in this Prospectus.

Prospective investors should read the following selected consolidated financial information in conjunction with the information contained in "*Presentation of Financial and Certain Other Information*", "*Risk Factors*", "*Capitalisation*", "*Operating and Financial Review of the Group*" and "*Business of the Group*" as well as the Annual Financial Statements, together, with the related notes thereto appearing elsewhere in this Prospectus.

Statement of Comprehensive Income Data

	For the year ended 31 December		
	2013[(1)]	**2013**	**2012 (restated)**
	(unaudited)		
	(U.S.$ in thousands)	*(KZT in thousands)*	
Revenue			
Freight transportation	4,835,625	742,800,361	686,097,952
Passenger transportation	478,805	73,549,271	63,484,428
Government grants	155,464	23,880,765	22,148,264
Other revenue	217,013	33,335,306	32,728,012
Total revenue	5,686,906	873,565,703	804,458,656
Cost of sales	(3,755,368)	(576,862,081)	(549,358,013)
Gross profit	1,931,538	296,703,622	255,100,643
General and administrative expense	(612,950)	(94,155,179)	(79,619,964)
Selling expenses	(1,005)	(154,403)	(193,391)
Loss from impairment of property, plant and equipment	(9,918)	(1,523,433)	(101,945)
Other income and expenses	24,837	3,815,236	5,661,151
Finance income	37,131	5,703,644	4,353,838
Finance costs	(246,152)	(37,811,417)	(30,024,236)
Foreign exchange loss	(52,162)	(8,012,635)	(4,109,145)
Share of profit of associates and joint ventures	2,813	432,057	489,452
Share of loss of joint ventures	(30,605)	(4,701,206)	(561,661)
Profit before taxation	1,043,528	160,296,286	150,994,742
Income tax expense	(254,206)	(39,048,623)	(31,022,566)
Loss for the year from discontinued operations	(18,307)	(2,812,097)	(1,109,451)
Profit for the year	771,015	118,435,566	118,862,725

(1) The Group's presentation currency is the Tenge. Solely for the convenience of the reader these figures have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 31 December 2013 which was KZT 153.61 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. On 11 February 2014, the Tenge devalued against the U.S. Dollar by 18.6 %. 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 "*Risk Factors – Risk Factors relating to the Republic of Kazakhstan – The NBK currency exchange rate policy could have an adverse impact on the Group and Kazakhstan's public finances and economy*".

Statement of Financial Position Data

	As at 31 December	**As at 31 December**	
	2013[(1)]	**2013**	**2012 (restated)**
	(unaudited)		
	(U.S.$ in thousands)	*(KZT in thousands)*	
Property, plant and equipment	12,889,795	1,980,001,428	1,644,295,010
Other non-current financial assets	12,519	1,922,971	1,874,213
Total non-current assets	14,465,747	2,222,083,387	1,818,358,676
Cash and cash equivalents	558,921	85,855,902	69,706,429
Other current financial assets	239,501	36,789,673	48,366,850
Total current assets	1,727,712	265,393,885	278,215,287
Total assets	16,193,459	2,487,477,272	2,096,573,963
Total equity	8,652,894	1,329,171,023	1,049,310,608
Non-current borrowings[(2)]	4,145,865	636,846,391	556,363,912
Total non-current liabilities	5,957,031	915,059,597	762,381,501
Current borrowings[(3)]	242,078	37,185,647	37,305,851
Total current liabilities	1,583,534	243,246,652	284,881,854
Total liabilities	7,540,565	1,158,306,249	1,047,263,355

(1) The Group's presentation currency is the Tenge. Solely for the convenience of the reader these figures have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 31 December 2013 which was KZT 153.61 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. On 11 February 2014, the Tenge devalued against the U.S. Dollar by 18.6 %. 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 "*Risk Factors – Risk Factors relating to the Republic of Kazakhstan – The NBK currency exchange rate policy could have an adverse impact on the Group and Kazakhstan's public finances and economy*".

(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		
	2013[(1)]	**2013**	**2012 (restated)**
	(unaudited)		
	(U.S.$ in thousands)	*(KZT in thousands)*	
Net cash flows from operating activities	1,670,605	256,621,708	228,909,935
Net cash flows used in investing activities	(3,121,703)	(479,524,821)	(499,239,739)
Net cash flows from financing activities	1,554,057	238,718,678	206,664,909
Net increase/(decrease) in cash and cash equivalents	102,959	15,815,565	(63,664,895)
Cash and cash equivalents at the beginning of the year	453,918	69,726,277	133,596,150
Effect of foreign exchange rates on cash and cash equivalents	2,045	314,060	(204,978)
Cash and cash equivalents at the end of the year	558,921	85,855,902	69,726,277

(1) The Group's presentation currency is the Tenge. Solely for the convenience of the reader these figures have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 31 December 2013 which was KZT 153.61 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. On 11 February 2014, the Tenge devalued against the U.S. Dollar by 18.6 %. 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 "*Risk Factors – Risk Factors relating to the Republic of Kazakhstan – The NBK currency exchange rate policy could have an adverse impact on the Group and Kazakhstan's public finances and economy*".

Non-IFRS Measures and Financial Ratios

	As at and for the year ended 31 December		
	2013[(1)]	**2013**	**2012**
	(unaudited)		
	(U.S.$ in thousands)	*(KZT in thousands, except ratios)*	
Group EBITDA[(2)]	1,876,681	288,276,999	257,761,871
EBRD EBITDA[(3)] to Finance costs	—	7.7	8.6
Current ratio[(4)]	—	1.09	0.98
Coverage ratio[(5)]	—	5.2	6.0
Total debt	4,387,944	674,032,038	593,669,763
Total debt to equity ratio[(6)]	—	0.5	0.6
Total debt to Group EBITDA[(7)]	—	2.3	2.3
Net debt[(8)]	3,829,022	588,176,136	523,963,334
Net debt to Group EBITDA	—	2.04	2.03

(1) The Group's presentation currency is the Tenge. Solely for the convenience of the reader figures as at 31 December 2013 have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 31 December 2013 which was KZT 153.61 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. On 11 February 2014, the Tenge devalued against the U.S. Dollar by 18.6 %. 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 "*Risk Factors – Risk Factors relating to the Republic of Kazakhstan – The NBK currency exchange rate policy could have an adverse impact on the Group and Kazakhstan's public finances and economy*".

(2) The Group defines Group EBITDA as profit from continuing operations before taxation, before finance costs, depreciation and amortisation. Group EBITDA is not a measure of financial performance presented in accordance with IFRS. 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. 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		
	2013[1]	**2013**	**2012**
	(unaudited)		
	(U.S.$ in thousands)	*(KZT in thousands)*	
Profit before taxation	1,043,528	160,296,286	150,994,742
Finance costs	246,152	37,811,417	30,024,236
Depreciation and amortisation(*)	587,001	90,169,296	76,742,893
Group EBITDA	1,876,681	288,276,999	257,761,871

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

(3) The Group defines EBRD EBITDA as the total consolidated operating profit of the Group before taking into account (1) goodwill amortisation, (2) Net Interest Expense, (3) Tax, (4) any share of the profit of any associated company or undertaking, except for dividends received in cash by the Group or any of its Subsidiaries and (5) extraordinary and exceptional items, after adding back all amounts provided for depreciation and amortisation. EBRD EBITDA is not a measure of financial performance presented in accordance with IFRS. Accordingly, it 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 Other Information*" for an explanation regarding the use of this measure.

EBRD EBITDA is computed as follows:

	For the year ended 31 December		
	2013[1]	**2013**	**2012**
	(unaudited)		
	(U.S.$ in thousands)	*(KZT in thousands)*	
Profit before taxation	1,043,527	160,296,286	150,994,742
Depreciation and amortisation	587,001	90,169,296	76,742,893
Finance costs	246,152	37,811,417	30,024,236
Finance income	37,131	(5,703,644)	(4,353,838)
Share of profit of associates	2,813	(432,057)	(489,452)
Extraordinary items (foreign exchange loss)	52,162	8,012,635	4,109,145
EBRD EBITDA	1,888,900	290,153,933	257,027,726

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

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

(6) 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.

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

(8) Net debt represents total debt less cash and cash equivalents.

OPERATING AND FINANCIAL REVIEW 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 Financial Statements and should be read in conjunction with the Financial Statements, including the notes thereto, and other information appearing elsewhere in this Prospectus. This discussion includes forward-looking statements that involve risks and uncertainties. The 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".

According to the Amendments to IAS 19, the Group has revised comparative information as at 1 January 2012 and 31 December 2012. In accordance with the Government Resolution No.1539 dated 4 December 2012 and based on the trust management agreement concluded between Samruk-Kazyna and the Company, Samruk-Kazyna transferred 100% of shares of the Aktau Seaport to the Company for trust management. As the transfer of shares of the Aktau Seaport represents a business combination under common control, the Company has restated its consolidated financial statements as if they included the financials of the Aktau Seaport at the beginning of the earliest period presented in the Annual Financial Statements, i.e. 1 January 2012. In 2013, the Group revised its presentation of interest received on bank deposits in the consolidated statement of cash flows. The Group now presents the interest received on bank deposits within operating activities, where previously it was presented within investing activities. As a result of these changes the comparative data as at 31 December 2012 and 1 January 2012 and for the year ended 31 December 2012 have been restated in the Annual Financial Statements.

Introduction

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 the 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's subsidiary, KTZ Express, has assumed the role of the national transportation and logistics operator and will be responsible for institutional development and operational coordination in this regard.

The Company is the national railway company of Kazakhstan and controls and operates on Kazakhstan's national railway system and related infrastructure. The Company was established by the resolution 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 natural monopoly over the provision of services on Kazakhstan's mainline railway network and is the dominant provider of railway freight transportation and, through its subsidiary, JSC Passenger Transportation, is the dominant provider of passenger transportation. 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 its 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's revenue is generated principally from its freight transportation and passenger transportation segments. The Group's freight transportation revenue was KZT 742.8 billion for the year ended 31 December 2013 and KZT 686.1 billion for the year ended 31 December 2012, which accounted for 85.0% and 85.3%, 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 46.9% and 49.4% of all freight turnover in Kazakhstan by all modes of transportation in 2013 and 2012, respectively. For the year ended 31 December 2013, the Group had an overall freight turnover of 231.2 billion tonne-kilometres, which represented a decrease from 2012 when the Group had an overall freight turnover of 235.8 billion tonne-kilometres. See "*Business Operations of the Group – Transport Services – Freight Transportation*".

The Group's passenger transportation revenue was KZT 73.5 billion for the year ended 31 December 2013 and KZT 63.5 billion for the year ended 31 December 2012, which accounted for 8.4% and 7.9% respectively, of total revenue. For the year ended 31 December 2013, the Group had passenger turnover of 16.9 billion passenger-kilometres, which represents an increase from 2012 when the Group had passenger turnover of 16.7 billion passenger-kilometres. See "*Business Operations of the Group – Transport Services – Passenger Transportation*".

Recent Developments

In January 2014, the Group registered the shares of KZT 30,000,000 thousand relating to contributions received from the shareholder in December 2013, and such amount was transferred from additional paid-in capital to share capital.

In February 2014, the Group donated part of its social facilities to the Municipality of Zhanaozen city, built pursuant to a resolution of the ultimate shareholder in the amount of KZT 282.0 million.

24 February 2014 Locomotive entered into a locomotive pledge agreement with an agent the Royal Bank of Scotland Plc pursuant to a loan agreement dated 26 November 2012 concluded with Export-Import Bank of United States of America, in respect of 22 locomotives with a carrying value of KZT 12,472,236 thousand as at December 31, 2013.

In April 2014, State Property Committee transferred 100% of share capital of two additional state airports, the JSC Airport Shymkent and JSC Airport Korkyt Ata, to the trust management of KTZ Express.

In February 2014, Airport Management Group LLP, 100% subsidiary of KTZ Express, together with Zurich Airport International A.G. had incorporated Airport Management Services LLP, with 49% and 51% share participation, respectively. Airport Management Services LLP entered into an agreement on development and transfer of airport management methodology signed with Airport Management Group LLP and operations management services agreement with Zurich Airport International A.G. to transfer know how and technologies as to management of portfolio of airports that is managed by KTZ Express from Zurich Airport International A.G. to Airport Management Group LLP.

On February 11, 2014, the NBK decided to reduce its intervention in setting the KZT exchange rate. As a result, the official exchange rate of KZT to US dollar fell to KZT 184.5 as at February 13, 2014, i.e. by approximately 18.6%. To prevent the destabilization of the financial market and economy as a whole, the NBK plans to set an exchange corridor for the KZT against the U.S. Dollar at KZT 182-188 per U.S.$1. The management of the Group believes that it has taken all necessary measures to maintain the economic stability of the Group under these conditions. The devaluation of Tenge resulted in a foreign exchange currency loss for the Group in the amount of KZT 80.9 billion for three months ended 31 March 2014.

Due to devaluation of the Tenge in February the Group estimated a loss in the first quarter 2014. See "*Operating and Financial Review of the Group - Quantitative and Qualitative Disclosures about Market Risk – Foreign Currency Exchange Rate Risk*"; "*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 "*Operating and Financial Review of the Group - Key Factors and Trends Affecting the Group's Financial Condition and Results of Operations – Changes in Exchange rate*".

On 17 April 2014 Samruk-Kazyna passed a resolution approving dividends in the amount of KZT 16.2 billion amounting to 13.98% of profit for the year for the year ending 31 December 2013. The payment of dividends to the shareholder is due 20 days after date of the resolution and the Company requested the Chairman of the Management Board of Samruk-Kazyna to defer the payment. However there can be no assurances that such deferral will be granted. According to the legislation of Kazakhstan in case of untimely payment of a dividend the shareholder is entitled to receive the penalties in amount of official refinancing rate set by National Bank as of the date of the actual payment of the dividend.

The Company estimated that for the three months ended 31 March 2014 its gross profit decreased by KZT 12.6 billion compared to three months ended 31 March 2013 mainly, due to increase in cost of sales by KZT 12.8 billion as a result of increase in personnel costs, materials and supplies due to increase in prices of materials, in fuels due to increase of price of diesel fuel, in depreciation and amortisation due to commencing of new fixed assets and in empty runs of freight cars in foreign countries.

The Company estimated that for the three months ended 31 March 2014 the aggregation of freight transportation revenue and passenger transportation revenue decreased by KZT 2.2 billion compared to three months ended 31 March 2013 mainly due to decrease in transportations volumes mainly as a result of decrease in transportation of oil and oil products, coal, iron ore and ferrous scrap, change of composition of additional charges, decrease in revenues derived out of settlement with other foreign states railway administrations and change in composition of freight transported. 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*"

As at 31 March 2014 the Company's total borrowings increased by KZT 99.3 billion as a result of raising new loans and drawing down existing loans as well during as devaluation of Tenge, which increased the Group's foreign currency obligations expressed in Tenge. See "*Capitalisation*" for a discussion of the additional borrowing arrangements the Group has entered into since 31 December 2013. See "*Operating and Financial Review of the Group - Quantitative and Qualitative Disclosures about Market Risk – Foreign Currency Exchange Rate Risk*"; "*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 "*Operating and Financial Review of the Group - Key Factors and Trends Affecting the Group's Financial Condition and Results of Operations –Changes in Exchange rate*".

As at 31 March 2014 the Company's share capital increased by KZT 30.3 billion as a result of registration of shares in the amount of KZT 30 billion related to the cash contribution received from the shareholder in 2013 and an asset contribution in the form of stations and passenger platforms totalling to KZT 0.3 billion, as compared to the corresponding amount as at 31 December 2013.

As at 31 March 2014, compared to 31 December 2013, the Company's equity decreased by KZT 47.5 billion mainly due to the comprehensive loss in amount of KZT 48 billion for the three months ended 31 March 2014 resulting from the foreign exchange loss which was caused by the devaluation of Tenge.

As at 31 March 2014 cash and cash equivalents decreased by KZT 21.9 billion, as compared to the corresponding amount as at 31 December 2013, mainly due to the use of cash for current operating needs.

Key Factors and Trends Affecting the Group's Financial Condition and Results of Operations

The Kazakhstan Economy

Rail freight turnover of the Group is correlated with the overall condition of Kazakhstan's economy and growth in Kazakhstan's GDP. Economic conditions in Kazakhstan, in turn, are driven by production including the production of oil, oil products, grain, iron ore and other commodities, in large part due to the volumes of commodities transported by the Group as both domestic, imports and exports. Kazakhstan's economy is significantly dependent on commodity exports, and railroad transportation is a key means of transporting these products. With the onset of the global economic downturn 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. In 2011 and 2012, as general economic conditions continued to improve and freight transportation volumes increased further. In 2013, the volume of freight transported totalled 293.6 million tonnes and total freight turnover was 231.2 billion tonne-kilometres, compared to 294.7 million tonnes and 235.8 billion tonne-kilometres, respectively, in 2012. The decreased volumes in 2013 primarily resulted from poor grain harvests in 2012 and 2013 and a corresponding decline in transportation of grains on export routes in 2013. While the turnover and volume of freight transported decreased in 2013 compared to 2012, the Group's freight transportation revenue increased by 8.3% to KZT 742.8 billion for the year ended 31 December 2013 from KZT 686.1 billion for the year ended 31 December 2012 mainly as a result of an increase in tariffs. The IMF has forecast GDP growth in Kazakhstan in 2014 to be 5.7% and 6.1% in 2015. The Group expects that its freight transportation volumes will continue to be correlated with GDP growth and production growth in Kazakhstan mainly due to the continued growth in raw materials as a result of industrial production growth and as such growth in demand for the Group's freight transportation services including the export of commodities. 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 Freight

Rail transportation is a key mode of transportation in Kazakhstan. In the light of its limited access to navigable water routes and underdeveloped road infrastructure, the reach of Group's railway system enables it to be a primary mode of freight transportation in Kazakhstan which creates a demand in freight transportation by rail. The Group charges freight transportation tariffs for its freight transportation operations which in relation to domestic, export and import routes vary depending on the type of freight being transported, the length of the delivery and the type of the rolling stock used. Therefore the revenue received by the Group mainly depends on these factors.

In light of the need for delivery both domestically and for export of commodities by rail, certain commodities, in particular oil and oil products (which include crude oil and oil products, such as diesel fuel, kerosene, residual fuel oil and other light oil products) and coal, account for a significant amount of the freight transportation tariff revenues that the Group generates.

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

	% of total freight transportation revenue in 2013	**For the year ended 31 December**	
		2013	**2012**
		(KZT in thousands)	
Coal	8.7	64,822,984	74,527,493
Ore	5.6	41,438,175	53,936,060
Construction materials	3.6	26,563,834	25,276,416
Oil and oil products	25.4	188,871,460	165,282,030
Grain and grain products	1.9	14,051,242	30,912,823
Ferrous metals	6.3	46,446,857	42,435,916
Other freight*	30.8	228,948,705	229,208,431
Other**	17.7	131,657,104	64,518,783
Total	100	742,800,361	686,097,952

* Consists of revenue for transportation of other freight, such as ferrous scrap, chemical and mineral fertilisers, chemicals and sodium carbonate and nonferrous metals.

** Includes revenue for use of freight cars by third parties, revenue for locomotive haulage services rendered to third parties, and additional charges, such as fees for the ancillary services, such as loading, cleaning, storage and shunting.

The Group faces its greatest competition in the transportation of oil from the development of pipelines in Kazakhstan and countries that border Kazakhstan, as pipeline transportation is generally more cost effective than rail transportation in transporting crude oil. According to the NSA, freight turnover by pipeline increased by approximately 8.5% in 2013, compared to 2012. 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 the medium term and is expected to increase slightly after 2018 . 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*".

While the Group faces significant competition from pipelines in the transport of crude oil, an area of current growth for the Group is the transportation of refined oil products. Unlike crude oil, due to their nature, oil products can only be transported by certain dedicated pipelines, which are limited in number and not expected to increase in number significantly in the foreseeable future, since the destinations to which oil products are shipped can vary based on market needs and railways can more readily accommodate any shifts in demand. For the years ended 31 December 2013 and 2012, the Group transported 25.1 million of tonnes and 24.9 million of tonnes, respectively, of oil products which accounted for 65.6% and 67.1% of the Group's total volume of transported oil and oil products in these years, respectively. However in the medium term the Group anticipates a decrease in transportation of oil products on import routes due to a decrease in imports of certain oil products as a result of the policy of import substitution implemented by the Ministry of Oil and Gas of Kazakhstan, while transportation of oil products in domestic routes is expected to grow due to anticipated increase in domestic production of light and dark oil products.

Domestic transportation of coal is directed to the industrial sector and to public utility complexes for purposes of generating heating and electric energy. The Company believes that increasing needs for heating and electric energy will result in 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 are to customers in the Urals and Siberian regions in Russia.

The following tables provide a breakdown of the Group's freight transportation volume by type of freight for each of the periods indicated:

	For the year ended 31 December			
	2013		2012	
	% of Total Volume	Volume	% of Total Volume	Volume
	%	(*millions of tonnes*)	%	(*millions of tonnes*)
Coal	36.8	108.1	37.2	109.6
Iron ore	16.1	47.2	16.0	47.3
Construction materials	7.8	22.9	6.9	20.4
Oil and oil products	13.0	38.3	12.6	37.1
Grain and grain products	3.8	11.1	5.3	15.7
Ferrous metals	3.5	10.3	3.4	9.9
Other	19	55.7	18.6	54.7
Total	100	293.6	100	294.7

Tariffs and Government Grants

A significant majority, approximately 93.5% and 93.2% in the years ended 31 December 2013 and 2012, respectively, of the Group's revenue was derived from freight and passenger transportation, which was mainly subject to regulated rail transportation tariffs. Except with respect to transit tariffs for freight originating outside of Kazakhstan that passes through Kazakhstan in transit to destinations outside of Kazakhstan, the tariffs that are applicable to the Group's operations are based on detailed price lists approved by the Natural Monopoly Agency. These tariffs specify prices for freight and passenger transportation based on weight, freight class or class of travel, distance, and are subject to an annual, and, based on the request of the Company and approval by the Natural Monopoly Agency, supplemental, indexation process. Since freight transportation 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 may lead to higher or lower revenues, operating profits and margins for the Group. Revenue from transit freight transportation, which accounted for 18.4% and 21.9% of the Group's freight transportation revenues in 2013 and 2012, 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*".

In 2013 the tariff for the use of the Group's freight cars and containers became subject to market pricing based on competitive environment and operating costs. As a result Kaztemirtrans started to receive the revenues for the use of the Group's freight cars and containers directly from the customers and the Company lowered its freight tariff for freight transportation, whereas the portion of revenues which Kaztemirtrans contributes to the Group is higher than the portion that it contributed when the tariff for the use of the Group's freight cars and containers was regulated by the State. See "*Business of the Group – Government Regulation and Tariffs*".

Further, the Government, through the Natural Monopoly Agency, may consider wider economic and political factors in setting tariffs, such as the current low tariff for domestic transportation of coal used for power generation and heating. Similarly, 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 transportation tariffs). Freight transportation tariffs increased on average, based on the indexation process described above, by 15% in 2012, by 8.4% in 2013 and effective 1 January 2014, freight transportation tariffs increased by an average of 7%. The Company believes that it will be able to implement indexation of tariffs limited by inflation rates starting from January 2015 under the 2010 Government Development Programme. While 2014 Government Development Programme does not envisage such possibility, the Company still believes it may be able to implement such indexation after 2015. See "*Risk Factors - The Group has received, and relies on, support from the Government*".

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 transportation tariffs within each of these countries in accordance with specific standards, which permit rail transportation operators to change those tariffs at their discretion, but only upon the occurrence of certain economic factors and subject to certain caps set by national law. As a result, the Natural Monopoly Agency approved the increase of freight transportation tariffs taking into account unification across export, import and domestic routes. 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. This is reflected in the increase of the Group's turnover in transit transportation in 2013 and the Group's turnover for imports of freight, which increased by 5.1% and volume for imports of freight which increased by 4.8% in 2013, compared to 2012, while revenues generated from imports of freight during the same period increased by 18.4%. See "*Risk Factors – The position of the Company as a monopoly and the dominant entity and the position of the Guarantors as dominant entities may result in limitations on the Group's operation*".

The Group's profit is also affected by the amount of grants it receives 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, the Group received grants for passenger transportation, with the level of grants changing periodically. For the year ended 31 December 2013, the Group received KZT 23.9 billion in grants, which represented an increase of 7.8% from KZT 22.1 billion in grants received in 2012. The Company expects that in 2014, 2015 and 2016 the Government grants will be increased up to KZT 24.3 billion per year. 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

The Group's results of operations are also significantly affected by the costs of fuel and lubricants which in 2013 and 2012 accounted for 15.3% and 15.1%, respectively, of the Group's total cost of sales. Diesel fuel is the largest component of these costs accounting for 98.6% and 96.9% of the Group's costs for fuel and lubricants in 2013 and 2012, 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. In 2013 the Group consumed 759.9 thousand tonnes of diesel fuel which represented a decrease of 1.5% from 771.7 thousand tonnes consumed in 2012. The price of diesel fuel can be subject to significant fluctuation and in 2013 the average price of diesel fuel amounted to KZT 106.8 thousand per tonne which represent an increase of 8.7% from KZT 98.3 thousand per tonne. To manage the pricing risks, the Group usually holds procurement tenders at the beginning of a calendar year on fixed price terms with the flexibility to decrease the initial fixed price it must pay if the market prices for the subject commodity or service decrease. To manage the effect of the consumption and the cost of diesel fuel on the Group, the Group undertaking the process of implementation of the "Energy Dispatcher of Haulage" automatic control systems project. This project is aimed at enhancement of recording accuracy and automatisation of systems of record, control and analysis of consumption of diesel fuel and electricity on locomotives. It is expected that the project will result in decrease in diesel fuel consumption by around 13%. In addition, renewal of locomotive fleet of Lokomotiv for new locomotives of Evolution series is expected to decrease the consumption levels. 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*"; "*Business of the Group – Customers and Suppliers – Suppliers*" and "*Business of the Group – Information Technology*".

Changes in Exchange Rates

The Tenge/U.S. Dollar exchange rate in Kazakhstan affects the Group's results of operations principally because, generally, a majority of the Group's borrowings and debt securities are denominated in U.S. Dollars. As at 31 December 2013, 67% of the Group's borrowings and debt securities were denominated in U.S. Dollars, respectively. Accordingly, fluctuations in the Tenge/U.S. Dollar exchange rate may significantly affect the Group's consolidated results of operations. A change in value of the Tenge against the U.S. Dollar or any other currency in which debt is denominated will result in a foreign exchange gain or loss. 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*".

In February 2014, the NBK devalued the Tenge by 18.6% against the U.S. Dollar, due in part to reductions in quantitative easing in the U.S., which has led to pressure on currencies, the uncertainty of the exchange rate of the Russian rouble, pressure on the balance of payments of Kazakhstan as a result of an increase in imports of consumer goods and with a view to creating the fundamentals for a shift to inflation targeting to lower price growth of no more than 3 % to 4 % in the medium term. Since a significant portion 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. 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.

While a majority of the Groups revenue is generated in Tenge, a portion of its revenue from transit freight and passenger transportation is generated in Swiss Francs. Revenues generated in Swiss Francs have been growing in recent years and in 2013 and 2012 amounted to 15.7% and 18.7% of the Group's total revenues. Accordingly, fluctuations in the Tenge/CHF exchange rate may affect the Group's consolidated results of operations. A change in Tenge value against Swiss Francs will contribute to revenue growth or decrease. See "*Presentation of Financial and Certain Other Information – Currency and Exchange Rate Information*" for certain period-end and average Tenge/Swiss Francs official exchange rates.

In order to mitigate foreign currency exchange risk the Group the Group anticipates in the near future hedging payment of principal and interest under of a portion of U.S.$324 million of the U.S.$350,000,000 7% notes due 2016 issued by Kazakhstan Temir Zholy Finance B.V., a wholly owned subsidiary of Kaztemirtrans, through a U.S.$/CHF cross-currency swap. In addition, the Group maintains surplus funds (converted into foreign currency) deposited with commercial banks and, where possible, refinances foreign currency loans with loans denominated in the Tenge. However, there is no certainty that such foreign currency exchange risks will adequately be hedged or mitigated which may have a material adverse effect on the Group's businesses, prospects, financial condition, cash flows or results of operations. 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".*

Exports from, Imports to and Transit through Kazakhstan

According to operational data of the Committee for Customs Control of the Ministry of Finance of the Republic of Kazakhstan (the "**Customs Control Committee**"), the foreign trade turnover of

Kazakhstan in in 2013 was U.S.$ 107.1 billion, representing a slight decline compared to 2012, with exports of 76.6 billion and imports 30.5 billion. According to official data of the Customs Control Committee the foreign trade turnover of Kazakhstan in 2012 was U.S.$108.9 billion, which represents an increase of 10.9%, compared to 2011. In 2012 Kazakhstan's exports amounted to U.S.$80.2 billion and imports amounted to U.S.$28.7 billion. From 2011 to 2012, Kazakhstan's exports increased by U.S.$2.9 billion, or 3.8%, while imports increased by U.S.$7.7 billion, or 36.8%. China is a significant contributor to Kazakhstan's foreign trade turnover. Kazakhstan's exports were principally to Russia, EU countries, China and Central Asian countries, with imports principally being from Russia, China and Central Asian countries. China accounted for 17.7% of Kazakhstan's exports and 25.9% of Kazakhstan's imports in 2012, respectively, according to the Customs Control Committee. 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 as well as exports of finished goods to countries in Europe. As envisaged in the 2014 Government Development Programme, transit through Kazakhstan currently accounts for less than 0.5% of total trade between China and countries in the EU, but the Government hopes to capitalise on increased volumes of transit freight traffic between these countries 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 attract 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 Khorgos-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. Minerals, fuel, energy materials, as well as metals and metal products, chemical and associated products represented the main exports for Kazakhstan in 2013 and 2012. Major imports items for Kazakhstan were represented by machines, equipment, transport vehicles, instruments and apparatus; chemical and associated products; and metals and metal products for the same periods. See "*Kazakhstan Economy and the railway industry in Kazakhstan – Kazakhstan's economy*".

Developments and reforms in CIS national railway systems and the Kazakhstan railway industry

Kazakhstan, Russia and Ukraine, being members of or participants in the CIS, are at different stages of reforming their respective national railway systems, while other CIS countries are 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, and Kazakhstan is in the process of implementing similar measures through its 2010 Government Development Programme and 2014 Government Development Programme.

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. These reforms may, among others, result in lower prices for usage of freight cars provided by Russian service operators and decrease in volume of loading services rendered by the Group. As the main preventive measure against negative impacts of the reform in Russia, the 2014 Government Development Programme provides for deregulation and other reforms of freight transportation after 2014 in order to enable the Group to be able to compete effectively.

The Government has recently taken steps to develop competition in the railway industry by, for example, allowing freight forwarders to enter the market to compete with the Group and by requesting that the Group gives such private operators access to the railway system. However, these Government reforms have not created a fully competitive market for freight and passenger transportation by rail. Consequently, Kazakhstan is considering further reforms, including changes to regulations for freight and passenger transportation and the formation of a competitive market of operators. As a part of the Government's ongoing reforms the President approved the 2014 Government Development Programme. As part of this process, the 2014 Government Development Programme envisages the deregulation of freight and passenger tariffs, with the exception of mainline freight tariff, which is expected to result in the Group's freight and passenger tariffs becoming subject to market pricing. As a result of such reforms, during 2013 a tariff for the use of the Group's freight cars and containers (part of the Group's freight tariff) became subject to market pricing. It resulted in the railway administrations of foreign states' treatment of the Group's railcars fleet as the fleet of a private operator and consequently in decrease of revenues when settling with other foreign states railway administrations for use of the railcars of one railway administration on the territory of another and imposition of charges for empty runs of the Group's railcars in foreign countries. In addition, the Company believes that such reforms, in particular granting access to mainline railway network services to private operators as at this stage of reforms may result in loss of national transportation market for the Company with the private operators only competing for the more profitable routes and commodities while the Company will have to perform the lower profit freight operations, until the reforms on deregulation of freight transportation tariff are completed. The Group's results of operations have been and will continue to be impacted by the industry-wide reforms in Kazakhstan and the CIS and the Group's response thereto, as well as how effectively the Group is able to implement the New KTZ Development Strategy. See "*Business of the Group – Ongoing Restructuring*".

Tax Benefits

Under the 2009 Tax Code, the corporate income tax rate was reduced to 20% in 2009 and the rate has remained at this level since.

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. Based on investment tax preferences the Group increased the amount of its deductions by KZT 211.2 billion for the year ended 31 December 2013 and KZT 111.9 billion for the year ended 31 December 2012. 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 could not be carried forward amounted to KZT 1,758,540 thousand and KZT 1,004,881 thousand for the years ended 31 December 2013 and 2012, respectively.

Cost-saving measures

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

- the restructuring of assets through the merger and liquidation of servicing subsidiary companies;
- the 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;
- the sale of non-core and inactive assets, including buildings, siding tracks, machines and equipment;
- the active management of inventory, spare parts and raw materials;

- the establishment of new standards for the management of headcount aimed at the more efficient use of labour resources; and
- the decrease in employee, administrative, training (provided by third parties) 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. These cost-saving measures have mitigated, in part, the cost of the Group's increasing investments into the railway infrastructure and rolling stock since 2012 and 2013 and increases in personnel costs, such as those relating to increases in the salaries of the Group's employees. See "*Consolidated Results of Operations for the Years Ended 31 December 2013 and 2012 – 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*".

Segmentation

The Group determines reportable segments based on the services provided. Cargo (or freight) transportation, passenger transportation and other operations are the three main reportable segments of the Group. Kaztemirtrans and part of Lokomotiv services related to freight transportation are included in the freight transportation segment, while KTZ Express is included in all other segments. For the year ended 31 December 2013, the cargo (or freight) transportation and passenger transportation segments accounted for 86.8% and 11.5%, respectively, of the Group's revenue and 84.9% and 14.2%, respectively, of the Group's cost of sales. For the same period, revenues and cost of sales from all other segments, which related primarily to the Group's communication services, utilities services, loading and unloading services and vessels servicing, accounted for 1.6% and 0.8%, respectively. For the year ended 31 December 2012, the cargo (or freight) transportation and passenger transportation segments accounted for 87.2% and 11.0%, respectively, of the Group's revenue and 85.3% and 13.7%, respectively, of the Group's cost of sales. For the same period, revenues and cost of sales from all other segments, which related primarily to the Group's communication services, utilities services, loading and unloading services and vessels servicing, accounted for 1.8% and 0.99%, 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 2013, the cargo (or freight) transportation segment had a profit for the year from continuing operations of KZT 117.6 billion, while the passenger transportation segment had a profit for the year from continuing operations of KZT 9.2 billion, and all other segments had a loss for the year from continuing operations of KZT 5.5 billion. For the year ended 31 December 2012, the cargo (or freight) transportation segment had profit for the year from continuing operations of KZT 110.0 billion, while the passenger transportation segment had a profit for the year from continuing operations of KZT 8.1 billion, and all other segments had a profit for the year from continuing operations of KZT 1.9 billion.

The table below sets forth the key operating measures for reportable segments for the year ended 31 December 2013, including intersegment revenue (which is eliminated upon consolidation).

	For the year ended 31 December, 2013			
	Cargo transportation	**Passenger transportation**	**All other segments**	**Total**
Key operating measures				
Revenue				
Transportation	771,487,429	75,626,319	–	847,113,748
Government grants	–	23,880,765	–	23,880,765
Other revenue	18,312,991	3,783,242	30,625,259	52,721,492
Intersegment revenue	(31,224,586)	(2,614,905)	(16,310,811)	(50,150,302)
Revenue	758,575,834	100,675,421	14,314,448	873,565,703
Cost of sales	(489,927,305)	(82,164,126)	(4,770,650)	(576,862,081)
General and administrative expense	(81,274,639)	(6,944,216)	(5,936,324)	(94,155,179)
Selling expenses	(154,403)	–	–	(154,403)
Finance income	4,740,517	279,161	683,966	5,703,644
Finance costs	(34,479,155)	(1,104,341)	(2,227,921)	(37,811,417)
Foreign exchange loss	(7,837,733)	49,567	(224,469)	(8,012,635)
Loss from impairment of property, plant and equipment	(1,410,805)	(77,621)	(35,007)	(1,523,433)
Share of profit/(loss) of associates	665,480	–	(233,423)	432,057
Share of profit/(loss) of joint ventures	777,880	–	(5,479,086)	(4,701,206)
Other income and expense	2,129,886	1,494,801	190,549	3,815,236
Income tax expense	(34,239,815)	(3,046,812)	(1,761,996)	(39,048,623)
Profit for the year from continuing operations	117,565,742	9,161,834	(5,479,913)	121,247,663
Other key segment information				
Capital expenditures for property, plant and equipment	372,335,883	40,965,869	15,966,317	429,268,069
Depreciation of property, plant and equipment	80,478,342	6,145,354	4,818,007	91,441,703

For further information see Note 4 to the Annual Financial Statements.

Consolidated Results of Operations for the Years Ended 31 December 2013 and 2012

Revenue

The Group's revenue increased by KZT 69.1 billion, or 8.6%, to KZT 873.6 billion for the year ended 31 December 2013 from KZT 804.5 billion for the year ended 31 December 2012. 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 transportation tariff revenue by type of transportation activity for each of the periods indicated:

	For the year ended 31 December		% change between the year ended 31 December 2013 and 2012
	2013	2012	
	(KZT in thousands)		
Export	205,408,113	209,889,950	(2.1)
Domestic	167,980,244	176,338,432	(4.7)
Transit*	137,016,564	150,265,141	(8.8)
Import	100,738,336	85,085,646	18.4
Other**	131,657,104	64,518,783	104.1
Total	742,800,361	686,097,952	8.3

* Revenue from transit transportation as per transit tariffs is denominated in Swiss Francs and mostly paid in KZT.

** 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, which include charges for the ancillary services rendered by Company, such as loading, cleaning, storage, shunting and other services, that are not part of the freight transportation tariff.

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

	% of total freight transportation revenue in 2013	For the year ended 31 December		% change between the year ended 31 December 2013 and 2012
		2013	2012	
		(KZT in thousands)		
Coal	8.7	64,822,984	74,527,493	(13.0)
Ore	5.6	41,438,175	53,936,060	(23.2)
Construction materials	3.6	26,563,834	25,276,416	5.1
Oil and oil products	25.4	188,871,460	165,282,030	14.3
Grain and grain products	1.9	14,051,242	30,912,823	(54.5)
Ferrous metals	6.3	46,446,857	42,435,916	9.5
Other freight*	30.8	228,948,705	229,208,431	(0.1)
Other**	17.7	131,657,104	64,518,783	104.1
Total	100	742,800,361	686,097,952	8.3

* Consists of revenue for transportation of other freight, such as ferrous scrap, chemical and mineral fertilisers, chemicals and sodium carbonate and nonferrous metals.

** Includes revenue for use of freight cars by third parties, revenue for locomotive haulage services rendered to third parties, and additional charges, such as fees for the ancillary services, such as loading, cleaning, storage and shunting.

Revenue from freight transportation increased by KZT 56.7 billion, or 8.3%, to KZT 742.8 billion for the year ended 31 December 2013 from KZT 686.1 billion for the year ended 31 December 2012. This increase was primarily due to an increase in freight transportation tariffs effective in 2013 by an average of 8.4%; an increase of additional charges for ancillary services by an average 14.2% or KZT 4.6 billion; an increase in the transportation of oil and oil products on export routes; and appreciation of the Swiss Franc, in which the tariffs for transit transportations are denominated, by 1.6% or KZT 2.2 billion. The revenue from freight transportation also increased due to increase of revenue received by Kaztemirtrans from provision of freight railcars accounted for in "Other".

After Kaztemirtrans began to receive its revenue from customers directly, the Company accounts its revenues in the "Other" category and does not break it down with the revenue from a regulated freight tariff by categories of freight and transportation as indicated above. Therefore it resulted in revenue in certain categories discussed below, save for the "Other", decrease in 2013 as compared to 2012. See "*Operating and Financial Review - Key Factors and Trends Affecting the Group's Financial Condition and Results of Operations – Tariffs and Government Grants*" and "*Business of the Group – Government Regulation and Tariffs*".

In addition to the above, revenue from freight transportation in export routes decreased by 2.1% for the year ended 31 December 2013 due to decrease in freight turnover and unification of freight transportation tariffs across domestic, export and import routes. Revenue from freight transportation in domestic and transit routes decreased by 4.7% and 8.8 % respectively for the year ended 31 December 2013 mainly due to a decrease in freight turnover. Revenue from freight transportation in import routes increased due to an increase of freight turnover by 5.3% and unification of freight transportation tariffs across domestic, export and import routes resulting in higher revenue from import routes.

Revenues from freight transportation of coal, ore and grains decreased by 13.0%, 23.2% and 54.5%, respectively, for the year ended 31 December 2013 primarily due to a change in recording of revenue received by Kaztemirtrans and decrease of freight turnover of coal by 1% and of grains by 32.4%. Revenues from transportation of construction materials increased by 5.1% for the year ended 31 December 2013, due to an increase of freight turnover by 15%. Revenues from transportation of oil and oil products increased by 14.3% for the year ended 31 December 2013 due to an increase of freight turnover of oil and oil products in export routes by 12.6%. Revenues from transportation of ferrous metals increased due to increase of import and transit turnover of ferrous metals by 36.9% and 27.5% respectively.

Passenger Transportation

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

	For the year ended 31 December		**% change between the year ended 31 December 2013 and 2012**
	2013	**2012**	
	(KZT in thousands)		
Inter-regional, intercity and suburban	43,321,168	34,723,164	24.8
International	23,157,281	22,464,392	3.1
Other*	7,070,822	6,296,872	12.3
Total	73,549,271	63,484,428	15.9

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

Revenue from passenger transportation increased by KZT 10.0 billion, or 15.9%, to KZT 73.5 billion for the year ended 31 December 2013 from KZT 63.5 billion for the year ended 31 December 2012. This increase was primarily due to an increase in passenger turnover of 1.5% to 16.9 billion passenger-kilometres in 2013, compared to 16.7 billion passenger-kilometres in 2012, and a 12% increase in passenger tariffs in January 2013 on international routes for all types of cars and on domestic routes. This increase in passenger turnover was primarily due to the launching of additional trains on existing routes. See "*Business of the Group – Government Regulation and Tariffs – Passenger Tariff Regulation and Pricing*".

Government Grants

Revenue from Government grants increased by KZT 1.7 billion, or 7.8%, to KZT 23.9 billion for the year ended 31 December 2013 from KZT 22.1 billion for the year ended 31 December 2012. This 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 to ensure affordable passenger rail services to all members of the public.

The Group currently provides its passenger transportation subsidiary JSC Passenger Transportation with a discount on the tariffs it pays for access to the mainline railway network for inter-regional transportation. In 2010, the Natural 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 varied from 10 to 70%). The Group also indirectly subsidises this subsidiary by providing it with a discount on the tariffs it pays for locomotive haulage services while recouping the loss by charging the corresponding amount of the discount through freight transportation. The Company believes that provision of such indirect subsidies will come to an end when all losses of the passenger operator which result from tariffs that are kept artificially low are fully reimbursed by the Government.

Other Revenue

The Group generates other revenue from the sale of goods and provision of other services consisting primarily of revenue from the sale of loading and unloading services, vessels servicing, the sale of inventory and scrap, communication services and sales of electricity.

Penalties received represent mainly revenue earned on the assessment of penalties on the late pickup of cargo cars for breach of contract terms.

Other revenue increased by KZT 0.6 billion, or 1.9%, to KZT 33.3 billion for the year ended 31 December 2013 from KZT 32.7 billion for the year ended 31 December 2012. This increase was mainly due to a KZT 0.8 billion increase in sales of goods and provision of services to third parties in 2013, compared to 2012.

Cost of Sales

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

	% of total cost of sales in 2013	2013	2012 (restated)	% change between the year ended 31 December 2013 and 2012
Personnel costs, including short-term provisions	37.3	214,957,848	208,471,826	3.1
Fuels and lubricants	15.3	88,255,494	82,996,544	6.3
Depreciation and amortisation	14.9	85,795,861	72,238,098	18.8
Materials and supplies	10.7	61,720,563	65,605,670	(5.9)
Services	7.7	44,373,206	44,131,932	0.5
Electricity	5.6	32,261,100	30,649,736	5.3
Repair and maintenance	4.9	28,099,112	23,283,703	20.7
Railway charges of third parties	0.9	5,716,746	1,207,613	373.4
Business trip expenses	0.6	3,528,330	3,087,296	14.3
Utilities and building maintenance	0.4	2,139,253	1,652,877	29.4
Insurance	0.3	1,613,088	1,889,955	(14.6)
Operating lease expenses	0.2	1,409,658	1,440,643	(2.2)
Communication services	0.2	1,087,234	1,071,248	1.5
Personnel training	0.2	982,888	502,784	95.5
Transportation services	0.1	626,815	268,279	133.6
Security services	0.1	302,658	534,261	(43.4)
Lease of communication channels	0.04	223,507	1,921,889	(88.4)
Taxes	0.04	209,793	191,505	9.5
Fines and penalties	0.04	204,580	1,357,530	(84.9)
Employee benefit (recovery)/expenses	(0.2)	(1,106,104)	3,143,370	(135.2)
Other	0.8	4,460,451	3,711,254	20.2
Total	100	576,862,081	549,358,013	5.0

Cost of sales increased by KZT 27.5 billion, or 5.0%, from the year ended 31 December 2013 to the year ended 31 December 2012. This increase was primarily due to a KZT 6.5 billion, or 3.1%, increase in personnel costs, including short-term provisions; a KZT 5.3 billion, or 6.3%, increase in cost of fuel and lubricants; a KZT 4.8 billion, or 20.7%, increase in repair and maintenance services; a KZT 4.5 billion, or 373.4%, increase in railway charges of third parties; and a KZT 13.6 billion, or 18.8%, increase in depreciation and amortisation; a KZT 0.5 billion, or 29.4%, increase in utilities and building maintenance, in each case, in 2013, compared to 2012. This increase was partially offset by a KZT 1.1 billion employee benefit recovery which mainly resulted from a change in pension legislation, i.e. prolongation of pension age for women, as well as changes in labour union agreement.

The increase in personnel costs, including short-term provisions, representing reserves for unused vacation, was primarily due to a 7% increase in average salaries to the employees of the Group in December 2013.

The cost of fuels and lubricants increased primarily due to increase in diesel price by 8.6% per 1 tonne and increase in volumes of consumption.

The increase in depreciation and amortisation was primarily due to commissioning new fixed assets such as the second launch complex of railway lines between Uzen and the Turkmenistan border and Zhetygen and Khorgos, as well as acquired passenger and freight cars and locomotives.

Materials and supplies decreased by 5.9% mainly as a result of a decline in repairs and the implementation of cost efficiency measures. Electricity increased by 5.3% which was mainly due to increase of transportation on routes with higher electricity tariffs.

The increase in costs related to repair and maintenance services, was primarily due to the increased volume and cost of current repairs and service maintenance of locomotives and passenger cars by third parties service providers.

The increase in third party railway charges was primarily due to an increase in expenses on empty run of freight cars in foreign countries and expenses related to forwarding services mainly due to higher tariffs charged for empty run of a private fleet compared to an the inventory fleet. See "*Operating and Financial Review - Key Factors and Trends Affecting the Group's Financial Condition and Results of Operations - Developments and reforms in CIS national railway systems and the Kazakhstan railway industry*".

The increase in utilities and building maintenance was primarily due to the increase in tariffs for utilities procured from third parties, commissioning the facilities of second launch complex of railway line between Zhetygen and Khorgos.

Business trip expenses increased primarily due to increase of monthly calculated index used for calculation of allowances for accommodation and meals as well as increase of transportation charges.

General and Administrative Expenses

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

	% of total in 2013	2013	2012 (restated)	% change between the year ended 31 December 2013 and 2012
Personnel costs, including short-term provisions	38.9	36,596,768	34,982,912	4.6
Property tax and other taxes	24.6	23,152,689	20,380,094	13.6
Charities and sponsorship	9.8	9,187,271	3,384,979	171.4
Depreciation and amortisation	4.3	4,024,251	4,169,974	(3.5)
Allowance for unrecoverable VAT receivable	4.1	3,845,992	180,792	2,027.3
Consulting, audit and legal services	2.6	2,407,505	2,152,212	11.9
Professional services	1.9	1,838,414	1,475,329	24.6
Business trip expenses and representative expenses	1.7	1,625,459	1,766,831	(8.0)
Allowances for doubtful debts	1.7	1,556,199	1,346,850	15.5
Expenses on holiday and cultural events	1.5	1,385,967	1,311,775	5.7
Advertising expenses	1.1	1,036,819	932,941	11.1
Bank services	1.0	943,389	890,578	5.9
Utilities and building maintenance	0.9	863,061	753,266	14.6
Materials	0.9	832,077	1,064,721	(21.9)
Professional trainings and qualifications	0.9	826,938	558,780	48.0
Other services	0.7	649,899	743,917	(12.6)
Repair and maintenance	0.4	349,083	413,895	(15.7)
Social sphere objects maintenance	0.3	325,579	285,770	13.9
Operating lease expenses	0.3	263,385	258,079	2.1
Insurance	0.3	236,450	239,398	(1.2)
Employee benefit (recovery)/expenses	(0.2)	(147,914)	550,683	(126.9)
Obsolete inventory recovery of provision	(0.2)	(148,070)	(32,931)	349.6
(Recovery of)/accrual of provision on legal claims	(1.0)	(907,721)	99,277	(1014.3)
Other expenses	3.6	3,411,689	1,709,842	99.5
Total	100	94,155,179	79,619,964	18.3

General and administrative expenses increased by KZT 14.5 billion, or 18.3%, to KZT 94.2 billion for the year ended 31 December 2013 from KZT 79.6 billion for the year ended 31 December 2012. This increase was principally due to a KZT 1.6 billion increase in personnel costs primarily due to 7% increase in average salaries in December 2013; a KZT 2.8 billion increase in property tax and other taxes primarily due to assets acquired under investment budget for 2013 which mainly includes such assets as machinery and equipment, railway transport; a KZT 3.7 billion increase in allowance for unrecoverable VAT receivable primarily due to reserve as per results of tax audits related to authenticity of VAT amounts declared for recovery for the periods from 1 July 2007 and 31 December 2008 and first quarter of 2009 in amount of KZT 1.9 billion and reserves in amount of KZT 1.9 billion in relation to Passenger Transportation related to unrecoverable VAT; a KZT 1.7 billion increase in other expenses which was primarily attributable to fines and penalties paid, expenses for fuel. The significant increase in expenses for charities and sponsorship reflected the fact that in 2013 a significant portion was accounted for as general and administrative expenses, whereas in 2012 a portion of these were accounted for as a distribution to the shareholder.

Other Income and Expense

For the year ended 31 December 2013, other income decreased by KZT 1.8 billion, or 32.6% to KZT 3.8 billion from KZT 5.7 billion for the year ended 31 December 2012 which was principally the result of a decrease in disposal of certain assets such as obsolescent locomotives and electric locomotives.

Finance Income

Finance income increased by KZT 1.3 billion, or 31%, to KZT 5.7 billion for the year ended 31 December 2013 from KZT 4.4 billion for the year ended 31 December 2012, mainly due to increase in interest accrued on cash balance on current bank accounts and short term bank deposits.

Finance Costs

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

	2013	**2012 (restated)**	**% change between the year ended 31 December 2013 and 2012**
Interest expense on debt securities issued	22,146,325	15,721,972	40.9
Interest expense on loans	13,308,342	12,452,405	6.9
Finance lease charge	1,020,146	955,841	6.7
Unwinding of discount on borrowings and debt securities issued	1,336,604	894,018	49.5
	37,811,417	30,024,236	25.9

Finance costs increased by KZT 7.8 billion, or 25.9%, to KZT 37.8 billion for the year ended 31 December 2013 from KZT 30.0 billion for the year ended 31 December 2012. The increase was primarily the result of a KZT 6.4 billion, or 40.9%, increase in interest expense on debt securities issued.

Interest expense on loans increased in 2013, compared to 2012, primarily due to the increased volume of loans and increase in foreign currency exchange rates. The increase in interest expense on debt securities issued, in 2013 compared to 2012, was primarily due to the issuance of U.S.$1.1 billion in Eurobonds in 2012.

Foreign Exchange Loss

For the year ended 31 December 2013, the foreign exchange loss was KZT 8.0 billion, which represented a KZT 3.9 billion increase in losses, compared to KZT 4.1 billion in the year ended 31 December 2012. The increased loss was primarily due to the translation of loans denominated in foreign currencies, primarily in U.S. Dollars into KZT which depreciated against U.S. Dollar during 2013. See "*Business of the Group – Government Regulation and Tariffs – Freight Tariff Regulation and Pricing – Transit Freight Tariffs", "Key Factors and Trends Affecting the Group's Financial Condition and Results of Operation - Changes in Exchange Rates"* and "*Quantitative and Qualitative Disclosures about Market Risk – Foreign Currency Exchange Rate Risk*".

Share of loss of joint ventures

For the year ended 31 December 2013, the share of loss of joint ventures was KZT 4.7 billion, which represented a KZT 4.1 billion increase in losses compared to KZT 0.6 billion in year ended 31 December 2012. The increased loss was primarily due to increase in losses of activity of Tulpar Talgo LLP, a joint venture for 2013.

Income Tax Expense

Under the 2009 Tax Code, the Group's statutory corporate income tax rate in 2013 and 2012 was 20%. Income tax expense comprises current income tax expense and deferred income tax expense or benefit. For the year ended 31 December 2013, the Group had income tax expense of KZT 39.0 billion, compared to income tax expense of KZT 31.0 billion which was primarily attributable to the increase of deferred tax obligations for fixed assets, other long-term assets. The increase in effective tax rate in 2013 was mainly due to an increase in non-deductible expenses such as expenses on charity, non-recoverable VAT, losses from joint ventures and retirement benefits.

Profit for the Year

Profit for the year ended 31 December 2013 decreased by KZT 0.4 billion, or 0.4%, to KZT 118.4 billion from KZT 118.9 billion for the year ended 31 December 2012.

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 Government supports the Group's business by providing its capital contributions for railway infrastructure development and liquidity for the Group's operations. Historically Samruk-Kazyna contributed to the Company's capital by cash contributions or contributions of property, plant and equipment. During 2013, the Group received additional contribution in cash in amount of KZT 30 billion for purposes of financing the construction of the railway line between Zhezkazgan and Beineu and in non-current assets in amount of KZT 2.9 billion, including train stations and passenger platforms. In 2012 the Group received additional contributions from its shareholder in cash in amount of KZT 4 billion for the purposes of financing the construction of railway lines between Arkalyk and Shubarkol and between Zhezkazgan and Beineu and in non-current assets in amount of KZT 5.5 billion. See "*Risk Factors – The Group has received, and relies on, support from the Government*".

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. The Group has the ability to manage liquidity through control over capital expenditures. As an example, during the 2009 economic crisis, the Group substantially reduced its capital expenditures, which it could no longer fully fund from operating cash flow or other sources, and implemented cost reduction measures. 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 "*The Group has historically experienced liquidity problems*".

As at 31 December 2013, the Group's current assets exceeded its current liabilities by KZT 22.1 billion and as at 31 December 2012 the Group's current liabilities exceeded its current assets by KZT 6.7 billion. The current liquidity ratio was 1.09 and 0.98 as at 31 December 2013 and 2012, respectively. The increase in the current liquidity ratio as at 31 December 2013, compared to 31 December 2012, was primarily due to a decrease in total current assets by KZT 12.8 billion and decrease in total current liabilities by KZT 41.6 billion. The decrease in total current assets was mainly attributable to the sale of the Group's interest in Lokomotiv Kurstayru Zauyty which in 2012 was accounted for as assets classified as held for sale due to the intention of the Company to sell its interest, and decrease in other current financial assets by KZT 11.6 billion resulting primarily from cash outflow for the acquisition of rolling stock, the construction of railway lines and a multifunctional ice palace. This decrease was mitigated by an increase in other current assets by KZT 12.5 billion which primarily resulted from an increase of VAT recoverable which the Group expects to recover against VAT liabilities in the upcoming years, and an increase in cash and cash equivalents by KZT 16.1 billion which resulted from an increase in short term bank deposits in Tenge by KZT 38.0 billion. The decrease in current liabilities mainly resulted from the sale of interests in Lokomotiv Kurstayru Zauyty which in 2012 accounted for as liabilities directly associated with assets classified as held for sale due to plan of the Company to sell its interest, a decrease in trade accounts payable by KZT 21.1 billion mainly due to payment for delivery of property, plant and equipment such as freight cars, shunting locomotives, various inventory received and construction works. There was also a decrease in other current liabilities in the amount of KZT 5.6 billion resulting from payment of dividends to the shareholder in amount of KZT 8 billion for 2011, payment for shares of Kazakh Academy of transport and communication. See "*Risk Factors – The Group has historically experienced liquidity problems*".

Cash Flows

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

	For the year ended 31 December	
	2013	**2012 (restated)**
	(KZT in thousands)	
Net cash from operating activities	256,621,708	228,909,935
Net cash used in investing activities	(479,524,821)	(499,239,739)
Net cash from financing activities	238,718,678	206,664,909
Net increase (decrease) in cash and cash equivalents	15,815,565	(63,664,895)
Cash and cash equivalents at the beginning of the period	69,726,277	133,596,150
Effect of foreign exchange rates on cash and cash equivalents	314,060	(204,978)
Cash and cash equivalents at the end of the period	85,855,902	69,726,277

Net Cash Flows From Operating Activities

For the year ended 31 December 2013, net cash flows from operating activities increased by KZT 27.7 billion, or 12.1%, to KZT 256.6 billion from KZT 228.9 billion for the same period in 2012. This increase was primarily due to the combined effects of an increase in freight transportation tariff in 2013 by 8.4%, additional charges, change in exchange rates applicable to settlement for transit transportation, an increase in the private fleet and expansion of operator activities which was offset by increased cash outflows in connection with an increase in interest payments which resulted from obligations issued in 2012 and exchange rate changes, fuel prices, price for electricity and increase in payments of corporate income tax and other payments.

Net Cash Flows Used In Investing Activities

For the year ended 31 December 2013, net cash flows used in investing activities decreased by KZT 19.7 billion, or 3.9%, to KZT 479.5 billion from KZT 499.2 billion for the same period in 2012. This decrease was primarily due to the combined effects of increased cash outflows by KZT 6.6 billion in connection with acquisition of subsidiaries, KZT 2.2 billion purchase of investments in associates, KZT 2.5 billion increase in purchase of investments in joint ventures, a KZT 3.9 billion increase in purchase of other non-current assets in each case, for the year ended 31 December 2013, compared to the year ended 31 December 2012, which was offset in part by decreased cash outflows by KZT 31.2 billion in connection with the acquisition of property, plant and equipment, purchase of other financial assets and decreased inflow of proceeds from the sale of other financial assets.

Net Cash Flows From Financing Activities

For the year ended 31 December 2013, net cash flows from financing activities increased by KZT 32.0 billion, or 15.5%, to KZT 238.7 billion from KZT 206.7 billion for the same period in 2012. This increase was primarily due to the combined effects of the decrease in repayment of borrowings by KZT 66.3 billion, a decrease in the payment of dividends and distributions by KZT 8.8 billion, and a decrease in purchases of assets held for the benefit of the Shareholder by KZT 11.2 billion. During the same period, the Group increased its borrowings by KZT 93.9 billion and received payments for unissued share capital in the amount of KZT 30.0 billion.

Capital Expenditures

The Group's capital expenditures were KZT 429.3 billion and KZT 473.9 billion for the years ended 31 December 2013 and 2012, respectively, and were aimed at the performance of obligations under binding contracts relating to construction of Zhezkazgan-Beineu and Arkalyk-Shubarkol railway lines, capital repairs of railways, acquisition and capital repairs of locomotives, freight wagons and passenger cars and the renewal and rehabilitation of infrastructure, acquisition of vessels and automobile transport, acquisition of JSC Kazakh Academy of Transport and Communications named after M.Tynyshpaev.

The table below sets out the breakdown of capital expenditures the Group incurred for the years ended 31 December 2013 and 2012.

	For the year ended 31 December	
	2013	**2012 (restated)**
Capital expenditures of property, plant and equipment		
Land	42,065	264,092
Buildings and construction	2,360,388	170,932
Railway infrastructure	304,214	219,821
Machinery and equipment	8,560,875	16,629,187
Railway transport	133,938,494	261,207,829
Other transport	3,755,373	1,081,865
Other	2,270,060	1,027,641
Capital construction in progress	278,036,600	193,284,081
Total	429,268,069	473,885,448

The Group annually approves its plan for capital expenditures at the end of the preceding year. According to the 2010 KTZ Development Strategy the Group intends and New KTZ Development Strategy plans to expend significant funds on the maintenance, development and modernisation of its railways infrastructure for the subsequent years. As at 31 December 2013, the Group had committed to contracts to be performed over 8 years amounting to KZT 568 billion for the construction of the Zhezkazgan-Beineu and Arkalyk-Shubarkol railway lines, construction of the multifunctional ice palace in Astana, expansion of telecommunication networks, the purchase of freight and passenger electric locomotives, cargo and passenger wagons and mainline locomotives.

The Group currently intends to invest approximately KZT 421.9 billion, KZT 549.2 billion, KZT 428.1 billion in 2014, 2015 and 2016, respectively, primarily for investments in acquiring rolling stock and locomotives, construction of railway lines, in particular Zhezkazgan – Beineu, Arkalyk – Shubarkol, maintenance, development and modernisation of railway infrastructure, capital repairs to rolling stock, capital repairs of railways, construction of station building complex and improvements to administration and social conditions of workers and investments by KTZ Express for the development and expansion of transportation and logistics services, primarily for investments in the development of airport infrastructure, construction of internal network of transportation and logistics centres, construction of terminal in Lianyungang, development of Aktau sea port, acquisition of bulk carriers, construction of the SEZ Khorgos, investments into United Transport and Logistics Company ("**UTLC**"), renewal and rehabilitation of car road infrastructure, renewal and modernization of air transport, and the renewal and modernization of sea transport.

KTZ Express estimates capital expenditures through 2020 relating to the development of the Aktau Seaport will be approximately U.S.$150 million; development of the SEZ Khorgos will be in the amount of approximately U.S.$428 million; the purchase of vessels will be in the amount of approximately U.S.$366 million, renewal and modernisation of the aerial transportation, in the development of the airport infrastructure will be approximately in amount of U.S.$1.1 billion; construction of the terminal at the Lianyungang Port will be in the amount of approximately U.S.$99 million; and construction of the transport and logistic centres in Kazakhstan will be in the amount of approximately of U.S.$512 million, as well as construction of the international transport and logistic centres will be in the amount of approximately U.S.$34 million. This financing is expected to be received from the state budget, private investors and from the Company or KTZ Express.

The Group currently anticipates financing its budgeted and committed capital expenditures primarily through the net proceeds from the Offering (as set out under "Use of Proceeds"), the issuance of debt securities, long-term borrowings, financing and loans from its sole shareholder, and its own funds, among other sources. The Company currently intends to procure loans in the aggregate amount of KZT 155.7 billion, including loans at below-market rates from Samruk-Kazyna in the amount of KZT 18.9 billion, for purposes of renewal and acquisition of passenger cars. See also "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".

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 2013:

	Currency	Maturity	Interest rate *(%)*	Current *(unaudited)*	Non-current *(unaudited)*
				(KZT in thousands)	
Short-term borrowings:					
JSC Citibank Kazakhstan:					
Loan 1	Tenge	2013	6.00	800,000	—
JSC SB Sberbank					
Loan 3	Tenge		9.00	612,745	—
JSC Alfa Bank					
Loan 2	Tenge	February-December 2014	9.00	1,842,683	—
Long-term borrowings:					
Fixed rates:					
Japan Bank for International Cooperation	Japanese Yen	2020	3.00	569,037	3,392,748
Instituto de Credito Oficial	U.S. Dollars	2021	2.50	369,635	2,356,992
JSC Development Bank of Kazakhstan:					
Loan 2	Tenge	2015	8	338,129	163,033
Loan 4	U.S. Dollars	2023	8.078	833,139	6,109,861
Loan 5	Tenge	2018	7.6	2,462,459	8,909,400
Eurasian development bank	Tenge	2020	7.7	64,523	3,057,580
JSC National Welfare Fund Samruk-Kazyna:					
Loan 1[(1)]	Tenge	2024	2	260,000	22,036,575
Loan 2[(1)]	Tenge	2036	0.75	3,417	2,045,813
Loan 3[(1)]	Tenge	2036	0.75	9,375	7,658,704
Loan 4	Tenge	2017	7.2	48,000	15,000,000
Loan 5	Tenge	2017	7.2	192,000	60,000,000
Loan 6[(1)]	Tenge	2042	2	543,420	28,649,219
Loan 7[(1)]	Tenge	2037	0.75	7,678	1,291,510
Loan 8[(1)]	Tenge	2062	0.10	52,927	4,518,834
Loan 9[(1)]	Tenge	2038	0.75	125,390	11,722,984
Loan 10[(1)]	Tenge	2062	0.10	20,358	1,462,347
Loan 11[(1)]	Tenge	2062	0.10	23	148,552
JSC ATF Bank:					
Loan 1	Tenge	2017	8.48	256,197	642,856
Loan 2	U.S. Dollars	2017	8.84	370,107	1,082,396
Secured Notes	Euro	2016	5.48	75,904	111,158
JSC Halyk Bank of Kazakhstan:					
Loan 2	Tenge	2016	7-12	3,364,707	4,939,780
Loan 3	Tenge	2018	10	769,585	5,811,386
JSC SB Sberbank					
Loan 2	Tenge	2017	10.5	298,185	777,774
Loan 3	Tenge	2014	9.7	3,181,511	3,299,637
JSC Alfa Bank	Tenge	2015	9.5	665,543	654,546
Debt securities 2006	U.S. Dollars	2016	7.00	525,851	53,423,646
Debt securities 2010	U.S. Dollars	2020	6.375	1,633,895	107,267,339
Debt securities 2012	U.S. Dollars	2042	6.95	293,587	177,372,653

HSBC Bank France.................	Euro	2024	EUR CIRR +0,90	2,135,243	16,403,888
Export Import Bank of United States of America....................	U.S. Dollars	2023	US CIRR	7,107,080	45,707,077
Variable rates:					
ABN Amro Bank N.V.:					
Loan 1[(3)]............................	U.S. Dollars	2014	LIBOR +0.07	277,681	—
European Bank of Reconstruction and Development ("**EBRD**"):					
Loan 2[(2)]............................	U.S. Dollars	2020	LIBOR +3.25	1,072,822	5,609,837
Loan 3[(4)]............................	U.S. Dollars, Tenge	2018	LIBOR +2.95	5,045,781	19,563,114
JSC Development Bank of Kazakhstan:					
Loan 3	U.S. Dollars	2023	1.15 * 6-month LIBOR + 1.28%	304,662	2,417,936
HSBC Bank Plc[(2)]....................	U.S. Dollars	2022	LIBOR + 3	788,898	9,823,802
Total...				36,735,003	633,432,976

(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) 3-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.

The following table sets forth the maturity of the Group's borrowings as at 31 December 2013.

	As at December 31, 2013
Within 1 year	36,735,003
1 to 2 years	29,820,383
2 to 3 years	79,430,940
3 to 4 years	98,034,175
4 to 5 years	130,743,101
Over 5 years	295,404,377
	670,167,979

The following table sets forth the denominations of the Group's borrowings as at 31 December 2013:

	As at December 31, 2013
Tenge	198,709,385
US Dollars	448,770,616
Japanese Yen	3,961,785
Euro	18,726,193
	670,167,979

For additional information of the Group's borrowing arrangements and debt securities for the years ended 31 December 2013 and 2012, see Notes 19 and 20 to the Notes to the Annual Financial Statements.

Since 31 December 2013, the Group has entered into the following additional borrowing arrangements.

On 31 January 2014 Lokomotiv drew a loan in amount of EUR 4.6 million (taking into account COFACE premium). The loan will be repaid by semi-annual instalments until full repayment in 2025. The loan is guaranteed by the Company. On 28 March 2014 Lokomotiv drew a loan in amount of EUR 7.979 million (taking into account COFACE premium) with full maturity in 2027. Interest for both drawdowns is set at 3.04%. These two drawdowns had been disbursed in accordance with the Additional agreement #2 dated 27 May 2013 for total amount of EUR 157.7 million to the loan facility agreement with HSBC France, HSBC Bank plc, SB HSBC Kazakhstan JSC, Societe Generale, 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 loan facility agreement is guaranteed by the Company.

On 28 March 2014 Lokomotiv drew a loan in amount of EUR 29.8 million (taking into account COFACE premium). The loan is to be repaid by semi-annual instalments until full repayment at 2024. Interest is set at 4.8%. This drawdown had been disbursed in accordance with the Additional agreement #1 dated 31 May 2012 for a total amount of EUR 172.1 million to the loan facility agreement with HSBC France, HSBC Bank plc, SB HSBC Kazakhstan JSC, Societe Generale, 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 loan facility agreement is guaranteed by the Company.

On 17 January 2014, 12 February 2014, 17 March 2014, 17 April 2014 and 15 May 2014 JSC Transtelecom drew a loan in the amount of KZT 680,933 thousand, KZT 697,936 thousand, KZT 686,799 thousand, KZT 931,817 thousand and KZT 736,916 thousand, correspondingly, due in July 2020 within framework of Credit agreement on provision of credit line with Eurasian Development Bank JSC for implementation of "Energy Dispatcher of Haulage" automatic control systems project. The principal is due semi-annual instalments after a grace period 17 July 2015. Interest at rate of 7.7% is paid in semi-annual instalments. The Company guaranteed JSC Transtelecom's obligations under the loan.

The Company currently intends to procure loans in total amount of KZT 155.7 billion for development of transportation logistics, acquisition of passenger cars, financing the projects on energy efficiency, implementation of "Energy Dispatcher of Haulage" automatic control systems project, construction of fibre optic communication lines and other purposes, including loans at below-market rates from Samruk-Kazyna in the amount of KZT 18.9 billion for purposes of renewal and acquisition of passenger cars.

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, 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 before implementing any material change to the scope or nature of their respective businesses. In addition, lender consent is generally required prior to any merger, consolidation or reorganisation of the affected members of the Group, before 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 2010 KTZ Development Strategy. Any disposition of the core railway network, freight carriages or locomotives would require the 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.

Certain loan agreements require provision of certain assets of the Group as a security of due performance of obligations of a borrower. In 2013 the administrative building of Transtelekom, locomotives of Lokomotiv, Talgo passenger cars, loading and unloading equipment and other equipment and transportation means of Aktau Seaport and property of Kamkor were pledged to the Group's creditors.

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 borrowers and guarantors subject to the agreements maintain or periodically satisfy as at particular dates certain financial tests. The most restrictive of these financial ratio tests requires maintaining a ratio of EBRD EBITDA to finance costs of 3.5 or more, a ratio of total debt to equity of 0.75 or less, and a ratio of total debt to EBRD EBITDA of 3.75 or less, with compliance computed using the definitions contained in the relevant loan and guarantee agreements; Samruk-Kazyna requires maintenance of a ratio of total debt to Group EBIDTA (defined as profit from continuing operations from before taxation, before finance cost, amortisation, depreciation) of 3.5 or less. 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 Debt and Financial Stability Management Policy of the Samruk-Kazyna 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.

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 2013:

	Payments due by periods			
	Total	**Up to 1 year**	**1-5 years**	**More than 5 years**
		(KZT in thousands)		
Bank debt..........................	207,527,097	42,145,995	121,428,833	43,952,269
Debt to Samruk-Kazyna ...	464,783,350	7,702,024	103,270,606	353,810,720
Debt securities	722,320,182	16,471,253	133,849,486	571,999,443
Finance lease.....................	6,168,356	1,057,642	4,123,390	987,324
Purchase commitments.....	567,979,072	154,867,505	353,248, 820	59,862,747
Total(1)(2)...........................	1,967,950,990	221,417,352	715,921,135	1,030,612,503

(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 2013. 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.

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 of Prices 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 Commodity Prices

A significant portion of the Group's operating expenses are affected by the level of inflation, particularly in wages and salaries, which for 2012 was 7.4% and for 2013 was 6.0%. 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 and lubricants comprised 15.3% and 15.1% of the Group's total cost of sales for the years ended 31 December 2013 and 2012, respectively, and constitutes the biggest part in terms of procurement costs, 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 2013 prices for fuel were revised quarterly. The Department of Marketing of Prices 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 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. Additionally, in relation to diesel fuel, the Group holds tenders each quarter during the year, with the condition that the contract price can decrease if the market price of diesel fuel decreases. 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, Swiss Franc, the Russian Rouble 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 20% 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 2013 would have resulted in a KZT 68.0 billion decrease and a KZT 26.3 billion decrease, respectively, in the Group's profits, with the net effect of KZT 85.1 billion, while a 10% increase in the change in the value of the Group's debt securities and loans and accrued interest as at 31 December 2012 would have resulted in a KZT 33.9 billion decrease and a KZT 7.4 billion decrease, respectively, in the Group's profits, with the net effect of KZT 39.2 billion.

In February 2014, the official exchange rate of KZT to US dollar fell to KZT by 18.6%, which resulted in foreign exchange currency loss in amount of KZT 80.9 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, in particular the a portion of U.S.$324 million of the U.S.$350,000,000 7% notes due 2016 issued by Kazakhstan Temir Zholy Finance B.V., a wholly owned subsidiary of Kaztemirtrans, through a U.S.$/CHF cross-currency swap in near future.

The Group's revenue denominated in Swiss Francs accounted for 15.7% and 18.7% of the Group's total revenues for the years ended 31 December 2013 and 2012. In order to mitigate foreign currency exchange risk the Group maintains surplus funds (converted into foreign currency) deposited with commercial banks and, where possible, refinances foreign currency loans with loans denominated in the Tenge. Furthermore, the Group anticipates hedging a portion of U.S.$324 million of the U.S.$350,000,000 7% notes due 2016 issued by Kazakhstan Temir Zholy Finance B.V., a wholly owned subsidiary of Kaztemirtrans, through a U.S.$/CHF cross-currency swap. However, there is no certainly that such foreign currency exchange risks will adequately be hedged or mitigated which may have a material adverse effect on the Group's businesses, prospects, financial condition, cash flows or results of operations.

See Note 37 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 "Key Factors and Trends Affecting the Group's Financial Condition and Results of Operation - 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 2013 and 2012, 6.7% and 11.7%, respectively, of the Group's total borrowings and debt securities issued were borrowings and debt securities issued with variable interest rates. For the year ended 31 December 2013, interest expense on bank loans attributable to changes in variable interest rates decreased by KZT 426,149 thousand, compared to the year ended 31 December 2012. Assuming a 1% increase in variable interest rates for the period ended 31 December 2013, the Group's profits would have decreased by KZT 455,621 thousand.

Interest rates in the United States began to fall significantly in the second half of 2007, and the U.S. Federal Funds Rate has decreased from 5.25% as at 30 June 2007 to the current target rate of 0.00% to 0.25%. 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. 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 37 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 37 to the Annual Financial Statements. See "*Risk Factors – Risk Factors Relating to the Group – The Group has historically experienced liquidity problems*".

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 deposits. 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 deposits by establishing limits for the banks and other financial institutions and conducting financial operations with creditworthy counterparties with an adequate credit history and a stable financial position. See Note 37 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, except as contained in the Note 34 to the Annual Financial Statements.

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 dates of the Interim Financial Statements and the Annual Financial Statements and the reported amounts of revenues and expenses during the relevant reporting periods. 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.

For further information, see Note 2 to the Annual Financial Statements that is included elsewhere in this Prospectus.

Control assessment

Control over JSC "National Company "Aktau International Sea Commercial Port"

The Aktau Seaport is recognized as a subsidiary of the Group, although the Group does not legally own shares in the Aktau Seaport. The Group assessed whether it has control over the Aktau Seaport, considering all relevant facts and circumstances arising from a trust management agreement concluded with JSC National Welfare Fund Samruk-Kazyna, the legal owner, in respect of its 100% ownership interest in the Aktau Seaport. As a result, the Group concluded that the Group controls the Aktau Seaport. In making their judgment, management of the Group considered the broad power granted to the Group by the Sole Shareholder, which gives the Group the practical ability to unilaterally direct the relevant activities of the Aktau Seaport to affect its returns to the Group.

Control over Tulpar-Talgo LLP

Tulpar-Talgo LLP is not recognized as a subsidiary of the Group, although the Group holds a 99.99% interest in Tulpar-Talgo LLP. The Group has no control over Tulpar-Talgo LLP, due to an option contract whereby Talgo Kazajstan S.L. may re-acquire 49.99% of the charter capital of Tulpar-Talgo LLP. Consequently, the Group recognizes Tulpar-Talgo LLP as joint venture and accounts for it using the equity method.

Control over airports

On May 8, 2013 the Group, represented by the subsidiary JSC National Centre for Transport Logistics Development (KTZ Express), and the State Property Committee entered into an agreement on the trust management of 100% state-owned shares of joint-stock companies Kokshetau Aircompany, Petropavlovsk International Airport, Astana International Airport, Kostanay International Airport, which are owned by the Ministry of Transportation. The Group has not recognized the airports as subsidiaries of the Group, as the Group is acting as an agent and does not control these airports, exercising its decision making authority delegated to the Group by the State Property Committee for and on behalf of the State Property Committee. This agreement does not entitle the Group to any returns from the operating activities of the airports.

Control over JSC Khorgos International Centre of Boundary Cooperation

On July 1, 2011 the Group entered into a trust management agreement with the State Property Committee in respect of the entire equity interest in JSC Khorgos International Centre of Boundary Cooperation (hereinafter, "**ICBC Khorgos**"), a state-owned company. The Group has not recognized ICBC Khorgos as a subsidiary as the Group is acting as an agent, exercising decision-making authority for and on behalf of the State Property Committee, and does not control the entity. This agreement does not entitle the Group to any returns from the operating activities of ICBC Khorgos.

Impairment of Tangible and Intangible Assets Other Than Goodwill

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 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.

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 the 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 used in determining the benefit obligation 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 from its actuaries. A change in assumptions could have a significant impact on its future operating results.

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 a collection from the tax authorities. In assessing the recoverability of the VAT receivable, the Group considers information from its internal tax department regarding projected collection of VAT, correspondence with government tax authorities, and historical recovery experience. The actual amount of VAT recovered could differ materially from the Group's estimate and this could materially impact future 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 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.

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 13.75% 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 2013. Any difference between the estimated amount and the actual amount paid, if any, could have a significant impact on future operating results.

Loans from the Shareholder at a rate below the market interest rate

The Group receives loans from the shareholder at a rate below the market rate of interest for similar loans in arms length transactions. These loans are initially recognized at the fair value of the consideration received less directly attributable transaction costs. The Group calculates the fair value of these loans using market rates on governmental long-term treasury bonds with comparable maturities and recognizes an adjustment to the loan value (less the related deferred tax) within additional paid-in capital. When no comparable maturities exist, the Group extrapolates the most comparable market rates to the life of the loan received by the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

KAZAKHSTAN'S ECONOMY AND THE RAILWAY INDUSTRY IN KAZAKHSTAN

Kazakhstan's Economy

Kazakhstan has been recognised by both the European Union and the United States as having a "market economy". The World Bank has noted 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, according to the NSA, account for 80% of the country's total exports. The U.S. Department of State has noted 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. 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. 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. According to the IMF and the NSA, Kazakhstan's GDP grew by 7.3%, 7.5%, 5.0% and 6.0% in 2010, 2011 2012 and 2013, respectively. The IMF forecasts Kazakhstan's GDP to grow at 5.7% in 2014. The real GDP of Kazakhstan, as reported by the NSA, amounted to U.S.$133.4 billion, U.S.$115.3 billion, U.S.$148.1 billion, U.S.$188.1 billion, U.S.$203.5 billion and U.S.$220.3 billion in 2008, 2009, 2010, 2011,2012 and 2013, respectively. According to the NBK and NSA gross external debt of Kazakhstan as a percentage of real GDP accounted for 80.9%, 97.9%, 79.9%, 66.6% and 67.3% for the years ended 31 December 2008, 31 December 2009, 31 December 2010, 31 December 2011 and 31 December 2012 respectively. According to Bloomberg, in 2013 Kazakhstan's public debt as a percentage of GDP was relatively low (15.6%), compared to members of the "Group of Eight" countries, such as Japan (226.1%), Italy (133%), France (93.8%), United Kingdom (91.1%), Canada (86.3%), Germany (79.9%) and United States (71.8%), as well as certain current members of the CIS, such as Ukraine (45.0%) and Russia (7.9%). GDP per capita in Kazakhstan, according to the NSA, totalled to U.S.$8,514, U.S.$7,165, U.S.$9,070, U.S.$11,357 U.S.$12,119 and U.S.$12,993 in 2008, 2009, 2010, 2011, 2012 and 2013, respectively.

The NBK maintains foreign exchange reserves to back its liabilities and support the Tenge in case of strong volatility on foreign exchange markets. The sovereign foreign exchange reserves of Kazakhstan, excluding assets of the National Fund, totalled to U.S.$19.4 billion, U.S.$23.2 billion, U.S.$28.3 billion, U.S.$29.2 billion, U.S.$28.3 billion and U.S.$26.0 billion in 2008, 2009, 2010, 2011, 2012 and 2013, respectively. Assets of the National Fund, a special fund established and controlled by the Government to secure social and economic development of Kazakhstan by accumulating financial assets and other property, excluding intangible assets, and to reduce dependence of the Kazakhstan's economy on oil sector and adverse effects of external factors, totalled to U.S.$27.4 billion, U.S.$30.6 billion, U.S.$38.7 billion, U.S.$43.6 billion, U.S.$57.9 billion and U.S.$71.6 billion for the same periods.

On 11 February 2014, following the move by the Central Bank of the Russian Federation to a floating currency exchange rate which involved a continuous depreciation of the Russian Rouble against the U.S. Dollar, the NBK announced that for a number of reasons it would no longer make currency interventions and maintain the Tenge at its previous rate of approximately KZT 155 per one U.S. Dollar. The change in the NBK currency policy immediately resulted in a rapid devaluation of the Tenge against the U.S. Dollar by 18.6% leading to a new exchange rate of KZT 185 per one U.S. Dollar. The IMF does state that the recent devaluation of the Tenge will likely add to inflation pressure in 2014. As reported by the NSA, inflation (CPI) rate in Kazakhstan accounted for 9.5%, 6.2%, 7.8%, 7.4%, 6.0% and 4.8% in 2008, 2009, 2010, 2011, 2012 and 2013, respectively, while the unemployment rate has been performing a decreasing trend accounting for 6.6%, 6.6%, 5.8%, 5.4%, 5.3% and 5.2% in 2008, 2009, 2010, 2011, 2012 and 2013, respectively.

According to the NSA reports during 2008 and 2013 population of Kazakhstan demonstrated stable growth and totalled to 16.0 million people, 16.2 million people, 16.4 million people, 16.7 million people, 16.9 million people and 17.2 million people in 2008, 2009, 2010, 2011, 2012 and 2013, respectively.

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 SES represents a further step of regional integration between the members of the Customs Union targeted at opening up of a market of 170 million people for further development based on removing economic barriers among the member states. Kazakhstan is also pursuing accession to the World Trade Organisation (WTO).

According to the Customs Control Committee, Kazakhstan's exports increased by U.S.$2.99 billion, or 3.9%, to U.S.$80.2 billion for the year ended 31 December 2012 from U.S.$77.2 billion for the year ended 31 December 2011. Kazakhstan's imports increased by U.S.$7.7 billion, or 36.6%, to U.S.$28.7 billion for the year ended 31 December 2012 from U.S.$21 billion for the year ended 31 December 2011. As mentioned elsewhere in the prospectus, minerals, especially fuel and energy materials, represent the main exports item for Kazakhstan accounting to U.S.$64.7 billion, or 80%, of the total exports for the year ended 31 December 2012. Metals and metal products, and chemical and associated products come out as the second and third best exports articles equalling to U.S.$6.9 billion and U.S.$2.8 billion, or 8.6% and 3.5%, of the total export, respectively, for the same period. Major imports items for Kazakhstan were represented by machines, equipment, transport vehicles, instruments and apparatus; chemical and associated products; and metals and metal products which for the year ended 31 December 2012 totalled to U.S.$12.3, U.S.$3.5 and U.S.$2.3 billion, respectively, and accounted for 50.7%, 14.5% and 9.6% of the total imports, respectively.

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 relatively weak. Resolution of the bank solvency crisis remains a major 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, including denationalisation of BTA bank, the largest lender before the crisis, and ongoing restructuring of other troubled banks, 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.

Railway Industry

Overview

Kazakhstan is located in Central Asia and is bordered to the north by Russia; to the east by China; to the south by Kyrgyzstan, Uzbekistan, and Turkmenistan; and to 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 rail system of Kazakhstan dates back almost 120 years when the first railway line passed through the territory of Kazakhstan. During the next 30 years the length of the railway lines significantly increased and two large mainlines, Trans-Siberian and Orenburg-Tashkent, stretched across Kazakhstan to connect Central Asia with Central Russia. However the biggest part of railway tracks and facilities of the railway industry were constructed during the Soviet period. Forming a part of the Soviet Union's rail network, the Kazakhstan railway system 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, Kazakhstan inherited the three railways, namely: Tselinnaya, Alma-Atinskaya and Western Kazakhstan, with attached railway infrastructure, which were then united in a single network granted for operation to the Company, first being the republican state enterprise and then transforming into the joint stock company with a status of a national company.

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. In 2002, the Company was transformed into a joint stock company holding the status of a national company. Still, the reformation of the Company and the Group is not yet completed. According to the 2014 Government Development Programme and the New KTZ Development Strategy, the Group will undergo further reorganisation extending possibilities for private carriers and procuring more efficient operations by the Group through redistribution of responsibilities and core assets.

The Rail System

As at 31 December 2013, the rail system of Kazakhstan included: 14,767.1 kilometres of operational track, of which 4,170.6 were electrified tracks, 6,574.1 kilometres of tracks at rail yards and special tracks, 784 stations, three tunnels and 3,541 bridges, viaducts and fly overs. See "*Business of the Group –Overview", "Business of the Group – The Rail System – Network Specifications and Land Leases"* and *"Business of the Group – The Rail System – existing Infrastructure, Investment Projects and Expansion*".

The rail system of Kazakhstan links to all five countries adjacent to Kazakhstan, out of which four countries use rail tracks of the same gauge, 1,520 millimetres, as in Kazakhstan. The only neighbouring country which uses tracks of different gauge is China. China uses tracks of 1,435 millimetres gauge, which makes it impossible for trains to run between Kazakhstan and China without a break of gauge at border stations. Currently, there are two border stations in Kazakhstan, Dostyk and Altynol, at which trains running between Kazakhstan and China undergo conversion of the gauge.

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, Aktau, Karaganda and Ust-Kamenogorsk. The railway system is an integrated national passenger and freight railway track, meaning that passenger trains and freight trains operate on the same lines.

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

* Source: Company 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 2013:

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	70.8	4,121
Presnogorkovskaya - Kokshetau - Astana – Dostyk	Connects the Kazakhstan-Russia border to the Kazakhstan-China border	49.1	2,043
Petropavlovsk – Astana – Dostyk	Connects Northern Kazakhstan to the Kazakhstan-China border	44.3	1,902
Tobol – Astana	Connects Northern Kazakhstan to the capital of Kazakhstan	27.6	664
Iletsk – Aktobe – Kandyagash – Arys – Saryagash	Connects Russia to Southern Kazakhstan	28.1	1,754
Semiglavyi Mar – Kandyagash – Arys – Lugovaya – Almaty – Aktogay – Dostyk	Connects Western Kazakhstan-Russia border to the Kazakhstan-China border	60.4	3,695
Saryagash – Arys – Lugovaya – Aktogay – Dostyk	Connects Southern Kazakhstan to the Kazakhstan-China border	35.3	1,824
Diny Nurpeisovoy – Makat – Beineu – Oasis	Connects Western Kazakhstan-Russia border to the Kazakhstan-Uzbekistan border	14.0	790
Makat – Kandyagash – Nickeltau	Connects Western Kazakhstan to the northwest portion of the Kazakhstan-Russia border	9.2	527

* Several of the mainline networks overlap and share common tracks. As at 31 December 2013, the Kazakhstan railway system had 14,767.1 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 "*Business of the Group – International Transit Corridors*".

The Company is responsible for building, maintaining and modernising Kazakhstan's railway system. In accordance with the Law of the Republic of Kazakhstan on Railway Transport No.266-II dated 8 December 2001 (the "**Law on Railway Transport**"), 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 and the Law on Railway Transport set 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 "*Business of the Group – Government Regulation and Tariffs – Freight Tariff Regulation and Pricing*".

The Company operates and manages the mainline railway network in Kazakhstan. The Company plans to create a wholly owned subsidiary that will manage the mainline railway network. See "*– Ongoing Restructuring –Strategy and Development*".

Freight Transportation

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 economic and geographical characteristics particular to Kazakhstan, such as its vast territory, landlocked position and highly dispersed population, location and substantial export volumes 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.

According to the NSA and other publicly available information, for the year ended 31 December 2013, net freight turnover for select state-owned railway companies was as follows: China National Rail (China) – 2,917 billion tonne-km; Russian Railways (Russia) – 2,831 billion tonne-km; Canadian National (Canada) – 336 billion tonne-km; the Group (Kazakhstan) – 231 billion tonne-km; Ukrainian Railways (Ukraine) – 224 billion tonne-km; Deutsche Bahn (Germany) – 104 billion tonne-km.

Historically freight rail turnover accounted for a majority share of freight turnover in Kazakhstan given the country's limited access to navigable water routes and its underdeveloped road infrastructure. In 2013, rail turnover amounted to 46.7% of total freight turnover in Kazakhstan and 61.0% of total freight turnover in Kazakhstan excluding pipelines. 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. See "*Business of the Group – Business Operations of the Group – Transport Services – 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. Located between two major trade partners the EU and China, Kazakhstan does not sufficiently use its transit capabilities. In 2011, trade volume between the EU and China amounted to U.S.$567.2 billion making the traffic volume of 12.6 million twenty-foot equivalent units (TEU), while Kazakhstan's transit share was less than 0.5%. It is expected that the trade and traffic volumes between the EU and China will continue growing to reach U.S.$781 billion and 17 million TEU, respectively, by 2020, and Kazakhstan's target is to gain up to 8% of the transit.

According to the World Bank's Logistics Performance Index (LPI) in 2014, Kazakhstan is ranked 88 out of 160 countries having low scores for customs, infrastructure and international shipments. The 2014 Government Development Programme sets improvement of Kazakhstan's position in the LPI index by moving to number 40 by the target year 2020, as one of its performance indicators, along with the increase of volumes of transit freight flowing across Kazakhstan from 17.8 million tonnes to 35.5 million tonnes and a twofold increase of revenue generated from transit freight transportation, among others, to be achieved by the same year.

In the annual report the Logistics Performance Index and Its Indicators 2014, the World Bank speaking of innovations emerging in the rail transportation services made a note of the initiative by several large multinational companies, forwarding firms and railway operators in Europe, the Russian Federation, and Central Asia to establish regular routes between the European Union and China through Kazakhstan (the "**New Silk Road**") as an alternative to shipping by sea.

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 inefficiencies currently existing in the Kazakhstan railway system 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.

Competition with Other Modes of Transportation

Rail transportation competes favourably with other modes of transportation in terms of regularity of service, safety, speed and cost. The Kazakhstan railway system has a high carrying capacity at a relatively low cost for freight and passenger transportation and generally operates despite adverse weather conditions. 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 periods indicated:

	For the year ended 31 December			
	2013		2012	
Type of Transportation	*Billion Tonne-Kilometres*	*% of total*	*Billion Tonne-Kilometres*	*% of total*
Railway	231.2	46,7	235.8	49.4
Pipeline	116.1	23.4	106.9	22.4
Road	145.2	29,3	132.3	27.7
Water	2.74	0.5	2.8	0.6
Air	*	*	*	*
Total	495.3	100.0	478.0	100.0

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

According to the NSA, freight turnover in Kazakhstan, excluding pipelines, comprised the following for the periods indicated:

	For the year ended 31 December			
	2013		2012	
Type of Transportation	*Billion Tonne-Kilometres*	*% of total*	*Billion Tonne-Kilometres*	*% of total*
Railway	231.2	61.0	235.8	63.5
Road	145.2	38.3	132.3	35.7
Water	2.74	0.7	2.8	0.8
Air	*	*	*	*
Total	379.2	100.0	371.1	100.0

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

Railways also play an important role in the passenger traffic, especially for long-distance trips, providing relatively cheap, compared to air transport, more convenient, compared to buses, and less weather dependent service than all other modes.

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. See "*Business of the Group – Business Operations of the Group – Passenger Transportation*".

According to the NSA, passenger turnover in Kazakhstan comprised the following for the periods indicated :

	For the year ended 31 December			
	2013		2012	
Type of Transportation	*Million Passenger-Kilometres*	*% of total*	*Million Passenger-Kilometres*	*% of total*
Railway	20,619	10.6	19,256	10.7
Bus*	164,347	84.4	151,331	84.4
Air	9,704	4.9	8,623	4.8
Water (river)	0.4	0.0	1.9	0.0
Total**	194,670.4	100.0	179,211.9	100.0

* Includes intra-city bus routes.

** Excluding taxi service and transportation.by tram-cars and trolley buses

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 2012 was 20,238 kilometres. The Asian Development Bank noted that a key consideration in Kazakhstan's transportation strategy is the determination of how to transport oil and gas to markets in the East, principally to China, and the West. With the development and extension of the pipeline network, the volume of crude oil transported by rail, primarily towards China, has decreased, 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 for oil shipments by volume for the years ended 31 December 2012 and 31 December 2013. However the Group expects that starting in 2015 Tengizchevroil LLP will primarily use pipelines for transportation of its produced crude oil which will result in a significant decrease of the Group's transported volumes of crude oil. 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*" and "*Business of the Group – 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.

Railways faces greatest competition in transportation of crude oil from pipelines, although volumes of crude oil transported by railways increased by 4.3 million tonnes to 13.2 million tonnes in 2013, compared to 8.8 million tonnes in 1999. However from 2014 the Group expects to have a decreasing trend in volumes of crude oil transported by railways due to expansion of the pipeline network. The main pipelines, which are mostly oriented to the exports of crude oil from Kazakhstan to bordering states, are as follows:

- "Atyrau-Samara" pipeline, having flow capacity of 17.5 million tonnes per year, transports crude oil from Western Kazakhstan to Russia;
- "Caspian Pipeline Consortium" pipeline, having flow capacity of 28.2 million tonnes per year with a perspective of 52.5 million tonnes per year on Kazakhstan section of the pipeline by 2015, transports crude oil from Tengiz oilfield to Novorossiysk sea port,

Russia. Notwithstanding schedule delay, it is expected that construction works on expansion of flow capacity will be completed in time;

- "Atasu-Alashankou" pipeline, in December 2013 flow capacity increased up to 20 million tonnes per year due to putting into operation two new oil transfer pumping stations, transports crude oil from Central Kazakhstan to China; and
- "Kenkiyak-Kumkol" pipeline, having flow capacity of 10 million tonnes per year, represents a section of the contemplated Kazakhstan-China pipeline with a projected flow capacity up to 20 million tonnes per year.

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

Transportation by Road

According to the NSA, Kazakhstan had approximately 97,418 kilometres of roads as at 31 December 2012. 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 a closing date now is expected by 30 June 2015. 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 are still in progress in four regions of Kazakhstan that are crossed by the corridor. Road works in Aktobe region were completed in 2013.

Despite the poor condition of the Kazakhstani roadway system, freight delivery by way of roads is often faster than by rail due to the more extensive road network and the ability to provide door-to-door service without the need to use other transfer operations. In addition, trucking companies may efficiently deliver smaller freight quantities, compared to that of rail delivery. Further, road transportation operations require lower capital investments with respect to the development of small passenger and freight flows over small distances, compared to capital investments required for rail transportation. According to the NSA, in 2012 volume of freight transportation handled by road was 168.3 million tonnes and freight turnover 132.3 billion tonnes per kilometre.

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 carry 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 2012 4.5 million passengers and in 2013 4.9 million passengers travelled through Kazakhstan airports, which represented a 0.8 million increase in passengers, compared to 4.1 million passengers in 2011 and a 0.4 million increase in passengers compared to 4.5 million passengers in 2012. In that same period, the volume of freight transportation handled by Kazakhstan airports decreased by 31% from 31,500 tonnes in 2011 to 21,950 tonnes in 2012 and increased by 9% from 21,950 tonnes in 2012 to approximately 24,000 tonnes in 2013. Despite faster delivery times, air transportation is generally more expensive than other modes of transportation and is subject to weather conditions. Additionally, air transportation is more limited by the weight and dimension of the freight being carried than other modes of transportation.

Transportation by Water

According to the NSA, Kazakhstan has over 4,151 kilometres of internal navigable water routes as at 31 December 2012. 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.

Ongoing Railway Industry Restructuring

In the context of the operations of the Group, the 2014 Government Development Programme sets a task to form an optimal system for functioning of railway industry, create conditions for competitiveness and development of freight and passenger operators, establish modern transportation and logistics system, ensuring high and effective transportation connectedness within country, increase of freight flows on the territory of Kazakhstan and coordination of operations of all types of land, sea and air transport. As part of this process, the 2014 Government Development Programme envisages reformation of railway transportation industry by the separating of transportation operations and mainline railway infrastructure and therefore changes in regulation of freight and passenger transportation. See "*Business of the Group – Ongoing Restructuring and Initiatives*".

BUSINESS OF THE GROUP

Overview

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 the 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 President of Kazakhstan instructed the Government of Kazakhstan and Samruk-Kazyna to create a transportation and logistics company on the basis of the Company. Accordingly in 2013 the Company's subsidiary, KTZ Express became the national transportation and logistics operator which will be responsible for institutional development and operational coordination in this regard.

The Company is the national railway company of Kazakhstan and controls and operates Kazakhstan's national railway system and related infrastructure. The Company was established by the resolution 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 natural monopoly over the provision of services on Kazakhstan's mainline railway network and is the dominant provider of railway freight transportation and its subsidiary, JSC Passenger Transportation, is the dominant provider of passenger transportation. 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 its dependence on the export of raw materials and import of finished goods, the railway system is a crucial component of Kazakhstan's economic growth.

For the year ended 31 December 2013, the Group had an overall freight turnover of 231.2 billion tonne-kilometres, which represented a 1.9% decrease from 2012 when the Group had an overall freight turnover of 235.8 billion tonne-kilometres. According to NSA data, the Group's freight turnover, which includes freight transported in third-party wagons hauled by the Group, accounted for 46.9% and 49.4% of all freight turnover in Kazakhstan by all modes of transportation in 2013 and 2012, respectively. The Group's freight transportation revenue was KZT 742.8 billion for the year ended 31 December 2013 and KZT 686.1 billion for the year ended 31 December 2012, which accounted for 85.0% and 85.3%, respectively, of total consolidated revenue. See "*Business Operations of the Group – Transport Services – Freight Transportation*".

For the year ended 31 December 2013, the Group had a passenger turnover of 16.9 billion passenger-kilometres, which represents an increase from 2012 when the Group had a passenger turnover of 16.7 billion passenger-kilometres. The Group's passenger transportation revenue was KZT 73.5 billion for the year ended 31 December 2013 and KZT 63.5 billion for the year ended 31 December 2012, which accounted for 8.4% and 7.9% respectively, of total consolidated revenue. See "*Business Operations of the Group – Transport Services – Passenger Transportation*".

As at 31 December 2013, the assets of the Group included:

- 14,767.1 kilometres of operational rail track, of which 4,170.6 kilometres were electrified;
- 784 stations and operating points, including: (i) 6 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) 644 wayside stations, where trains can be temporarily idled to make way for passing trains;
- 1,848 locomotives;
- 65,606 freight cars;
- 2,413 passenger cars; and
- 20,272 track switches.

See "*The Rail System*".

Relationships with the Government

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 the Government 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.

The Company's status as a natural monopoly and the dominant provider of freight transportation services, and the status of its subsidiaries, Kaztemirtrans and Lokomotiv, as dominant providers of railway freight rolling stock lease services and locomotive haulage services, respectively, subject the Group to regulation by the Government, which includes limitations on the amount these entities may 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*".

The Government also exerts an influence on the Group's financial results through provision of grants to subsidise passenger transportation and partially finances capital expenditures programme and other investments projects of the Group by way of provision of equity injections and shareholder loans. See "*Risk Factors - The Group has received, and relies on, support from the Government*".

As a part of the recently announced Government's privatization programme it is currently anticipated that a minority share interest in the Company, namely 10% minus 1 share, will be sold to private investors in 2016. At the date of the Prospectus no exact timing or further details as to such sale are identified yet. See "*Risk Factors - The Group is controlled by the Government, and may engage in activities and enter into transactions that are not in the Company's commercial interests and/or that conflict with the interests of the Noteholders*".

Key Strengths

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

- **Status as National Railway Company of Kazakhstan**. The Company controls 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 rated by rating agencies. According to NSA data, the Group's freight turnover for 2013, which includes freight transported in third party wagons hauled by the Group, accounted for 46.9% 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 16.9 billion passenger-kilometres in 2013.
- **Strong Relationship with the Government**. The Group has historically received and continues to receive strong financial 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 the implementation of the Government's plans to develop Kazakhstan's railway infrastructure and transport policy. For example, as Kazakhstan's national railway operator and service provider, the Group cooperates closely with the Government in implementing the 2014 Government 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 trade volumes between China and the European Union 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. As a result, the Company believes that, in the future, it 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 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 favourable conditions 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. In addition, in 2012, a second railway crossing Altynkol-Khorgos between Kazakhstan and China was opened and the completion of its Kazakh part, a rail line between Zhetygen-Altynkol was completed thus adding an additional transit route from China to Europe via Kazakhstan, significantly expanding the transport and logistics capabilities for international transportation. 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. In addition, in January 2014, KTZ Express and the operator of the Lianyungang Port have entered into a Joint Venture Agreement to construct and develop a new terminal at the Lianyungang Port to facilitate the shipment of Kazakhstan goods to other points in the Far East, as well as to bring to Kazakhstan goods from the Far East by overland modes of transportation, primarily by railways.

- **Geographic Reach and Flexibility of Services**. The geographic reach of its railway system allows the Group to take advantage of evolving regional economic centres, as the Group is able to divert resources and route traffic to areas with increasing demand for transportation. 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.
- **Control over the major near-border logistic facilities, including Aktau Seaport and SEZ Khorgos.** The Company is in process of developing a transport and logistics and industrial hub on SEZ Khorgos which would technologically connect SEZ Khorgos, the railway line Khorgos – Zhetygen and the "Western Europe-to-Western China" highway and which will increase export and transit potential on the historical route between Asia and Europe. The coordination of the activities of Khorgos hub and Aktau Sea port which is the main transport centre on international corridors such as TRACECA and North-South corridor would open up an effective route for freight transportation from Western and Central China to Europe and Turkey. The Company believes that this strength is significant as it will allow to expand trade routes across, and enhance the multimodal transit transportation potential of, Kazakhstan.

- **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 and 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 may 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. 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 tariff was also modified to distinguish between 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. In addition, the Company was requested to establish a transportation and logistics company on its base which vested in the Company the responsibility to the develop logistics services in Kazakhstan.

In 2010 the Company approved its 2010 KTZ Development Strategy, envisaging the development strategy of the Group through 2020 and aiming to build an efficient organisational structure to enhance commercial and operational performance of the Group in connection with overall reform of the Kazakhstan railway industry. The 2010 KTZ Development Strategy had been based on the framework of the 2010 Government Development Programme. In addition, the Company is currently in the process of adopting the New KTZ Development Strategy by the Board of Directors of the Company that relates to development strategy of the Company through 2022. The New KTZ Development Strategy is expected to be approved in the fourth quarter of 2014. The New KTZ 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 deregulation of freight transportation in Kazakhstan, creating efficient portfolio and production assets and enhancement of manageability of the business.

Further, as part of the Government's ongoing reforms the President of the Republic of Kazakhstan approved the 2014 Government Development Programme, which as a logical sequel to the 2010 Government Development Programme, sets forth the directions of further development of various types of transportation, aims to establish a modern transportation infrastructure in Kazakhstan and ensure its integration into an international transportation system with a view to realise the transportation potential.

In line with 2010 Government Development Programme, the 2014 Government Development Programme envisages the target model of the railway industry through separating transportation operations from mainline railway services and dividing by three types of activity under one corporate holding, i.e. freight transportation, passenger transportation that will become subject to competitive market and mainline railway network services, remaining under State regulation and control. In addition within the framework of such target model of the railway industry, the Company plans to implement reorganisation by dividing its organisational structure on such business units as national operator of mainline railway infrastructure, national operator of freight, national operator of passenger, national multimodal transport and logistics operator, manufacture and repair services. The goal of such reorganisation is to achieve an optimisation by saving costs and formation of new assets for expansion of operations. See '*Business of the Group – Strategy and Development*".

In the context of the operations of the Group, the 2014 Government Development Programme aims to form an optimal system for the functioning of the railway industry, create conditions for competitiveness and development of freight and passenger operators, establish modern transportation and logistics system, that ensures effective connectivity within the country, increase freight flows in the territory of Kazakhstan and the coordination of operations of all types of land, sea and air transport. Within the framework of the 2014 Government Development Programme and New KTZ Development Strategy the Company still aims to retain its leadership as Kazakhstan's railway operator and service provider as well as to become national multimodal logistic operator of transnational scale with a full spectrum of assets and competencies. As part of this process, the 2014 Government Development Programme envisages reformation of railway transportation industry that will change the regulation of freight and passenger transportation. It is expected that the Group's freight and passenger tariffs will become subject to market pricing as a result of the deregulation of both freight transportation tariffs, with the exception of mainline freight transportation tariffs, and passenger tariffs, with the exception of passenger tariffs that are to be subsidised by the Government. As part of this task, a tariff for the use of the Group's freight cars and containers (part of a freight transportation tariff) was substituted by a payment received by Kaztemirtrans from the customers as an operator of freight cars and containers subject to market pricing. In addition, the Company believes that granting access to mainline railway network to private operators as of this stage of reformation may lead to the private operators occupying more profitable types of transportation while the Company performing on lower profit freight operations. Accordingly the Company believes that access to mainline railway network will not be granted to private operators until deregulation of freight transportation tariffs, except for mainline railway network tariff, is completed and losses resulted from passenger transportation are fully and directly covered by the Government's budget.

In the light of the 2010 KTZ Development Strategy, the Company has commenced a strategic project aimed at transformation of business of the Company which as per Company belief shall promote realisation of the tasks of the 2010 KTZ Development Strategy and the New KTZ Development Strategy, if and when it is adopted. The Company plans to develop a united management system with modern and standardised business processes and structures, to enhance effectiveness of activity and to revise management methods whilst realising the transformation of the business programme. The Company expects that such initiative will result in efficient growth through an upgrade of integration and manageability of the Company, optimisation of business processes, creation of efficient reporting system, based on performance indicators, creation of platform for the automatisation of business processes using progressive IT systems and the creation of a corporate culture aimed at consistent improvement and flexibility.

Strategy and Development

Under the 2014 Government Development Programme and the 2010 KTZ Development Strategy, the Company intends to pursue the following strategies:

- **Continue improvement of the holding company structure**. Through the reorganisation, merger and liquidation of certain subsidiaries, 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 five principal business lines:**
    - **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 eventually will result in tariffs only 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. However the

Company believes that the access to the mainline railway network to private operators should be granted once the deregulation of tariffs is completed and covers any losses by the Company borne as a result of servicing socially important passenger routes in an unprofitable manner.

- **Freight transportation**. The Company intends to establish a subsidiary with the Company's majority ownership 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. However exact manner of establishment of new subsidiary and redistribution of assets are not identified yet due to recently announced privatisation initiatives of the Government in relation to sale of a minority stake, namely 49% of shares, of Kaztemirtrans to a strategic investor through a tender. The sale is expected to occur in 2014, before establishment of new freight subsidiary. Such privatisation initiatives also envisage the sale of minority stake, i.e. 10% minus 1 share is share capital of the Company to private investors in 2016 as part of the 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, to be contributed from Lokomotiv, 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. See "*Business of the Group – Joint Ventures and Projects*". 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.

- **Multimodal Transportation and Logistics Services**. The Company empowered KTZ Express to be responsible for promoting the development of Kazakhstan's transportation and logistics capacity and manage all of logistics service activities of the Company. KTZ Express will consolidate key transportation assets such as sea port, airports, SEZ Khorgos and aims to regulate freight traffic flows, ensure loading of transportation infrastructure and enhance effectiveness and competitiveness of Kazakhstan transportation corridors. See "*Business of the Group – Development of Transport Logistics*"; "*Business of the Group – Multimodal Transportation and Logistic Services*".

  The redistribution of the Group's assets, formation of its organisational structure and management system will be driven by the following:

  - establishment of vertical structure promoting minimization of costs;
  - retaining control over main assets and partial or full sale of non-core business that are not strategically valuable to the Company's business;
  - use of proceeds for the sale of non-core assets for funding the expansion of existing businesses.

- **Develop transportation logistics system of Kazakhstan**. The Company is taking steps to increase the effectiveness of logistics in Kazakhstan, develop transport corridors inside Kazakhstan and integrate them into external system of transport infrastructure, create internal and the external terminal system, attract more transit freights, in particular by developing logistic services and relevant infrastructure, including: the construction of internal network of transport and logistic centres; expansion of the Aktau Seaport and acquisition of dry cargo vessels; modernisation and implementation of centralised control over airports; construction of the SEZ Khorgos and traffic intensification at the dry port (inland container depot) located in the SEZ Khorgos; and construction of a terminal at the Lianyungang sea port in China to expand trade routes across, and enhance multimodal transit transportation potential of, Kazakhstan.

- **Continue efficiency improvement within the Company**. The Company is in the process of overhauling its expense-oriented policy with a view to 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:
  - the restructuring assets through the merger and liquidation of servicing subsidiary companies;
  - the 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;
  - the sale of non-core and inactive assets, including buildings, siding tracks, machines and equipment;
  - the active management of inventory, spare parts and raw materials;
  - the establishment of new standards for the management of headcount aimed at the more efficient use of labour resources;
  - the decrease in employee, administrative, training (provided by third parties) and entertainment expenses;
  - the increase in labour productivity;
  - the modernisation and increase of the efficiency of production processes and the optimisation of production assets, while maintaining production at the required technical levels.
  - the automation and implementation of process and repair works controls; and
  - the introduction of energy-saving technologies.
- **Retain leadership in the freight transportation market**. The 2014 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 2010 KTZ 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.
- **Continue to renew and modernise railway infrastructure and rolling stock**. The Company is undertaking to develop railway infrastructure through the construction of new railway lines and modernisation of existing network for effective organisation and optimisation of transportation. For these reasons the Company commenced the construction of Zhezkazgan – Beyneu and Arkalyk – Shubarkol railway lines and intends to commence construction of small railway line around Almaty stations and railway lines to objects of shore infrastructure of Kuryk Port. In addition the Company plans to modernise approximately 7,000 track structure and electrification of railway portion between Moiynty and Aktogay. The Company also plans to renew its fleet with

locomotives with improved haulage performance and rolling stock, thereby increasing productivity and decreasing operating costs. This will be acquired mostly from local producers established by the Company and international transportation manufacturers such as Lokomotiv Kurastury Zauyty JSC and Electrovoz Kurastyru Zauyty LLP.

- **Continue improvement of operations management**. 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.

As the New KTZ Development Strategy has not yet been approved by the Company, the exact timing of reorganisation of the Company is not known. However the Company believes that reorganisation of the Company for five business units is expected to occur after 2021.

Restructuring steps and projects

As at the date of this Prospectus, the following restructuring steps and projects have been undertaken as part of the 2010 KTZ Development Strategy and 2010 Government Development Programme:

- *KTZ Express*: KTZ Express became responsible for all of the Company's activities with respect to the development of logistics services in Kazakhstan as the national transportation and logistics operator and is in the process of integration of domestic and international rail, sea, air and automobile logistics, sea port and airport infrastructure as well as network of terminals and transport and logistics centres. *See "– Business Operations of the Group – Multimodal Transportation and Logistics Services*".

- *Aktau Seaport:* In November 2013 Samruk-Kazyna transferred the Aktau Seaport under trust management of the Company to facilitate the management of transportation and logistics through that port. In 2013 Aktau Seaport has entered into agreement with Dubai Port world, a leading international port operator, to develop and manage the Aktau Seaport. *See "– Business Operations of the Group – Multimodal Transportation and Logistics Services*".

- *State airports:* In 2013 and 2014 the State Property Committee transferred 100% of the shares in 4 and 2 state airports, respectively, under the trust management of KTZ Express to centralise the management of state airports and increase operating standards. As such KTZ Express, through its subsidiaries, entered into operations and management services agreement with Flughafen Zurich A.G. and its subsidiary, Zurich Airport International A.G., leading international airport operators. *See "– Development of Transport Logistics"; "Business of the Group – Business Operations of the Group – Multimodal Transportation and Logistics Services*".

- *Lianyungang Port*: In January 2014, KTZ Express and the operator of the Lianyungang Port entered into a Joint Venture Agreement to construct and develop a new terminal at the Lianyungang Port to facilitate the shipment of Kazakhstan goods to other points in the Far East, as well as to bring goods from the Far East to Kazakhstan by overland modes of transportation, primarily by railways. *See "– Business Operations of the Group – Multimodal Transportation and Logistics Services*".

- *Project Rail-Air*: The Company has started a pilot project Rail-Air to move goods from Chongqing, China to Amsterdam, the Netherlands utilizing three modes of transportation, including railways, automobile and airways, assisted by a combination of customs, terminal and warehousing services and airfreight.

- *New rail lines*: In 2011 the Company completed the construction of new rail lines between Uzen and Turkmenistan border and between Zhetygen and Khorgos and, is in process of constructing of new lines between Zhezkazgan and Beineu and between Arkalyk and Shubarkol, to be completed in 2017 and 2016, correspondingly.

- *Aktobe rail and structural steel plant.* In 2013 JSC Remlocomotive jointly with Transport Technologies LLP established Aktubinskii Relsobalochny Zavod LLP. The rail and structural steel plant is expected to be put into operation before December 2014. *See "– Business Operations of the Group –International joint Ventures and Projects".*

- *GEVO diesel engines plant.* JSC Remlocomotive together with GE Transportation and Transmashdiesel LLP established Astana Diesel Engines LLP. The plant is expected to be put into operation in 2015. *See "– Business Operations of the Group –International joint Ventures and Projects".*

- *Shunting locomotives assembling plant.* The Company completed the construction of a plant assembling shunting locomotives within the framework of strategic partnership agreement with South China Corporation of Locomotives and Rolling Stock Limited (CSR). *See "– Business Operations of the Group –International joint Ventures and Projects".*

- *Project on energy efficiency.* The Company approved an energy efficiency programme to advance energy efficiency, energy audit, create new forest shelter belts and an ecology laboratory among other things. *See "– Environmental Protection, Health & Safety".*

- *JSC Kazakhstan Academy of Transport and Communication named after M. Tynyshpayev*: In November 2012, the Company acquired 65% of the charter capital of JSC Kazakhstan Academy of Transport and Communication named after M. Tynyshpayev, which provides higher educational services and combines another five colleges in regions.

Development of Transport Logistics

The President of Kazakhstan instructed the Government of Kazakhstan to create the transportation and logistics company on the basis of the Company to be responsible for promoting the development of Kazakhstan's transportation and logistics capacity. Accordingly, the Company entrusted its wholly owned subsidiary with relevant functions. 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. In 2013 KTZ Express was established on the basis of JSC National Centre on Development of Transport Logistics and was assigned the functions of the logistics operator which coordinates use of railway, road, sea, and air transport modes, seaport and airport infrastructure and a network of terminals and warehouses, as well as the cargo loading operations, at strategic points that are key gateways to freight moving to or from China.

KTZ Express seeks to enhance the logistics operations and establish complex customer oriented logistics services through performance of the targeted door-to-door delivery service and attraction of additional freights due to expansion of trade routes between the EU and China instead of the existing sea routes. The primary goal for KTZ Express is to create a viable network of infrastructure facilities and link it to the transportation system of Kazakhstan to increase the turnover of freight going across the country. The infrastructure network formed by KTZ Express will be based on the near-border transport and logistic centres to connect the Aktau Seaport with the SEZ Khorgos and Dostyk railway station. In addition, KTZ Express is actively involved in managing airports and airports' infrastructure, expanding the network of transport and logistic centres inside and establishing transport and logistic centres and agent offices outside of Kazakhstan, arranging intermodal transportation and creating its own dry-cargo merchant fleet. *See "– Business Operations of the Group – Multimodal Transportation and Logistics Services*".

Since 2005, the governments of Kazakhstan and China have been cooperating on an international project of cross-border cooperation called "Khorgos" in order to facilitate trade. As part of this project, the Government placed 100% of the shares of ICBC 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 the SEZ Khorgos, 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 transhipment of goods from and to China by road, rail and air transport. The SEZ Khorgos and Dostyk railway station represent the eastern gate of Kazakhstan receiving and releasing freight going to and from China and the Far East. 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 includes the development of the SEZ Khorgos, the Zhetygen-Khorgos 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.

The SEZ Khorgos will incorporate railway and logistic infrastructure, and the dry port operations. In addition the SEZ Khorgos promotes warehousing, light assembly and other value added services to be completed in its logistics and industrial zones. In November 2013, Khorgos Managing Company and subsidiary of Dubai Port World, an internationally recognized port operator, signed the SEZ Khorgos Services Agreement to receive the necessary technical and management assistance in respect of the management of the SEZ Khorgos, as well as the integration and efficient future operation of the SEZ Khorgos and the Aktau Seaport. *See "– Business Operations of the Group – Multimodal Transportation and Logistics Services*".

The Samruk-Kazyna placed the Aktau Seaport under trust management of the Company to facilitate the management of transportation and logistics through that port. In August 2013 Aktau Seaport signed a terminal services agreement with a subsidiary of Dubai Port World, an internationally recognized port operator In order to bring the Aktau Seaport to international standards and introduce best international experience in the freight transhipment and handling operations,. The Aktau Seaport is implementing the expansion with two dry cargo terminals, one grain terminal and a container facility with a view to increase grain export and create freight hub for the TRACECA international corridor. *See "– Business Operations of the Group – Multimodal Transportation and Logistics Services*".

In addition, in May 2013 and in April 2014 the State Property Committee transferred six state airports and plans to transfer additional 5 airports under trust management of the Company in the near future. Under terms of the trust agreements entered into between KTZ Express and State Property Committee a trust manager, KTZ Express, is entitled to perform any actions in relation to the shares under trust management in the interest of the State Property Committee and perform the rights of the shareholder in relation to airport prescribed by the charter of an airport and the legislation of Kazakhstan subject to certain prohibitions and limitations, such as prohibition of introduction of changes to the charter of airport, changes to charter capital, resolutions on liquidation or reorganisation of airport, and preliminary coordination of agendas and drafts of resolutions on certain decisions that KTZ Express shall take in its capacity as shareholder of an airport such as allocation of net profit for reporting period. Trust agreements do not enable KTZ Express to dispose the shares in airport, pledge and subsequent purchase of shares. The beneficiary of trust management is the State Property Committee. KTZ Express is able to reimburse the necessary expenses it incurred while managing the shares out of revenues of an airport. KTZ Express founded a subsidiary, Airport Management Group LLP ("**AMG**") for the purpose of centralised management of portfolio of airports. In 2014 AMG entered into joint venture with Zurich Airport International A.G. to develop the airport management methodology and assist AMG with the management of the portfolio of airports through an operations and management agreement with Zurich Airport International A.G. The Company believes that this engagement will facilitate the improvement of the operating standards, current airports' infrastructure and enable AMG to become a separate business unit for airport management with global perspective of entrance to markets of other countries. The Company is undertaking certain actions to transfer some of the functions under trust management with KTZ Express to AMG. In addition to the efficient passenger handling, a key part of the AMG operations is to create efficient freight handling opportunities to complement the ground transportation. *See "– Business Operations of the Group – Multimodal Transportation and Logistics Services*"; *"Business of the Group – Business Operations of the Group – International Joint Ventures and Projects".*

In January 2014, KTZ Express and the operator of the Lianyungang Port entered into a Joint Venture Agreement to construct and develop a new terminal at the Lianyungang Port, which is due to start in the second quarter of 2014. The new terminal will have container, warehousing, cold storage and processing capacity. The objective is to facilitate the shipment of Kazakhstan goods to other points in the Far East, as well as to bring goods to Kazakhstan from the Far East by overland modes of transportation, primarily by railways. *See "– Business Operations of the Group – Multimodal Transportation and Logistics Services*"; *"Business of the Group – Business Operations of the Group – International Joint Ventures and Projects".*

In addition, KTZ Express plans to build-up its own fleet and create multimodal logistic chain, provide economical security to export and import operations on the Caspian Sea. *See "– Business Operations of the Group – Multimodal Transportation and Logistics Services*".

The Company plans to establish an interrelated network of transport and logistic centres linked to the centralised management system via a unified technological process. This would increase

Kazakhstan's role in freight flow through the international transport corridors and secure stable access to the key sea trade routes between South-Eastern Asia and Europe. It is expected that having a physical presence in Lianyungang, Chongqing and Urumqi will inspire freight base and promote the advantages of the overland routes through Kazakhstan. Inside Kazakhstan KTZ Express aims to build several transport and logistic centres in the cities of Astana, Aktau, Kostanay, Semey, Pavlodar and Shymkent. *See "– Business Operations of the Group – Multimodal Transportation and Logistics Services*".

Internal Organisational and Operational Measures

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

- undertaking 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. See "*Risk Factors – Risk Factors Relating to the Group – 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, the JSC Law and other legislative acts of the Republic of Kazakhstan. It was initially registered with the Ministry of Justice of the Republic of Kazakhstan on 12 February 1997 as a state enterprise. In accordance with the Government Resolution dated 15 March 2002, as amended, the Company and its subsidiaries merged to form a closed joint stock company "National Company "Kazakhstan Temir Zholy" which was subsequently re-registered as a joint stock company. Currently the Company operates under state re-registration number 11867- 1901-AO issued by the Astana City Department of Justice on 2 April 2004. Business identification number (BIN) of the Company is 020540003431. The Company was established by the Government and its sole shareholder is Samruk-Kazyna. See "*Share Capital and Principal Shareholders – Samruk-Kazyna*". The Company 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, as amended, and in the State Register of Legal

Entities having Dominant or Monopolistic Position pursuant to the Resolution of the Management Board of the Agency for Competition Protection No. 105-ПП dated 25 October 2013.

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 Company publishes information in respect of its activities on the website www.railways.kz.

The Rail System

Rail Network

Kazakhstan's railway system, which is operated by the Group, consists of the 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 2013, the railway system had an operational length of 14,767.1 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 2013, wooden and concrete rail sleepers comprised 37.1% and 62.9%, respectively, on mainlines, and 71.1% and 28.9%, respectively, at rail yards, of the total rail sleepers in Kazakhstan. As at 31 December 2013, the Kazakhstan railway system has 6,574.1 kilometres of tracks at rail yards and special tracks that facilitate yard operations, three tunnels, 3,541 bridges, viaducts and fly overs, 15 interstate division points and two 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 54.8% and 55.1% of total freight turnover of the Group for the years ended 31 December 2013 and 2012, 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.

Network Specifications and Land Leases

Pursuant to Article 26 of 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 on the basis of the base payment rates established by the Kazakhstan Government and paid in accordance with the 2009 Tax Code. The term of the land lease contracts made by the Company is five years, but is renewable upon agreement of the parties. According to the Land Code, the Company has a priority right to renew, and the local executive authorities cannot unilaterally terminate the land lease contracts except for cases provided for by the Land Code or 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 has in its possession 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 2013, 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 10,729 buildings, 22 maintenance depots for locomotives, 68 maintenance depots for passenger cars and 98 maintenance depots for freight cars, 24,709.9 kilometres of power lines, 11,950.2 kilometres of aerial communication lines, 19,105.1 kilometres of cable communication lines and 8,628.9 kilometres of fibre-optic communication lines.

During the year ended 31 December 2013, the Company made KZT 429.3 billion in expenditures for the construction of rail lines and plants, the modernisation and renewal of railway stock fleet, renewal and rehabilitation of infrastructure and development of information systems.

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 2010 KTZ Development Strategy and the 2014 Government Development Programme, the Group intends to invest a significant amount over the next several years to:

- develop further Dostyk border station, located on the eastern border with China, and strengthen the Aktogay-Dostyk rail section;
- develop multimodal transportation and logistics services and relevant infrastructure, including construction of domestic network of transport and logistic centres; expansion of the Aktau Seaport and acquisition of dry cargo vessels; modernisation of, and implementation of centralised control over airports; construction of the SEZ Khorgos and traffic intensification at the dry port (inland container depot) located in the SEZ Khorgos; and construction of a terminal at the Lianyungang sea port in China, among other things, to expand trade routes across, and enhance multimodal transit transportation potential of, Kazakhstan;
- construct, develop, maintain, upgrade and modernise its rail lines;
- acquire new locomotives and modernise existing locomotives;
- acquire and overhaul freight and passenger wagons;
- acquire containers; and
- develop information, automation and telecommunication systems.

See "*Risk Factors – Risk Factors Relating to the Group – Maintenance, modernisation and upgrades of the Group's railway infrastructure requires significant funding*".

The Group is currently in the process of constructing new rail lines between Zhezkazgan and Beineu (which is due to be completed in 2017) and between Arkalyk and Shubarkol (which is due to be completed in the second half of 2016). Construction of the new rail line between Zhezkazgan and Beineu (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 Seaport by more than 500 kilometres and the costs associated with shipping to that port. The new rail line between Arkalyk and Shubarkol (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.

In December 2012 a new railway line between Zhetygen and Altynkol was put in operation. Altynkol station is located near the Kazakhstan-China border and appears as a railway gate to the SEZ Khorgos. Transportation of freight through Altynkol station is expected to load the SEZ Khorogs with freight which China is expected to transport through Kazakhstan and to lessen the burden on currently existing another near-border station Dostyk. For the year ended 31 December 2013 approximately 1.6 million tonnes of freight was transported through Altynkol station. In 2014, the agreed freight volume to be transported through Altynkol station is approximately 4.2 million tonnes.

In May 2013, the new rail line Uzen-Bolashak-the Turkmenistan border was opened to the railway traffic. The line will form a part of the future corridor allowing overland access to the Persian Gulf states through Kazakhstan, Turkmenistan and Iran. This corridor will be a strategic link of the New Silk Road trade route and the North-South corridor.

The Group owns or leases all the buildings, equipment and other assets necessary for it 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 the year ended 31 December 2013, the Company made KZT 429.3 billion in expenditures for the construction of rail lines and plants and the modernisation and renewal of railway stock fleet, renewal and rehabilitation of infrastructure and development of information systems. See "*Risk Factors – Risk Factors Relating to the Group – Maintenance, modernisation and upgrades of the Group's railway infrastructure requires significant funding" and "Operating and Financial Review 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, and forms part of the Trans-Siberian Railroad. 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**. 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, Arys and Saryagash.
- **Central 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, Arys 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, five of which, in particular corridors No.1, 2, 5, 8, and 10, cross through the territory of Kazakhstan. The Company has offered the OSJD to include a branch line Iletsk-Khromtau-Tobol into the OSJD's corridor No.2 to facilitate running of container trains from Chongqing (China) to Duisburg (Germany), from Chengdu (China) to Lodz (Poland) and from Zhengzhou (China) to Hamburg (Germany) through Kazakhstan, and to include a branch line Zhetygen-Altynkol into the OSJD's corridor No.5 to increase freight transportation between China and the EU.

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;
- 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;

- multimodal transportation and logistics services, which include a complex of transport, handling, warehousing and other services, among others, allowing for more efficient transportation and delivery using one or several modes of transportation.

Overview of Rolling Stock

As at 31 December 2013, there were 1,264 locomotives of the Group (excluding shunting locomotives) operating on the mainline railway network, and the remaining 29 mainline locomotives were out of operation, primarily due to being under repair.

The table below sets forth structure of locomotives fleet owned by the Group:

	As at 31 December	
	2013	**2012**
Electric		
Mainline freight locomotives	492	480
Mainline passenger locomotives	48	44
Total electric locomotives	540	524
Diesel		
Mainline freight locomotives	531	507
Mainline passenger locomotives	222	223
Shunting locomotives	555	567
Total diesel locomotives	1,308	1,297
Total	1,848	1,821

Lokomotiv owns the Group's locomotives, provides locomotive haulage services for the Company's freight and passenger transportation and provides shunting operations, which involve the sorting of rolling stock into trains.

The Group from time to time acquires locomotives aimed to expand and renovate the fleet. In 2013, it purchased 97 locomotives from JSC Lokomotiv Kurastyru Zauyty and Electrovoz Kurastyru Zauyty LLP , associates of the Company, which are the major locomotives suppliers for the Group.

The Group owns and operates majority of railcar fleet in Kazakhstan operating on the mainline railway network. The table below sets forth structure of freight and passenger rail cars owned by the Group:

	As at 31 December	
	2013	2012
Freight rail cars		
Gondola	31,799	32,163
Platform	3,244	3,513
Rail tank	6,492	6,642
Box car	9,801	10,145
Hopper	12	235
Other	14,278	13,934
Total	65,606	66,632
Passenger rail cars		
First-class coach	113	113
Third-class sleeper	793	826
Compartment coach	758	714
Dining cars	51	53
Interregional	23	26
Baggage and luggage wagons	26	35
ZAK type cars	13	14
Talgo cars	268	108
Officer's and maintenance cars	368	366
Total	2,413	2,255

Kaztemirtrans owns Group's freight railcar fleet, which is primarily used for the Company's transportation services, where a customer uses the Group's freight cars, 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.

The Group from time to time acquires railcars from Kazakhstan Wagon Construction Company LLP, an associate of the Company, and from JSC ZIKSTO.

Transport Services

Freight Transportation

Freight transportation is the core component of the Group's business operations. Overall freight turnover for the Group was 231.2 billion tonne-kilometres and 235.8 billion tonne-kilometres for the years ended 31 December 2013 and 2012, respectively. Freight transportation revenue was KZT 742.8 billion and KZT 686.1 billion for the years ended 31 December 2013 and 2012, respectively, representing 85% and 85.3% of the Group's total revenue for the respective periods.

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

	For the year ended 31 December			% change between the year ended 31 December 2013 and 2012
	2013	2013	2012	
	(*% of total freight transportation revenue*)	(*KZT in thousands*)		
Export	27.7	205,408,113	209,889,950	(2.1)%
Domestic	22.6	167,980,244	176,338,432	(4.7)%
Transit*	18.4	137,016,564	150,265,141	(8.8)%
Import	13.6	100,738,336	85,085,646	18.4%
Other**	17.7	131,657,104	64,518,783	104.1%
Total	100	742,800,361	686,097,952	8.3%

* Revenue from transit transportation as per transit tariffs set in Swiss Francs and re-calculated in KZT at the NBK exchange rate as at the date of freight receipt at the entry border station.

** 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, which include charges for the ancillary services rendered by Company, such as loading, cleaning, storage, shunting and other services, that are not part of the freight transportation tariff.

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

	For the year ended 31 December									
	2013					2012				
	% of Total Volume	Volume	% of Total Turnover	Turnover	Average Distance	% of Total Volume	Volume	% of Total Turnover	Turnover	Average Distance
		(*millions of tonnes*)		(*billions of tonne-km*)	(*km*)		(*millions of tonnes*)		(*billions of tonnes-km*)	(*km*)
Export	34.6	101.6	40.3	93.2	917.5	34.2	100.9	40.4	95.3	944.0
Domestic	53.2	156.3	38.0	87.8	561.5	53.9	158.8	38.9	91.7	577.5
Transit	5.4	16.0	11.9	27.5	1,715.8	5.5	16.3	11.5	27.2	1,673.7
Import	6.7	19.7	9.9	22.8	1,158.8	6.4	18.8	9.2	21.7	1,153.9
Total	100	293.6	100	231.2	787.6	100	294.7	100	235.8	800.2

Transit freight is an important part of the Group's business because tariffs on transit rates are not subject to the Natural Monopoly Agency's approval and are on average higher than rates that are subject to approval by the Natural Monopoly Agency. See "*Government Regulation and Tariffs – Freight Tariff Regulation and Pricing – Transit Freight Tariffs" and "Operating and Financial Review of the Group – Consolidated Results of Operations for the Years Ended 30 December 2013 and 2012 – Revenue – Freight Transportation*" for more information on the Group's freight transportation revenue by transportation type. Implementation of the 2014 Government Development Programme initiatives, in particular, effective provision of multimodal transportation and logistics services, is expected to bring additional volumes of transit freight to the Group.

Coal has historically 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. At the same time, between 2014 and 2018, the Group anticipates a decrease in the volumes of oil and oil products transported by railways. 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*" and "*Kazakhstan's Economy – Railway Industry – Competition with Other Modes of Transportation – Transportation by Pipeline*".

The following table provides a breakdown of the Group's freight transportation revenue by type of freight and as a percentage of total freight transportation revenue for each of the periods indicated:

	For the year ended 31 December			% change between the year ended 31 December 2013 and 2012
	2013	**2013**	**2012**	
	(*% of total freight transportation revenue*)	(*KZT in thousands*)		
Coal	8.7	64,822,984	74,527,493	(13.0)%
Ore	5.6	41,438,175	53,936,060	(23.2)%
Construction materials	3.6	26,563,834	25,276,416	5.1%
Oil and oil products	25.4	188,871,460	165,282,030	14.3%
Grain and grain products	1.9	14,051,242	30,912,823	(54.5)%
Ferrous metals	6.3	46,446,857	42,435,916	9.5%
Other freight*	30.8	228,948,705	229,208,431	(0.1)%
Other**	17.7	131,657,104	64,518,783	104.1%
Total	100	742,800,361	686,097,952	8.3%

* 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 renting out of freight cars to third parties, revenue for locomotive haulage services rendered to third parties in freight traffic, and additional charges, which include charges for the ancillary services rendered by Company, such as loading, cleaning, storage, shunting and other services, that are not part of the freight transportation tariff.

See "*Operating and Financial Review of the Group – Consolidated Results of Operations for the Years Ended 31 December 2013 and 2012 – Revenue – Freight Transportation*" for more information on the Group's freight transportation revenue.

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

	For the year ended 31 December									
	2013					**2012**				
	% of Total Volume	**Volume**	**% of Total Turnover**	**Turnover**	**Average Distance**	**% of Total Volume**	**Volume**	**% of Total Turnover**	**Turnover**	**Average Distance**
		(*millions of tonnes*)		(*billions of tonne-km*)	(*km*)		(*millions of tonnes*)		(*billions of tonnes-km*)	(*km*)
Coal	36.8	108.1	26.0	60.2	557.2	37.2	109.6	25.8	60.9	555.6
Iron ore	16.1	47.2	15.7	36.4	770.6	16.0	47.3	14.5	34.1	721.9
Construction materials	7.8	22.9	5.8	13.4	583.2	6.9	20.4	4.9	11.6	570.4
Oil and oil products	13.0	38.3	13.7	31.6	826.5	12.6	37.1	13.8	32.5	875.7
Grain and grain products	3.8	11.1	7.1	16.3	1,466.5	5.3	15.7	10.1	23.9	1,525.0
Ferrous metals	3.5	10.3	6.0	13.8	1,344.7	3.4	9.9	5.7	13.4	1,346.1
Other	19	55.7	25.7	59.5	1,068.2	18.6	54.7	25.2	59.4	1,084.9
Total	100	293.6	100	231.2	787.6	100	294.7	100	235.8	800.2

A decrease of 4.6 billion tonne-km and 1.1 million tonnes in the total freight turnover and total volume of transported freight, respectively, for the year ended 31 December 2013, as compared to the same period of 2012, was primarily driven by a lower demand for transportation of grain and grain products due to the poor harvest of grain in Kazakhstan in 2012 and 2013.

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.

For the year ended 31 December 2013, container transportation accounted for only approximately 2.8% of all railway freight turnover of the Group, although the Company believes that container transportation will continue to increase in importance over the next several years.

The Group is actively involved in organising container train routes from the Baltic states and from South-Eastern Asia and China to Central Asia. The first container train going through Chongqing (China) – Dostyk (Kazakhstan) – Iletsk (Kazakhstan) – Brest (Belarus) and Duisburg (Germany) stations was launched in March 2011. During the years ended 31 December 2011, 31 December 2012 and 31 December 2013 there were 14, 40 and 35 container trains running on this route and carrying 1,168 TEU, 3,490 TEU and 3,172 TEU, respectively. In 2013, two more container trains plying between China and the EU through Kazakhstan were put on the following routes: Chengdu (China) – Dostyk (Kazakhstan) – Lodz (Poland) and Zhengzhou (China) – Dostyk (Kazakhstan) – Hamburg (Germany). Total number of container trains routing across Kazakhstan in 2013 was 1,653 of which 77 trains were cruising between China and the EU. See "*– International Joint Ventures and Cooperation*".

In 2012, a joint venture facilitating container transportation between China and the EU was established by five companies, in particular Chongqing Transportation Holding Co., Ltd (China), China Railway International Multimodal Transport Co., Ltd (China), JSC Kaztransservice (Kazakhstan), OJSC RZD Logistics (Russia) and DB Schenker China (Germany) See *"– International Joint Ventures and Projects"*.

In order to facilitate transit potential of the SES countries, in 2012, the Company, OJSC Russian Railways and Belorussian Railways agreed to establish UTLC, a joint venture on a parity basis that will provide container transportation services and terminal handling of container cargos within the territories of the SES members. See *"– International Joint Ventures and Projects"*.

Passenger Transportation

Overall passenger turnover for the Group was 17 billion passenger-kilometres and 16.7 billion passenger-kilometres for the years ended 31 December 2013 and 2012, respectively. Passenger transportation revenue was KZT 73.5 billion and KZT 63.4 billion for the years ended 31 December 2013 and 2012, representing 8.4% and 7.9% of the Group's total revenue, respectively. See "*Operating and Financial Review of the Group – Consolidated Results of Operations for the Years Ended 31 December 2013 and 2012 – Revenue – Passenger Transportation*" for details of the Group's passenger transportation revenue.

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

	For the year ended 31 December							
	2013				2012			
	% of Total Turnover	Turnover	% of Total Number	Number	% of Total Turnover	Turnover	% of Total Number	Number
		(billions of passenger-km)		*(millions)*		*(billions of passengers-km)*		*(millions)*
Inter-regional	76.5	13.0	68.8	14.1	74.9	12.5	69.2	13.5
International	7.1	1.2	6.3	1.3	7.2	1.2	6.2	1.2
Intercity and suburban	4.1	0.7	20.5	4.2	3.6	0.6	20.5	4.0
Trains of foreign railway administrations	12.4	2.1	3.9	0.8	14.4	2.4	3.6	0.7
Total	100	17.0	100	20.5	100	16.7	100	19.5

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

	For the year ended 31 December		% change between the year ended 31 December 2013 and 2012
	2013	2012	
	(KZT in thousands)		
Inter-regional, intercity and suburban	43,321,168	34,723,164	24.8%
International	23,157,281	22,464,392	3.1%
Other*	7,070,822	6,296,872	12.3%
Total	73,549,271	63,484,428	15.9%

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

The Company participates in passenger transportation through its wholly-owned subsidiary JSC Passengers Transportation, which, as at the date of this Prospectus, had 53 international and inter-regional routes. A subsidiary of JSC Passenger Transportation, JSC Suburban Transportation, had 65 international, inter-regional and inter-district routes as at the same date.

The Group's passenger transportation business benefits from Government grants (as part of revenue). Beginning in 2005, the Government introduced a competitive open tender system to issue grants to a transport operator against its losses connected with passenger transportation on the routes of social importance. Open tenders are held on an annual basis by the Ministry of Transportation and by local municipalities for the inter-regional, 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. If there are no private operators bidding for a particular route, servicing of such route is automatically shifted to JSC Passengers Transportation. For the years ended 31 December 2013 and 2012, the Group received Government grants totalling KZT 23.9 billion and KZT 22.1 billion, respectively. As at the date of this Prospectus, approximately 90% of passenger routes in Kazakhstan were operated by the Group and the remainder were operated by private operators.

In addition, the Group's passenger transportation is cross-subsidised by its freight transportation business through the application of a digression factor to the mainline railway tariff and the locomotive haulage tariff.

Reforms of the Freight and Passenger Transportation under the 2014 Government Development Programme

Freight Transportation

The 2014 Government Development Programme envisages structural separation of transportation process from the mainline railway network. As a result of such separation only the mainline railway tariff component will be regulated by the Government, and transportation of freight will pass into a competitive environment between national and private carriers each having its own locomotives and rolling stock fleet, and bearing responsibility for the good condition and renewal of these assets. The national freight carrier will be a subsidiary of the Company and form part of the holding structure which will also include a company operating the infrastructure. Making account for international experience of introduction competition between carriers in the railway industry, the 2014 Government Development Programme envisages that the national freight carrier will retain a market share of up to 80-85% leaving the remainder to private carriers operating on one or several routes. However the Company believes that in order to create fair competitive environment the access to the mainline network to private carriers will not be opened until the Government completes deregulation of tariffs for transportation and secures provision of grants covering all losses of the national passenger carrier borne as a result of servicing socially important passenger routes.

Passenger Transportation

The 2014 Government 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 respective agreements will be entered into between the State and a potential 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 2014 Government 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.

Infrastructure Services

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 provided by Akzhayik-Zapad 2006 LLP, KTZ Express, JSC Kaztransservice and JSC Kaskor –Transservice.
- **Repair Services**. The Group provides repair services for its railcars and the railcars of third parties through subsidiaries of the Company like Repair Corporation Kamkor LLP. 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. The Group also started assembling passenger cars using "Patentes Talgo" technology through its joint venture with Patentes Talgo S.L. (Spain). The subsidiaries involved are JSC Lokomotiv Kurastyru Zauyty, JSC Electrovoz Kurastyru Zauyty and JSC Almaty Wagon Repair Plant.
- **Flushing and Steaming of Wagons**. Flushing and steaming services are provided by entities within 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. The following subsidiaries: JSC Transtelecom, JSC Temirzholsu, Lesozahita LLP, JSC Vokzal-Service play key role.

Multimodal Transportation and Logistics Services

Under the 2014 Government Development Programme, the Group is responsible to act as a logistics operator combining various transportation assets, including several airports, the Aktau Seaport and the SEZ Khorgos, among other logistical assets, that will coordinate freight flows to promote efficiency to shorten transport times and competitive pricing for cargo moving across Kazakhstan. The Group performs the functions of the logistics operator through its wholly owned subsidiary KTZ Express, which integrates multimodal transportation routes including railway, road, sea, and air with a network of terminals and warehouses, as well as the cargo loading operations at strategic points that are key gateways to freight moving from or to China.

KTZ Express determined a number of priority projects to implement a door-to-door delivery service and attract additional cargo as a result of the expansion of the New Silk Road trade route between European countries and China, as a faster more efficient alternative to the long sea route from China's Eastern coast to the Western states. A primary part of the New Silk Road is the entrance from China at the SEZ Khorgos where a new train terminal and inland container depot will facilitate the movement of cargo to the EU, Turkey, the Baltics or the Middle East. For further transportation to Turkey and the Black Sea coast and the Persian Gulf states the cargo can be moved from the SEZ Khorgos to the Aktau Seaport by railways and handled in the Aktau Seaport for shipping across the Caspian Sea. In addition to sea routes, KTZ Express will be able to offer services connecting the SEZ Khorgos to certain airports located in Kazakhstan. KTZ Express is actively involved in managing airports, expanding network of transport and logistic centres inside and establishing transport and logistic centres and agent offices outside of Kazakhstan, arranging intermodal transportation and creating its own dry-cargo merchant fleet sailing out of the Aktau Seaport.

The 2014 Government Development Programme provides for different measures and tasks in order to develop a transport and logistic system but does not set a specific number of investments required. KTZ Express estimated capital expenditure through 2014-2020 years, inter alia, for the development of airport infrastructure to be in the amount of approximately U.S.$1.1 billion, the development and modernisation of railway assets to be approximately U.S.$18.9 billion, construction of a network of transport and logistic centres inside Kazakhstan to be approximately U.S.$512 million, development of the Aktau Seaport to be approximately U.S.$150 million, purchase of vessels to be approximately U.S.$366 million, construction of a terminal at the Lianyungang port in China to be approximately U.S.$99 million, and construction of facilities at the SEZ Khorgos to be approximately U.S.$428 million, part of which is expected to be financed from state budget, private investors, Company's own capital and the Notes proceeds.

*Source: Based on the Company's internal data

Aktau International Sea Port

The Aktau Seaport is one of the largest ports on the Caspian Sea and the only sea port in Kazakhstan, equipped for international shipping of different dry cargos, crude oil and oil products. The Aktau Seaport is the transport and logistic centre at the western gate of Kazakhstan. In November 2013, Samruk-Kazyna, the owner of the Aktau seaport, transferred the Aktau Seaport under trust management of the Company in order to facilitate the management of transportation and logistics through that port. Thus, in 2013, the Company took control over the Aktau Seaport, which is treated as a subsidiary and consolidated in the Group's financial statements. The Aktau Seaport is in the process of working with investors to expand its current cargo loading capacity. It is planned to construct three new dry-cargo terminals. As forecasted by KTZ Express, the ongoing northern expansion, along with an anticipated construction of the 11^{th} quay and reconstruction of the 12^{th} quay, will result in the increase of the seaport's turnover capacity from 16.5 million tonnes to 19.0 million tonnes by 2020. In order to bring the Aktau Seaport to international standards and introduce best international practices for handling operations, the Aktau Seaport signed a terminal services agreement for 10 years with Dubai Ports World in August 2013.

SEZ Khorgos

The SEZ Khorgos and Altynkol and Dostyk railway stations represent the eastern gate of Kazakhstan receiving and releasing freight streaming between China and the Far East and Europe. The SEZ Khorgos is managed by the Khorgos Managing Company which is a wholly owned subsidiary of KTZ Express. The SEZ Khorgos is intended to become the largest transport and logistics, and industrial hub on the Western Chinese border to promote the overland route between South-Eastern Asia, Europe, including the Baltics, and the Middle East. The SEZ Khorgos will incorporate a railway hub, inland container depot and provide logistic services, including customs services. Apart from operations at the inland container depot, the SEZ Khorgos will also provide warehousing, light assembly and other value added services to be completed in its logistics and industrial zones. In November 2013, the Khorgos Managing Company signed SEZ Khorgos Services Agreement with Dubai Ports World to receive the necessary technical and management assistance from an internationally recognized port operator in respect of the management of the SEZ Khorgos, as well as the integration and efficient future operation of the SEZ Khorgos and the Aktau Seaport. *See "International Joint Ventures and Projects".*

Dry-cargo vessels

In 2013, KTZ Express purchased two dry-cargo vessels each with 5,000 deadweight tonnes displacement to develop its own fleet and create multimodal logistic chain, provide economical security to export and import operations on the Caspian Sea and secure trade operations from violent fluctuations on vessels charter market. The current capacity of the two vessels is 10.000 tonnes of dry cargo. KTZ Express intends to further develop and increase its fleet up to 20 other vessels and barges by 2020 and it is expected that the volume of dry cargo transported by sea will reach 2.75 million tonnes by 2020. In this respect, KTZ Express plans to establish a separate marine freight company to manage its marine fleet and provide effective functioning of the marine transport service as a part of multimodal transport and logistics segment of the Group.

Airport Management Group

AMG is a subsidiary of KTZ Express established for the purpose of centralised management of 11 state owned airports in Kazakhstan, six of which, including Astana International Airport, Kokshetau, Kostanay, Petropavlovsk, Kyzylorda and Shymkent airports have already been transferred to KTZ Express for trust management. Another 5 airports that are planned for transfer under the trust management of KTZ Express are Semey, Ust-Kamenogorsk, Atyrau, Pavlodar and Aktobe airports. AMG signed an operation and management services contract to cooperate with Zurich Airport International A.G. in order to improve the operating standards and the airports infrastructure to meet international standards improve profitability. It is expected that a more efficient handling of passengers and freight will result in the increase of passenger traffic from 7.3 million passengers in 2013 to 16.0 million passengers in 2020, in the increase of freight traffic from 123.2 thousand tonnes in 2013 to 193.4 thousand tonnes in 2020, and in the increase of transit with landing in Kazakhstan reaching 6.2 thousand, 8.5 thousand and 16.2 thousand flights per annum by 2015, 2020 and 2030, respectively. In addition to the efficiency of passenger handling, a key part of the AMG operations is to create efficient freight handling opportunities to complement the ground transportation. In order to improve passenger and freight handling at the airports AMG is planning to cooperate with Swissport International AG, as it is a world leader in the provision of ground handling services. See *"– International Joint Ventures and Projects"*.

An initial pilot project Rail-Air to move goods from Chongqing (China) to Amsterdam (the Netherlands) utilizing three modes of transportation, including railways, automobile and airways, added by a complex of customs, terminal and warehousing services and airfreight, proved to be cost effective and efficient.

Domestic and External Transport and Logistic Centres

The 2014 Government Development Programme envisages establishment of an integrated network of transport and logistic centres linked to the centralised management system and IT. The main transit axis will include the following points from China to Europe: Lianyungang-Chongqing-Urumqi-Dostyk/Altynkol (Khorgos)-Russia/Belarus/Ukraine/Baltic States/ Europe. For this reason, the 2014 Government Development Programme covers a need to have physical presence in Lianyungang, Chongqing, Urumqi to inspire freight base and promote advantages of the overland routes through Kazakhstan. In January 2014, KTZ Express and Lianyungang Port LLC, operator of the Lianyungang seaport, entered into a Joint Venture Agreement to construct and develop a new terminal at the Lianyungang Port on the East coast of China. KTZ Express will have 49% interest in this joint venture. Construction of the terminal is to start in the second quarter of 2014. The new terminal will have container, warehousing, cold storage and processing capacity. The objective is to facilitate the shipment of Kazakhstan goods to other points in the Far East, as well as to bring to Kazakhstan goods from the Far East by overland modes of transportation, primarily by railways. *See "– International Joint Ventures and Projects"*. According to the 2014 Government Development Programme a priority in establishment of the outside infrastructure should be given to development of agent offices selling transportation and logistical services, and construction or rental of terminals located at the Caspian, Black and Baltic Seas, in the EU and the Persian Gulf states and in China.

Inside of Kazakhstan KTZ Express targets to build several transport and logistic centres located in the cities of Astana, Aktau, Kostanay, Semey, Pavlodar and Shymkent that were selected according to the Company's marketing research, and equipped to store and handle a broad range of consumer goods. Currently, KTZ Express conducts feasibility study of these centres, and for its ongoing operations it makes use of terminal facilities owned by JSC Kedentransservice which has an expanded branch network throughout Kazakhstan.

Despite quite recent operational history, for the year ended 31 December 2013 KTZ Express generated revenue of approximately KZT 176 million, and for 2014 it estimates its revenues at around KZT 1.5 billion.

Government Regulation and Tariffs

Government Regulation

As Kazakhstan's national railway company, the Company has a natural monopoly over providing services on the mainline railway network of Kazakhstan, transfer and distribution of electric power, and access to railways, and is a dominant provider of, inter alia, freight railway transportation services, and, as such, is regulated by the Natural 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 and other natural monopoly services (other than certain permitted services, such as, inter alia, services technologically related to the regulated services, including freight and passenger rail transportation), from 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 Natural Monopoly Agency. The Law on Competition also imposes various restrictions on the Company's operations, including prohibiting the Company from performing actions like entering into anticompetitive agreements or abusing its dominant or monopolistic position, as well as from performing the actions which constitute economic concentration under the Law on Competition without the consent of or notification to the Agency for Competition Protection. Additionally, the Competition Laws, among other laws applicable to the Company, regulate all the Company's tariffs, except for the tariff for the use of the Group's freight cars and containers, and transit tariffs, which are subject to controls under the CIS Tariff Policy, the Uniform Transit Tariff and the International Railway Transit Tariff.

The Guarantors, Kaztemirtrans and Lokomotiv, are dominant providers of, inter alia, railway freight rolling stock lease services and locomotive haulage services, respectively. In addition, as from 18 June 2013 Kaztemirtrans was declared a dominant provider of services as an operator of covered cars and platforms. As dominant entities under the Law on Competition (defined, inter alia, as entities holding market share in respect of a service in excess of 35%) Kaztemirtrans and Lokomotiv are subject to state oversight pursuant to the Competition Laws. Among other statutory requirements, Kaztemirtrans and Lokomotiv must notify the Natural Monopoly Agency of a forthcoming increase of prices above the set price limit for their respective regulated services. If the Natural Monopoly Agency determines that the proposed tariff changes do not stand price reasonableness test, the Natural Monopoly Agency may disallow the proposed changes.

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

Freight Tariff Regulation and Pricing

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

- unified freight tariffs charged by the Group for freight transported within Kazakhstan, imported to or exported from Kazakhstan ("**freight tariffs**"); and
- transit freight 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 to its final destination outside Kazakhstan ("**transit freight tariffs**").

Freight Tariffs

Freight tariffs comprise of (i) the mainline railway tariff (approximately 34% of total freight tariff), (ii) the locomotive haulage tariff (approximately 43% of total freight tariff), (iii) the freight and commercial services tariff (approximately 2% of total freight tariff) and (iv) the tariff for the use of the Group's freight cars and containers, applicable if customers use freight cars or containers owned by the Group (approximately 21% of total freight tariff), and which since 2013 is not subject to state regulation. 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.

As part of the SES established by Belarus, Kazakhstan and Russia, the relevant countries are parties to the Agreement on the Regulation of Access to Railway Transport Service, including Principles of Tariff Policy made in Moscow on 9 December 2010. The Agreement provides for the unification of tariffs for freight transportation by railway by 1 January 2013, covering freight tariffs for domestic, export and import routes, separately within the territory of each SES country. This resulted in the unification of freight tariffs for domestic, export and import transportation by way of averaging of freight tariffs through decrease of some export freight tariffs and increase of some domestic and import freight tariffs that were in force before 1 January 2013. In addition, rail transportation operators, at their discretion, based on certain economic factors, are entitled to change freight tariffs within the price limits set by the authorised bodies of respective country.

Unified 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 2013, unified tariffs for domestic, export and import freight transportation using Group's freight cars and containers (excluding VAT) ranged from approximately KZT 1,423 per tonne per 1,000 km (for coal) to KZT 12,422 per tonne per 1,000 km (for crude oil).

In 2012 freight tariffs increased by an average of 15.0% for the period from 1 April 2012, by an average of 8.4% in 2013 and by an average of 7.0% in 2014. The freight tariffs increase in 2012-2014 corresponds to the increase of consumer price index in Kazakhstan in the same period which increased by 6.0% in 2012, by 4.8% in 2013 and forecasted to increase approximately by 6.0-8.0% in 2014. The Company currently expects future annual increases of freight tariffs, being determined based on the rate of inflation forecasted by the Government, approximately by 7.0% in 2015 and 2016. See "*Risk Factors – Risk Factors Relating to the Group – The status of the Company as a monopoly and the dominant entity and the position of the Guarantors as dominant entities may result in limitations on 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. As the tariffs for use of the Group's cars and containers are not regulated by the state, these amounts do not impact the overall freight tariff.

Mainline railway tariffs, which are proposed by the Company and must be approved by the Natural 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 freight being transported, the length of the delivery. The Company calculates the proposed mainline railway 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, profit necessary for effective operation of the Company, and submits its determinations to the Natural Monopoly Agency for approval.

From February 2014 the Natural Monopoly Agency's procedure for approving mainline railway tariffs is articulated in the Order of the Chairman of the Natural Monopoly Agency No. 215-OD, dated 19 July 2013. In order to obtain the Natural 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 Natural Monopoly Agency regulations. Additionally, a public hearing must be held for any proposed tariff increase. 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 Natural Monopoly Agency which can be taken into account by the Natural 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 Ministry of Transportation and the Natural Monopoly Agency. The customer must also submit to the Natural Monopoly Agency documentation evidencing a need for such discount. The Company and the Ministry of Transportation consider the request for the mainline railway tariff discount and give their opinion on whether the discount should be granted or not to the Natural 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 Natural

Monopoly Agency makes the final decision on whether the discount is granted. For the years ended 31 December 2012 and 2013, no discounts for freight transportation were granted.

Tariffs for locomotive haulage services, freight and commercial services are initially calculated by the Group and subsequently subject to the expertise by the Natural Monopoly Agency. Compared to the process for approving mainline railway tariffs, obtaining the Natural Monopoly Agency's positive conclusion in respect of these tariffs requires fewer documents and the process is generally less onerous. Unlike the mainline railway tariff approval process, the process for these tariffs does not require holding a public hearing but includes performance of the price expertise in accordance with the pricing procedures on regulated markets carried out by the Natural Monopoly Agency. The Group must notify the Natural Monopoly Agency of any proposed increases in tariffs for locomotive haulage services, freight and commercial services at least 30 calendar days prior to the proposed increase.

The tariff for the use of the Group's freight cars and containers is the only one of the four component tariffs with respect to which the Group currently faces competition from private carriers. The Group set prices for the use of the Group's freight cars and containers based on the competitive environment and operating costs. Private carrier competition in respect of freight cars and containers tariffs has been present since 2013. See "*Operating and Financial Review – Key Factors and Trends Affecting the Group's Financial Condition and Results of Operations - Tariffs and Government Grants*"; "*Business of the Group– Competition with Private Operators*".

Transit Freight Tariffs

Freight tariffs for transit transportation vary depending on the type of freight being transported. Tariffs for transit freight transportation are denominated in the Swiss Francs according to the Agreement on International Railway Transit Tariff in effect from 1 January 1997 and re-calculated and settled in the Tenge at the NBK exchange rate as at the date of freight receipt at the entry border station. As at 31 December 2013, transit freight tariffs range from (excluding VAT) approximately U.S.$42.28 per tonne per 1,000 km (coal) to U.S.$84.56 per tonne per 1,000 km (non-ferrous metals). Freight tariffs for transit transportation of all freight did not change in 2010 and increased on average by 12% in 2011 and on average by 22% in 2012, and did not change in 2013 and 2014.

Kazakhstan is party to the CIS Tariff Agreement. The parties to the CIS Tariff Agreement meet annually to approve the CIS Tariff Policy, which establishes the framework for tariffs that CIS member states agree to follow in a particular year. 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 above the maximum tariff rate, 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.

As of 1 January 2013, within the framework of the Agreement on Regulation of Access to Railway Transport Service, rail operators for freight in transit going through the territory of the SES countries applied domestic, export and import freight tariffs unified by each of the SES country. Unified freight tariffs were applicable for freight in transit bound to or from the third countries through ports before 1 January 2014, after that date Belarus railway operator applies the unified freight tariffs for freight in transit bound to or from Russia or Kazakhstan (including ports), Russian railway operator applies its own transit tariffs irrespective of the direction and the Group applies its own transit tariffs irrespective of the direction on the parity basis according to the terms of the agreement.

Passenger Tariff Regulation and Pricing

Basic rates for international tariffs for passenger, cargo and baggage transportation by rail were approved in Kazakhstan by the Resolution of the Cabinet of Ministers of Kazakhstan dated 24 February 1995 ("**Basic Rates**"). Kazakhstan adopted the tariffs suggested by the Board for Railway Transportation of CIS Country Members, a body established in accordance with the Agreement on

Coordinating Bodies for the Railway Transport of the CIS dated 14 February 1992. The tariffs are established in accordance with the Agreement on International Railway Passenger Tariff in effect from 1 August 1991 and Agreement on the Inter-State Passenger Tariff dated 19 May 1995 concluded by fifteen CIS countries and neighbour states.

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 can be revised twice a year. 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 Natural Monopoly Agency consent generally in the same manner as tariffs for locomotive haulage services and for freight and commercial services. See "*– Freight Tariff Regulation and Pricing – Freight Tariffs*". According to the Agreement on International Railway Passenger Tariff and Agreement on the Inter-State Passenger Tariff the Swiss Franc is the currency used for international passenger transportation tariffs which is re-calculated and settled in the Tenge by the application of the NBK exchange rate on the beginning of a month or may also be re-calculated and settled in U.S. Dollars or Euro by the application of the average exchange rate of the Swiss Franc to U.S. Dollar or Euro for the last three months according to information from Reuters Agency, which however is not practiced by the Group.

The Natural Monopoly Agency, pursuant to its notification dated 24 December 2012, consented to a 12% increase in passenger tariffs from January 2013 on domestic and international routes for all types of cars. Through its notification on 18 December 2013, the Natural Monopoly Agency consented to an additional 7% tariff increase in passenger tariffs on international and domestic inter-regional passenger transportation for all types of cars, as well as tariffs for transportation of mailing items by railways effective as of 1 January 2014.

Passenger transportation of the Group is subsidised by the government grants and cross-subsidised through application of a digression factor to the mainline railway tariff and the locomotive haulage tariff. See "*– Business Operations of the Group – Transport Services – Passenger Transportation*".

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 2013, private operators owned 49.0% 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. The main private competitors from neighbouring countries are OJSC Federal Freight Company and OJSC First Freight Company whose share in all volume of freight loaded in Kazakhstan is relatively low compared to the volume of freight transported in the Group's freight railcars. For the first quarter ended 31 March 2014 volume of freight transported by railway in Kazakhstan amounted to approximately 56.7 million tonnes of which the Group transported about 36.8%, OJSC Federal Freight Company transported roughly 1.4% and OJSC First Freight Company transported approximately 2.7%. In circumstances where privately owned railcars or containers are used, the Group charges its standard freight transportation tariff but Kaztemirtrans does not charge its fee as an operator of private freight fleet. See "*– Government Regulation and Tariffs – Freight Tariff Regulation and Pricing – Freight Tariffs*". According to the NSA data, the Group's freight turnover for 2013 and 2012, which includes freight transported in third party railcars hauled by the Group, accounted for 46.7% and 49.4%, respectively, of all freight turnover in Kazakhstan by all modes of transportation for these periods.

In addition, starting from 1 January 2015, each of the SES members agreed to provide equal access to their respective railway infrastructure to all railway transportation carriers from the other countries within the SES territory subject to the principles set in the Agreement on the Regulation of

Access to Railway Transport Service and amendments to the 2014 Government Development Programme. However, the SES member states are currently renegotiating this commitment due to expectation of unfavourable consequences that the equal access to the mainline infrastructure could have for the national railway transportation carriers. It is anticipated that the SES member states would enter into an agreement within the framework of the Eurasian Economic Union which will exclude providing equal access to the mainline infrastructure, and provide for equal access to infrastructure only on the near-border territories.

As at the year ended 31 December 2013, a total of ten 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, Arlan Trans-Astana LLP, Zhel Dor Trans Aktobe LLP, Nomadas LLP, Turksib-Astana LLP, Saryarka Company LLP and Solux Express LLP.

As at the date of this Prospectus, approximately 89.9% of passenger routes in Kazakhstan are operated by the Group. In addition, the Group comprised 82.2% and 86.76% of the total passenger turnover by rail transportation in Kazakhstan for the years ended 31 December 2013 and 2012, respectively. As at the date of this Prospectus, the Group operates on 118 international, inter-regional, intercity and suburban routes, while private carriers operated on 13 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 14% and 9% of the government grants issued in 2013 and 2012, respectively.

See "*Risk Factors – Risk Factors Relating to the Group –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*".

Customers and Suppliers

Freight Customers

The Group had approximately 30,000 customers for freight transportation during 2013. The largest freight shippers are suppliers of coal, oil and oil products, metals, chemicals, sodium carbonate and agricultural products. No single customer accounted for more than 10% of the Group's freight transportation revenue for either the year ended 31 December 2012 or 31 December 2013.

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 together with the percentage they represented of total volume of freight loaded:

		For the year ended 31 December		
Customer	**Product**	**2013**	**2013**	**2012**
		(% of Total)	*(millions of tonnes)*	
Bogatyr Komir LLP	Coal	16.4	41.1	43.3
EEC JSC	Coal and coal ash	8.2	20.6	20.3
SSGPO JSC	Iron ore	8.2	20.5	20.5
Tengizchevroil LLP	Oil and oil products, chemicals and sodium carbonate coal	6.3	15.8	13.7
Kazakhmys Corporation LLP	Ores, chemicals and sodium carbonate, nonferrous metals	5.8	14.5	15.4
Total for top five customers		44.9	112.5	113.2
Other customers		55.1	137.9	140.7
Total		100	250.4	253.9

Transit freight transportation payments are made in advance upon entrance of the freight to the territory of Kazakhstan. The payment for intercity, 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, under Kazakhstan law, is regarded as a transportation contract.

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

As a wholly-owned subsidiary of Samruk-Kazyna, the Group conducts its procurement of goods, works and services in accordance with the Procurement Rules. The Procurement Rules became effective on 10 September 2012.

The Procurement Rules provide for the regulation of procurement procedures using various methods: (i) holding tenders (open, closed and two-staged); (ii) sending requests for proposals; (iii) through the commodity exchanges; (iv) procurement from a single source; and (v) procurement on centralised trades of electric energy.

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 and if such price increases subject to the conditions provided for in the Procurement Rules. 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*". The Group's contracts with suppliers do not typically require the Group to make payment in advance, except for organisations of persons with disabilities who conduct entrepreneurial activities listed in the Samruk-Kazyna Register of organisations of disabled persons, local producers of procured goods and participants in the Special Economic Zone "Park of Innovation Technologies" (for the procurement of goods and services listed as priority goods or services in accordance with the objectives of the Special Economic Zone "Park of Innovation Technologies"), which are paid 30% in advance. The Group's suppliers are generally required to submit security payment for the performance of the contract, which does not exceed 3% of the sum designated for the goods, works or services procured. In cases where the supplier breaches its contractual obligations, the Group may deduct from the security provided in connection with the performance of the contract the amount to be paid by the supplier as a result of its breach of its contractual obligations and any subsequent damages.

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 15.3% and 15.1% of the Group's total cost of sales for the years ended 31 December 2013 and 2012, respectively. According to the Procurement Rules 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. 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 5.6% of the Group's total cost of sales in the years ended 31 December 2013 and 2012. 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, which are supplied by JSC Kentau Transformer Plant. Materials and supplies comprised 10.7% and 11.9% of the Group's total cost of sales for the years ended 31 December 2013 and 2012, respectively.

The Group bears expenditure on the renewal of passenger and freight rolling stock including locomotives and railcars, and repair of railway rolling stock. Such rolling stock that includes locomotives purchased from JSC Electrovoz Kurastyru Zauyty and JSC Locomotive Kurastyru Zauyty, associates of the Group, freight railcars purchased from Kazakhstan Wagon Construction Company LLP, an associate of the Company, JSC ZIKSTO and other manufactures, and passenger railcars purchased from Tulpar-Talgo LLP is procured in accordance with the Procurement Rules. For the year ended 31 December 2013 and 31 December 2012 advances to suppliers paid for the supply of locomotives were KZT 24.1 billion and KZT 14.9 billion, respectively, and advances paid for the supply of passenger cars from Tulpar-Talgo LLP totaled to KZT 21.8 billion and KZT 18.0 billion, respectively, for the same periods.

Armed security services, rolling stock repair services, freight transportation fleets, passenger car and locomotive haulage, Internet access, locomotive rolling stock, telecommunication services and water for the Kazakhstan railway network are supplied by members of the Group on arm's length basis.

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), GE Transportation (United States) and Patentes Talgo S.L. (Spain). The Group's major ongoing and planned projects include the following:

- In May 2009, the Company and OJSC Russian Railways executed an Agreement on Cooperation in Terminal Freight Handling, which was aimed at equal 50% interests ownership in JSC Kedentransservice. The business of JSC Kedentransservice includes the provision of transportation, logistics and related services, operation of freight handling terminals, railcar platforms for container carriages and containers; technical servicing of the terminals; and the ownership and leasing of locomotives, among other things. In March 2011, OJSC "Centre for Transportation of Freights in Containers "Transcontainer" obtained control over 67% shares of JSC Kedentransservice and the parties concluded a Joint Venture Cooperation Agreement outlining steps for the increase of the Company's ownership interest up to 50% shares in this joint venture through the creation of a holding company. In May 2013, the Company acquired 33% shares of Logistic System Management B.V. in exchange for 33% shares in JSC Kedentransservice. Logistic System Management B.V. is a management company that controls 100% shares of JSC Kedentransservice. In December 2013, the Company purchased an additional 17% of shares in Logistic System Management B.V. from Logistic Investment S.a.r.L (Luxemburg) for U.S.$21.1 million. As at the date of this Prospectus, the Company holds 50% shares of Logistic System Management B.V. and OJSC "Centre for Transportation of Freights in Containers "Transcontainer" indirectly controls the other 50% of shares of Logistic System Management B.V. through its subsidiary Logistic Investment S.a.r.L (Luxemburg). However, the Company has reached agreement with OJSC "Centre for Transportation of Freights in Containers "Transcontainer" for the acquisition of the remaining 50% shares of Logistic System Management B.V. from Logistic Investment S.a.r.L (Luxemburg).
- In July 2009, JSC Lokomotiv Kurastyru Zauyty, an associate of the Company, established the Lokomotiv Assembling plant in Astana which produces Evolution series diesel locomotives out of kits supplied by, and under licences 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. Since machinery manufacturing is not the main activity of the Company, in April 2013 the Company sold 26.0% shares of JSC Lokomotiv Kurastyru Zauyty to CJSC Transmashholding (Russia) for U.S.$30 million. In addition, CJSC Transmashholding acquired another 24.0% shares of JSC Lokomotiv Kurastyru Zauyty by subscription for U.S.$30 million. As at the date of this Prospectus, the Company and CJSC Transmashholding each own 50% of JSC Lokomotiv Kurastyru Zauyty. As at 31

December 2012 and 31 December 2013, the plant aggregately manufactured 173 and 248 diesel locomotives, respectively. 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 two passenger locomotives scheduled for 2014.

- In October 2010, a joint venture named Electrovoz Kurastyru Zauyty LLP, an associate of the Company, was established by JSC Remlocomotive holding 50% of shares, CJSC Transmasholding (Russia) holding 25% of shares and Alstom Holding (France) holding the remaining 25% of shares. The total cost of the project amounted to KZT 19.8 billion, which includes expenditures for construction of the plant, the transfer of technologies and the acquisition of licences, among other things. Construction of the plant commenced in October 2011 and was completed in December 2012. In 2013 Electrovoz Kurastyru Zauyty LLP delivered to Lokomotiv 12 electric freight locomotives, kits for which were assembled in Belfor, France. Another four electric freight locomotives have been delivered this year and it is anticipated that in total 13 electric freight locomotives and 1 electric passenger locomotive will have been delivered by the end of 2014.

- In April 2011, as part of the growing trend toward electrification of the railways in Kazakhstan, JSC Remlocomotive and Siemens AG (Germany) established a company under the name of Temir Zhol Electrification LLP of which 49% is owned by Siemens AG and the remaining 51% is owned by JSC Remlocomotive with investments made in the amount of KZT 19.6 million and KZT 20.4 million, respectively. Each party to the joint venture has a put option to sell its interest upon the occurrence of certain conditions. Temir Zhol Electrification LLP is actively engaged in the process of modernising the infrastructure of Kazakhstan's electric railways, and involved in the modernisation of tracking substations of Kazakhstan railways. According to a framework agreement covering the period 2012 to 2020 that was signed 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 expected to amount to approximately KZT 46 billion. In 2013, the same parties signed an agreement for the modernisation of seven railway tracking substations. As at the date of this Prospectus the Joint Venture completed modernisation works at 5 railway tracking substations and another 2 substations are in the commissioning process. In 2013, the joint venture entered into agreement with the Company for drawing design and budgeting documentation for modernisation of another five railway tracking substations. It is expected that a total number of modernised substations will reach 42 railway tracking substations by 2020.

- In January 2013, a joint venture, SP KazElectroPrivod LLP, was established by Repair Corporation Kamkor LLP and Alstom Transport Holdings B.V. for the production of electric point machines in Kazakhstan. The parties invested in the joint venture KZT 602.5 million, of which the Group invested KZT 301.3 million. In 2013, SP KazElectroPrivod LLP produced 680 electric point machines and plans to produce another 900 electric point machines by the end of 2014. The plant is expected to reach its full production capacity of 1,500 electric point machines per year by the end of 2016.

- In November 2011, Tulpar-Talgo LLP, a joint venture between the Company and Patentes Talgo S.L. (Spain) constructed a plant to manufacture passenger cars under "Patentes Talgo" technology. As at the date of this Prospectus, five passenger trains are equipped with Talgo passenger cars and used on the routes between Almaty and Petropavlovsk, Astana and Aktobe, Astana and Atyrau, Almaty and Atyrau, Astana and Semey. In 2014, another five trains equipped with Talgo passenger cars are planned to run on the routes between Aktobe and Almaty, Astana and Kyzylorda, Astana and Ust-Kamenogorsk, Almaty and Ust-Kamenogorsk, Almaty and Tashkent. The number of investments contributed to the project by the Group, as at 31 December 2012 and 31 December 2013, totalled to KZT 9.4 billion and KZT 229.9 million, respectively. The plant produced 52 and 160 passenger cars in 2012 and 2013, respectively. The Group aims at production of 208 passenger cars by the end of 2014. Tulpar-Talgo LLP and JSC Passengers Transportation entered into an agreement for the procurement of 420 passenger cars from 2011 to 2014.

- In April 2012, a joint company, YuXinOu (Chongqing) Logistics Co Ltd, was formed in order to cooperate in creation of international logistic route Yu Xin Ou (Chongqing – Xinjiang – Europe). Participants in the joint venture are: JSC Kaztransservice – 16.3%; Chinese Railway Company International Multimodal Transport Ltd. – 10%; OJSC RZD Logistics – 16.3%; Schenker China Ltd. – 16.3%; Chongqing Transportation Holding Group Co., Ltd – 41.1%. In March 2011, the first pilot container train going through Chongqing (China), Dostyk (Kazakhstan), Iletsk (Kazakhstan), Brest (Belarus) and Duisburg (Germany) stations was launched. 40 and 35 container trains run on this route carrying 3,490 TEU and 3,172 TEU in 2012 and 2013, respectively. At the time of this Prospectus, the container train Chongqing – Duisburg departs once a week from the Chongqing station. In April 2013, container trains from Chengdu (China) to Lodz (Poland) and, in July 2013, from Zhengzhou (China) to Hamburg (Germany) through Dostyk (Kazakhstan) were launched. During the year ended 31 December 2013 there were 30 container trains carrying 2,458 TEU and 11 trains carrying 938 TEU, respectively. The volume of container transportation between China and Europe for the year ended 31 December 2013 increased by 84%, compared to 2012, from 3,572 TEU to 6,568 TEU. In addition, at the year end of 2013 a trial container train going from Xian (China) – Kyzylorda – Zhem – Aktobe carrying 82 TEU was launched. The train will be running twice a month starting from May 2014.
- In May 2012, the Company, OJSC Russian Railways and Belorussian Railways signed a Memorandum on Development of the Transport and Logistics System in the SES. The parties acknowledged a necessity for joint efforts and expanded cooperation in the development of the transport and logistics system in Kazakhstan, Russia and Belarus that would be aimed at providing quality transportation and logistics services within the SES and across all areas where 1,520 millimetre railway tracks are used. The parties agreed that the main objectives should be: i) consistent formation of prices through the coordination of tariff policies, including railway tariffs; ii) standardisation of technological parameters of services and guaranteed quality of such services; and iii) economic efficiency and competence in the SES and worldwide transportation market. The parties acknowledged a need to create the International Transport and Logistics Association in order to achieve the said objectives, and agreed to form a jointly-owned transport and logistical company, the UTLC, on a parity basis, which would work on market principles. Boston Consulting Group analysed potential markets and evaluated business models for operations of the UTLC. According to an agreement dated 20 June 2013 and an agreement on a parity basis for establishment and operation of the UTLC dated 10 October 2013 signed between the Company, OJSC Russian Railways and Belorussian Railways, the Company intends to participate in the establishment of the UTLC by contributing to UTLC's charter capital 100% of shares in JSC Kaztransservice and 100% of shares in Logistic System Management B.V., if and when it acquires the remaining 50% from Logistic Investment S.a.r.L (Luxemburg), that controls 100% of shares of JSC Kedentransservice. JSC Kaztransservice will own railway container terminals at Dostyk and Altynkol stations, platforms for container transportation and containers in Kazakhstan. The Company can purchase additional shares of the UTLC to increase its share ownership up to 33.3% in the UTLC. The UTLC shall provide services including container transportation services, terminal handling of container cargos at the stations and borders of the companies providing integrated services. It is expected that the UTLC will facilitate transit potential of the SES countries. It is anticipated that the UTLC will be registered in 2014 and will start its operation in the first quarter of 2015.
- In May 2012, a framework agreement on strategic partnership with the South China Corporation of Locomotives and Rolling Stock Limited (CSR) was signed in order to establish a plant assembling shunting locomotives TEM-KZ in the Zhambyl oblast of Kazakhstan. The plant was opened in December 2012 and was based on the Shu Locomotive Repair Plant. The project was implemented in the shortest possible time, and the new production capacity by 2016 is expected to be 50 shunting locomotives per year. The number of investments in 2013 amounted to KZT 13.4 million. In 2013 the plant produced 18 shunting locomotives TEM-KZ.
- In May 2012, a memorandum of understanding was entered into between GE Transportation (USA) and Transmashdiesel LLC (Russia) on the foundation of a joint

venture in Astana to assemble diesel engines "GEVO" from kits under technologies of General Electric. Construction works of the GEVO plant will be started in 2014 in Astana and it is expected that the plant will start operating in 2015. The plant is expected to produce 200 diesel engines per year starting from 2016. The parties anticipate investing U.S.$54.7 million in this joint venture of which the Group invests U.S.$20 million. The Company expects that 8% of the joint venture's production will be sourced locally by 2015 and increased to 51% by 2020.

- On 29 August 2012, the Company signed a memorandum of understanding with Transport Technologies LLP to cooperate on the construction of a rail and structural steel plant in the Aktobe region. Aktubinskii Relsobalochnii Zavod LLP was established in February 2013 by JSC Remlocomotive and Transport Technologies LLP with 30% and 70% shareholding, respectively. Implementation of the project started in December 2012 and it is expected that the plant will be put into operation in December 2014 with a capacity of 430 thousand tonnes of long products per year, including 200 thousand tonnes of rails. The total number of investments in the project is anticipated at KZT 55.3 billion, of which the Group will invest approximately KZT 4.9 billion and approximately KZT 38.7 billion will be funded from banks loan facilities. The Company extended a guarantee to Aktubinskii Relsobalochnii Zavod LLP in the amount of KZT 11.6 billion to secure its loan from the Development Bank of Kazakhstan. As at 31 December 2013 the Group invested KZT 2.2 billion in the project.

- In May 2013, the State Property Committee transferred 100% shares of Petropavlovsk, Astana, Kostanay and Kokshetau airports under trust management of KTZ Express. In April 2014 another two airports, in Kyzylorda and in Shymkent, were transferred under the trust management of KTZ Express. It is expected that Semey, Ust-Kamenogorsk, Atyrau, Aktobe and Pavlodar airports will be transferred under trust management of KTZ Express within next few years. In February 2014, a joint venture, Airport Management Services LLP, was established by Zurich Airport International AG and Airport Management Group LLP, a 100% subsidiary of KTZ Express, and a long-term operation and management services agreement was signed in April 2014 for the total amount of Euro 11 million in order to develop and implement airport management methodology, transfer know-how, render consulting and other necessary works and services.

- In August 2013 a new joint company, JSC Astyk Trans, was established on a parity basis by JSC Kaztemirtrans and CJSC RusAgroTrans. JSC Astyk Trans will provide transportation service for grain and other agricultural products and platform operator services. Total freight rolling stock of the joint venture is expected to amount to 10,000 grain cars that will enable it to transport 9 million tonnes of grain per year.

- In September 2013 an agreement on cooperation was signed between the Company and Lianyungang City People's Government to develop international transportation of cargo through the use of Lianyungang port and to make joint investments in the construction of a logistic terminal at Lianyungang port. The new terminal will have container yard, warehousing and cold storage capacity. The objective is to facilitate the shipment of Kazakhstan goods to other points in the Far East as well as bring goods from the Far East by land to Kazakhstan. In January 2014, KTZ Express and Lianyungang Port LLC signed a joint venture agreement in relation to the construction and management project of a logistic terminal at Lianyungang port. The parties agreed jointly to establish a company registered in China to construct the terminal. In February 2014, KTZ Express and Lianyungang Port LLC signed the Foundation Agreement and the Charter of the joint company registered in China. The total number of investments is U.S.$99 million of which KTZ Express will invest approximately U.S.$34 million, Lianyungang Port LLC - U.S.$35 and U.S.$30 million will be founded through bank loans. It is expected that the terminal will achieve its capacity of approximately 550 thousand TEUs by 2020. Feasibility studies for construction of the logistic terminal have been completed and it is anticipated that construction works will be completed in 2015.

- In November 2013, a trust management agreement was signed between Samruk-Kazyna and the Company transferring 100% of the shares of the Aktau Seaport under the trust management of the Company. In August 2013, the Aktau Seaport signed a terminal services agreement with Dubai Ports World for 10 years to help to bring the Aktau

Seaport to international standards and improve port's capacity and efficiency to meet the goals set as to the expansion of this freight route up to 19 million tonnes per year by 2020. The fixed fee for 10 years amounts to U.S.$36.6 million.

- In December 2013, the Company gave approval to JSC Kaztransservice to participate jointly with Eurotransit Terminal LLP in the establishment of a joint venture named Eurotransit-KTC LLP in order to construct a transport and logistics centre. JSC Kaztransservice obtained the right to lease of 6.8 hectares nearby Altynkol station for 42 years which will be contributed to the project. On the other part, Eurotransit Terminal LLP will invest approximately KZT 2.4 billion. Participation in the joint venture will be allocated as follows 75% owned by Eurotransit Terminal LLP and 25% owned by JSC Kaztransservice. The capacity of the terminal is estimated as 93,600 TEUs per year.
- The SEZ Khorgos is planned as a largest transport and logistics and industrial hub on the eastern border of Kazakhstan to promote and facilitate a land transit route to increase import and export, and to increase transit potential of the route between Asia and Europe. The dry port and infrastructure zone will be located on the land of the SEZ Khorgos. It will integrate the dry port to break up and reconsolidate block trains from China which have containers destined for locations other than Europe, such as Central Asia, Turkey, Baltics and the Middle East. The dry port will also incorporate a key railway and container yard. In addition to the dry port, warehousing, light assembly plant and other value added services will be able to be completed in the logistics and industrial zones of SEZ Khorgos. The total cost of the project is around U.S.$428 million of which U.S. $130 million will be invested by the Group, U.S.$207 million will be funded out of state budget and U.S.$91 million will be invested by private investors. KTZ Express management believes that the capital expenditures necessary to develop the dry port and the logistics zone will be approximately U.S.$200 million. It is expected that the volume of freight transported through the SEZ Khorgos will be approximately 4.4 million tonnes by 2020.
- In March 2014, KTZ Express and Odyssey Investments Group LLP signed a memorandum of cooperation providing for the establishment of a joint venture, Continental Logistics LLP, with a 30% and 70% participation interest in the joint venture, respectively. The purpose of the joint venture is construction, management and operation of a transport and logistics centre in Astana. The Project consists of two stages: a number of investments in the first stage totalling an approximate amount of KZT 18.5 billion of which KTZ Express will invest approximately KZT 2.7 billion, Odyssey Investments Group LLP will invest KZT 6.3 billion and KZT 9.5 billion will be sourced through bank loans. It is expected that the centre will become operational in 2015.
- In April 2014, KTZ Express, the Aktau Seaport and INTER PORT DEVELOPMENT PTE LTD jointly established Aktau Sea North Terminal LLP with participation of 30%, 10% and 60% respectively. It is planned to construct one grain terminal with a capacity of one million tonnes per year and two dry ports with aggregate capacity of 1.5 million tonnes per year. The total amount of investments in the project is estimated at approximately KZT 27.5 billion and the terminal is expected to be constructed in 2015.
- In April 2014, the Company, KTZ Express, Administration of Kyzylorda region, JSC "National Company "Social Entrepreneurial Corporation" Baikonur" ("**Baikonur**") and JSC Korkyt Ata Airport signed an agreement to establish a joint company by KTZ Express and Baikonur with 70% and 30% participation interests, respectively, in order to construct a new passenger terminal at Kyzylorda airport.

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.

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 between Russia, Kazakhstan and Belarus envisages a unified customs territory within which customs tariffs and economical limitations are not applicable to mutual trade between entities of member states except for certain protective, antidumping and compensational measures.

As of 1 July 2010 the Customs Code of the Customs Union became effective which established unified procedures and regulation on the customs territory of Russia, Belarus and Kazakhstan. 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. Procedures for customs formalities upon export from and import to the territory of the Customs Union are in accordance with international practice.

According to the World Bank, average customs tariffs have increased from 6.7% before establishment of the Customs Union to 11.5% after the 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 facilitate the stabilization of customs tariffs and reduction of the time necessary for customs clearance. The Company believes that the Customs Union will enable it to implement transit potential more effectively which in turn will enable railways to compete more effectively with sea transport, since trade in international goods between China and Europe will encounter fewer customs barriers.

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

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 two loans to finance certain projects being undertaken by members of the Group all under the Company's guarantees. In March 2010, Kaztemirtrans and the EBRD entered into a U.S. $50 million loan agreement for the acquisition of up to 1,574 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, on December 19, 2013 the Company and the EBRD entered into a U.S. $40 million loan agreement for financing an energy efficiency retrofit programme with maturity period of 10 years. As at the date of this Prospectus, the loan has not been drawn.

Environmental Protection, Health & Safety

Environmental Policies

The Company believes that it is substantially 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. In accordance with the Regulations on Environment Protection dated 5 June 2009, subsidiaries of the Company are obliged to formulate environmental plans annually to minimise the impact of their business operations on the environment.

In 2012, the Company, with the assistance of SZS Kazakhstan LLP, organised 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. In 2012, the Company arranged a pilot run of the system in the Karaganda Subdivision of the Railways and in central division of JSC Passenger Transportation. In 2012 consultants of company, "Corporation-Triumph", one of the leading local consulting companies in the area of management and strategic consulting, planning and improvement of the management of business in accordance with these standards, conducted training for managers and employees on the development and implementation of an integrated management system conforming to OHSAS 18001, ISO 9001 and ISO 14001 standards. In 2013 JSC Lokomotiv organised training course of Industry Environmental Safety for twenty specialists, integrated Environmental Management Standard ISO/DIS 50001 and underwent certified audit according to ISO/DIS 50001 standard.

In 2010 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 UshTobe 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 2015.

During the years ended 31 December 2012 and 2013, the Group allocated KZT 615 million and KZT 781 million, respectively, to its environmental programme. In 2014 the Group is planning to allocate approximately KZT 810 million to its environmental programme.

In June 2012 the Company approved an environmental programme for 2013 through 2020 to improve environmental ecology through energy efficiency in the railway sector, principally by reducing emission volumes, discharges of polluting substances, formation of processing waste and any other damaging effects of transport on the natural environment.

Energy efficiency retrofit programme for the period until 2020 was approved by the Management Board of the Company on 28 May 2013. The objectives of the programme are as follows: complete and reliable provision of transportation process to the extent of capacity and energy coverage, enhancement of operations energy efficiency, reduction of power consumption of transportation and power consumption unit costs, provision of environmental management system in accordance with international environmental management standard, provision of energy audits and minimization of industrial impact on environment and other.

Environmental Claims

In May 2013 South Kazakhstan ecology department carried out unscheduled inspection of a branch of the Company Enlarged Arys Track Maintenance Section and found the unauthorised disposal of 57.6 tonnes of diesel fuel and oil. Following a court judgment, the Company and Lokomotiv were found guilty of an offence and held jointly liable to pay a fine of KZT 11.9 million. The Company and Lokomotiv appealed to Astana city court however both statements of appeal were dismissed by the court in February 2014. As at the date of this Prospectus, the Company is preparing cassation.

Significant Licences

The Group conducts its business operations under licences, which entitle it to carry out certain types of activities. In particular, the Group holds licences including, inter alia, a licence allowing it to transport hazardous materials and a license for the performance of certain types of survey works, including engineering and geodetic works; a third category licence for the performance of certain types of construction-assembly works; a third category licence for the performance of certain types of project activities; a licence allowing the provision of communication channels and Internet protocol telephony, environmental permits and 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; 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”; and a licence, which was granted in 2013. for acquisition of explosive and pyrotechnic substances and products and their application for its own production needs issued by the Committee of Industry of the Ministry of Industry and New Technology of the Republic of Kazakhstan. Except for Company’s licence for the transportation of precursors, which is issued for five-year period and expires in March 2015, the Group’s licences are 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

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 mandatory insurance of civil responsibility of the owners of vehicles to the third parties, mandatory insurance of employer’s liability against harm to life and health of the employees, while executing their job duties, mandatory environmental insurance and mandatory insurance of civil responsibility of the transporter before the passengers. Insurance policies that are maintained by the Group are purchased from commercial insurance operators in Kazakhstan.

The Group maintains insurance coverage in accordance with a policy developed under coverage policy of Samruk-Kazyna applicable to 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 16 October 2012. 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 in December 2013, the Company entered into an agreement with JSC Nomad Insurance IC with respect to one-year voluntary property insurance covering the administrative buildings of the Company in Astana in the amount of KZT 54,882,794,668 providing coverage on an all risk basis, which also included separate coverage for risks relating to terrorism.

The Group carries the risk of loss in respect of the freight it transports, 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 subject to legal proceedings and other investigations from time to time in the ordinary course of its 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, 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. 63-1/16, dated 27 April 2006 (the "**Agreement on Joint Activity**"), 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 13 September 2011, a court of first instance ruled in favour of KT&T for the recovery of the full amount of the claim from the Group. The Group filed an appeal, which was dismissed in February 2012. In March 2012, the Group filed a cassation appeal, and in April 2012 the cassation appeal of the Group was dismissed, which resulted in the entry into force of the decision of the court of first instance. In August 2012, the Group filed a supervisory appeal with the Supreme Court of Kazakhstan. After the decision of the court of first instance entered into effect, the Group executed it in full by making payment of the adjudged amount on 30 May 2012.

In February and March 2012, KT&T brought additional actions against JSC Transtelecom to compel JSC Transtelecom to undergo a financial audit and for recovery of additional KZT 20 million in penalties and for untimely payment and recovery of debts under the Agreement on Joint Activity, for a claim in the amount of KZT 200 million. In July 2012, the first claims were dismissed and on 24 July 2012, the trial court sustained the action of KT&T and awarded the recovery of the amount of the claim in full. Judgments were appealed and In September 2012 and in November 2012 the Almaty City Court amended the judgments of the previous court and awarded the recovery of KZT 106 million instead of KZT 200 million and KZT 10 million, the rest of the claims were dismissed. Cassation panel of the Almaty City Court and a supervisory panel of the Supreme Court of Kazakhstan upheld decision of the Almaty City Court.

However, on 29 May 2012, the Company filed a court claim for the invalidation of the Agreement on Joint Activity, between KT&T and JSC Transtelecom on the grounds that the Agreement was concluded in violation of established legal procedures and that its conditions were onerous on JSC Transtelecom, as a result of which the Company, being the shareholder of JSC Transtelecom, could suffer adverse consequences. Pursuant to the judgment of a court rendered on 17 August 2012, the Company's claim was dismissed. The Company and JSC Transtelecom appealed against this judgment to appeal and cassation panels of the Almaty City Court, however, appeals were dismissed. In 2013 the Company filed a supervisory appeal with the Supreme Court of Kazakhstan which on August 14, 2013 rendered its decision. According to the ruling of the Supreme Court of the Republic of Kazakhstan the Agreement on Joint Activity was recognized as invalid.

As a result of invalidation of the Agreement on Joint Activity by the Supreme Court of Kazakhstan as at the year ended December 31, 2013 the Group reversed earlier established provisions of KZT 694 million. As at the date of this Prospectus, the Group seeks to reverse previous decisions and collect payments in the amount of approximately KZT 290 million and courts are in the review process of other rulings for the amount of approximately KZT 290 million.

In December 2013 Ministry of Transport brought a claim to recover KZT 2,079 million and KZT 196.5 million resulting from allegedly excessive subsidies paid out to JSC Passenger Transportation within 2010-2012 in accordance with agreements on subsidies payments for loses of the carrier connected with passenger transportation on the routes of social importance. The grounds for the claim are the results of the audit carried out of Accounts Committee for Control over Execution of the Republican Budget. JSC Passenger Transportation did not acknowledge the claim. On 17 April 2014 the court dismissed the claim in full. The Management of JSC Passenger Transportation believes that the judgment of the court will be appealed by the Ministry of Transportation in due course.

In December 2013 ABK Kurylys-1 LLP brought a claim for debt and penalties recovery in the amount of KZT 438 million and a court fee of KZT 13.1 million. The grounds for the claim are construction contracts dated 13 December 2010 and 08 June 2012, and the SIEC decision dated 13 February 2013 according to which cost calculation for transportation of materials were calculated incorrectly and the court ruled to amend design and estimate documentation increasing transportation costs to the amount of KZT 409.6 million. On 20 March 2014 the court left a claim brought by ABK Kurylys-1 LLP undecided due to non-appearance of the claimant. ABK Kurylys-1 LLP still has the right to file a claim with the SIEC. The Company will bear expenses in the amount of KZT 451.1 million in case the claim is resolved in the favor of the claimant.

During 2013 Bogatyr Komir LLP filed a series of claims to recover aggregately KZT 979 million written off by the Company from the Bogatyr Komir LLP customer account. The Company had to return KZT 535.7 million and KZT 229.9 million according to the judgments of the Special Economic Interdistrict Court of Pavlodar region dated 03 April 2013 and 25 July 2013, respectively; another KZT 208.4 million were credited to the Bogatyr Komir LLP customer account in August 2013 before the claim was brought to the court. In January 2013 the Company brought a claim for debt recovery in the amount KZT 306.7 million, however, Special Economic Interdistrict Court of Pavlodar region dismissed claims of the Company by a judgment dated 08 April 2013. Appeals and cassation panels of Pavlodar Regional Court upheld the previous judgment and dismissed the appeals. Based on the history of the relations between the Group and Bogatyr Komir LLP and the previous court actions that Bogatyr Komir LLP brought from time to time, the Group's management believes that it will not have negative effect on the Group's operations.

During 2012 and 2011 the tax authorities conducted tax audits of the Group for the period of 2007-2010. As a result of these audits the tax authorities have assessed additional taxes, including fines and penalties of KZT 13,289,087 thousand. The Group has challenged these assessments and believes the claims were groundless, the Group intends to appeal the results in a court. During 2012 the Group has recognized a tax liability of KZT 757,419 thousand, which represents Group's best estimate of the amount required to settle this liability.

In addition, during 2012 and 2013, the tax authorities performed a tax audit of the Group on its VAT return for the period from the first half of 2007 to 2008. As a result of this audit, the tax authorities claimed that claimed VAT in the aggregate amount of KZT 10,001,619 thousand was unsubstantiated based on a counter check of suppliers. In 2013 the Group accrued a provision of KZT 1,919,593 thousand as the Group believes there is a high probability of future losses and reclassified this VAT to long-term portion. The Group plans to bring a claim against the results of the tax audit.

In 2013, the tax authorities conducted comprehensive tax audits of the Group's subsidiary, JSC Transtelecom, for the period of 2007-2011. As a result of these audits the tax authorities have assessed additional taxes: corporate income tax (KZT 562,192 thousand), penalties on corporate income tax (KZT 327,784 thousand), value added tax (KZT 280,508 thousand), and penalties on value added tax (KZT 30,163 thousand) and administrative fine on corporate income tax (KZT 281,097 thousand); in total KZT 1,481,744 thousand. As management believes there is a high probability that they will have to pay this total amount, JSC Transtelecom accrued for this amount in full.

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:

- an 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 has completed the technical inquiry stages for creation of the system and developed the data processing design for the first stream of the system. Kandygash – Nickeltau railway line was selected for the pilot run of the operational KTCS system. In 2012 the Group completed the first stage constructing the line network and telecommunication system. In 2012, the Group spent KZT 2.9 billion constructing a hardware and software complex. The Group started second stage of the microprocessor based system construction and in 2013 the Group realised KZT 351 million for it. Another railway line, Nikeltau – Aiteke bi, was chosen to implement the integrated system regulating train movements.
- *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 additional information technology projects, such as an automated system of management of passenger services of the Company. The Group has implemented 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 is also in the process of implementing of the automated integrated processing system project called the "Energy Dispatcher of Haulage" automatic control systems project (ACS), in order to increase the accuracy of the fuel and energy resources recording, transfer of the main portion of machinist's route lists in electronic format 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 Company is currently developing a new corporate management system which will facilitate automation of business processes, including:

- to organise centralised the accounting, storage and processing of integrated data of personnel, based on the business process of the Company associated with the system;
- to grant an access to the structural divisions to the System components taking into account performed functions of structural divisions and users access rights;
- to establish general, centralised guidance used in the System with the purpose of unifying business-processes;
- to conduct organised management, including the recording of historical data from the moment of the transition of the System into operation, using of tariff schedules and other payment systems used in the Company, with consideration of specific and local features of structural divisions and personnel;
- to conduct accounting and personnel data maintenance of the Company including full record of the information required for correct operation of the System and reporting;
- to conduct accounting and maintenance of temporary personnel including the possibility to obtain actual information required for effective and rational planning and accounting;
- to conduct accounting, maintenance and analysis of employees' payroll of the Company in accordance with domestic needs, regulations and legislation of the relevant states based on territorial and legal branch locations involved in the project implementation;
- to conduct accounting organisation, storage and processing of business trips based on processes of the Company associated with the system;
- to conduct cost planning in relation to the work force based on actual and projected data of employees, full-time positions and organisation units.

The Group has a total budgeted capital expenditure for all information technology projects of KZT 18.2 billion in 2014, KZT 47.9 billion in 2015, and KZT 59.0 billion in 2016. 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.

In December 2012 the Company successfully passed a certified inspection audit organised by an international certification authority BSI (British Standard Institute) and obtained a Registration

Certificate verifying that its information security management system corresponds to the international standard ISO/IEC 27001:2005.

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. According to the JSC Law, at least 1/3 of the Board of Directors must be independent, meaning that they normally would not be interested in a transaction with a related party. If, nonetheless, 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 holders of ordinary shares are interested in a transaction.

There is a less onerous procedure for approval of transactions with related parties concluded between the companies in the Samruk-Kazyna group. For these purposes, companies in the Samruk-Kazyna group means Samruk-Kazyna itself, the companies (including the national development institutes, national companies and other legal entities) of which more than 50% are owned by or in the trust management of Samruk-Kazyna, the subsidiaries of those companies of which more than 50% are owned by those companies, and legal entities of which more than 50% are owned by said subsidiaries. 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 not less than three quarters of its elected members.

If a quorum of 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 the sole shareholder may approve it.

Amounts due to and due from profit-oriented state-owned entities (entities under common control), recorded within trade accounts payable, other current liabilities, trade accounts receivable, other current and non-current assets as well as the transactions with commercial organisations, fully controlled by the Government (entities under common control) as at December 31, 2013 and 2012 were as follows.

	Due from related party		Due to related party	
Company name	**31 December, 2013**	**31 December, 2012 (restated)**	**31 December, 2013**	**31 December, 2012 (restated)**
	(KZT in thousands)			
JSC National Company KazMunaiGas	141,732	38,189	1,478,802	786,427
JSC Kazpost	148,352	107,401	7,885	5,809
JSC Kazakhtelecom	15,702	14,209	638,668	69,663
JSC National Nuclear Company Kazatomprom	39,726	3,314	62,572	74,972
JSC KEGOC	1,983	448	52,280	12,397
JSC National Company Kazakhstan Engineering	59,563	19,827	671,959	679,231
JSC Samruk-Energo	20,671	12,593	22,859	29,961
JSC Air Astana	43	431	1,246	1,132
LLP Samruk-Kazyna Contract	2,424	1,376	25,916	21,893
JSC KOREM	—	—	2,997	2,014
LLP JV Betpak Dala	—	—	2,346	1,679
LLP JV Katco	—	—	1,969	2,951
JSC International Airport Atyrau	—	—	304	1,243
JSC Alliance Bank	—	—	—	50
JSC Development Bank of Kazakhstan	—	—	87	1
JSC BTA Bank	4	311	102,979	3,171
JSC Temir Bank	36	37	98	129
JSC Astana Finance	—	96	—	—
JSC Ekibastuz GRES-2	82,992	87,597	11,380	11,559
JSC Ekibastuz GRES-1			468,846	92,964
LLP Bogatyr Komir	22,234	289,124	477,731	138
JSC KazZinc	37,982	—	44,124	—
Other	96	18	2,794	2,955
	573,540	574,971	4,077,842	1,800,339

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

	Sales of services		Purchases of services	
Company name	**2013**	**2012 (restated)**	**2013**	**2012 (restated)**
	(KZT in thousands)			
JSC National Company KazMunaiGas	10,977,937	6,010,913	622,037	520,772
JSC Kazpost	788,977	712,552	213,660	204,134
JSC Kazakhtelecom	136,013	151,826	676,676	524,277
JSC National Nuclear Company Kazatomprom	1,214,256	1,148,171	62,450	12,444
JSC KEGOC	20,616	7,734	4,141,066	3,576,300
JSC National Company Kazakhstan Engineering	348,165	405,284	1,052,172	2,424,367
JSC Samruk-Energo	116,298	154,848	276,044	329,502
JSC Air Astana	105,039	93,697	123	60
LLP JV Betpak Dala	2,976	5,503	—	—
LLP JV Katco	14,078	15,551	—	—
JSC Kazyna Capital Management	—	5	—	—
JSC International Airport Atyrau	3,197	6,781	—	—
JSC KOREM	—	—	—	8,826
LLP Samruk-Kazyna Contract	—	—	189,193	91,315
JSC Alliance Bank	2,135	1,639	72	2
JSC Development Bank of Kazakhstan	—	14,437	1,318	27,785
JSC BTA Bank	4,830	3,637	118,889	64,495
JSC Temir Bank	1,616	1,244	1,202	1,725
JSC Astana Finance	—	1,309	—	—
JSC Ekibastuz GRES-2	23,786	54,832	15,430,203	11,987,603
JSC Ekibastuz GRES-1	14,162	19,790	4,425,788	8,287,106
LLP Bogatyr Komir	17,999,119	32,445,467	49,770	3,077
JSC KazZinc	597,012	—	10,137	
Other	5,764	16,174	83	123
	32,375,976	41,271,394	27,270,883	28,063,913

The services provided to related parties include, primarily, 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. There have been no guarantees provided or received for any related party receivables or payables.

As at 31 December 2013 and 2012, certain of the Group's borrowings in the amount of KZT 2,726,627 thousand and KZT 3,010,146 thousand, respectively, were guaranteed by the Government of the Republic of Kazakhstan.

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 2013	As at 31 December 2012 (restated)
JSC Development Bank of Kazakhstan:	*(KZT in thousands)*	
Loan	21,538,619	11,704,300
Finance lease	370,057	1,187,941
Total	21,908,676	12,892,241

As at 31 December 2013 and 2012 the Group deposited cash on current and deposit accounts with several banks under common control, including JSC BTA Bank, JSC Alliance Bank, JSC Temir Bank and JSC Development Bank of Kazakhstan. The Group recognized finance income from these bank current accounts and deposits in the amount of KZT 1,899 thousand and KZT 47,121 thousand during the years ended 31 December 2013 and 2012, respectively. The deposits and current accounts with these banks at 31 December 2013 and 2012 consist of the following:

	As at 31 December 2013	As at 31 December 2012 (restated)
	(KZT in thousands)	
JSC "BTA Bank"		
Cash on current accounts and on short-term deposits with maturity period of up to three months	121,337	62,261
JSC "Alliance Bank"		
Cash on current accounts and on short-term deposits with maturity period of up to three months	16,350	311,589
Deposits with maturity period of 3 to 12 months	101,757	—
JSC "Temir Bank"		
Cash on current accounts and on short-term deposits with maturity period of up to three months	34,965	21,013
JSC "Development Bank of Kazakhstan"		
Cash on current accounts and on short-term deposits with maturity period of up to three months	794	17,401
Restricted cash	715,142	223,531
Total	990,345	635,795

MANAGEMENT AND EMPLOYEES OF THE COMPANY

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

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 Train Safety and the Managing Director of Procurement. 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 Vice-President of Logistics, the Managing Director – Head of Administration, the Managing Director on Legal Issues, the Managing Director of Corporate Development and the Managing Director – Chief Engineer.

Sole Shareholder

The sole shareholder performs the functions of the general shareholders' meeting as set forth in the JSC Law, the Samruk-Kazyna Law, the Company's charter and 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) making amendments to the Company's charter, or approving a 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) coordinating issues regarding appointment and early termination of authorities of the Chairman of the Management Board; (ix) appointing the Chairman of the Board of Directors; and (x) approving 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 the JSC Law, the 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) determining the number and the term of authority of 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; and (v) 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 more than nine years; however, in exceptional cases, an appointment for terms aggregating more than nine years is permitted, if the relevant person is re-appointed on an annual basis.

The Board of Directors must have not less than six members, of which at least thirty percent must be independent directors. Members of the Management Board, other than the President, may not be elected to the Board of Directors. The Chairman of the Management Board (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)	53	Mr. Baidauletov was born in 1960 and graduated from the Moscow Institute of Railway Transport in 1986, specialising in the 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 Transportation. 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 Transportation. 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 was appointed as the Chairman of the Board of Directors of the Company on 24 January 2012.
Askar Uzakpayevich Mamin (President of the Company)	49	For information regarding Mr. Mamin, see "*– Management Board of the Company*".
Marat Zhanabergenovich Urazbekov (Managing Director of Transport Assets of Samryk-Kazyna)	53	Mr. Urazbekov was born in 1960. He graduated from Almaty Institute of Railway Engineers in 1986, with the qualification of engineer – electrician. Mr. Urazbekov worked initially as a foreman and then became a senior 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 1993. From 1993 to 1997, he worked as deputy head of the Department of Factory and Repair Facilities of the Department of Railway Transport of the Republic of Kazakhstan and since 1997, as the 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 with a specialisation in public and municipal administration. From August 2003 to July 2006, he was Deputy Chairman of the Railway Committee of the Ministry of Transportation. In July 2006, he was appointed as Chairman of the Committee of Transport Communications of the Ministry of Transportation. Since October 2008, he has worked as the 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 Airport".

Name and position	Age	Background and principal outside activities and duties
		From January 2012, he has served as a Member of the Board of Directors of the Company.
Nigmatzhan Kabatayevich Issingarin (Independent Director)	73	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 high attestation committee (HAC) of the Russian Federation and by the Ministry of Education and Science of the Republic of Kazakhstan. From 1964 to 1991, Mr. Issingarin was employed by USSR Railways, serving in the following positions: Engineer, Chief Engineer, Head of Tselinograd Division, Head of Signalisation and Communication Department at the Tselinograd Railway Department; 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 Transport and Communications, First Deputy Prime-Minister of the Republic of Kazakhstan, and chief executive of executive bodies at Eurasian Economic Community. Since 2002, Mr. Issingarin has served 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 Strategy Planning Committee of the Board of Directors.
Zhenis Makhmudovich Kassymbek (Minister of Transportation)	39	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 Transportation; and Director of RSE "Aktau International Sea Port". Since November 2005, he has served as Vice-Minister of Transport and Communications of Kazakhstan. On March 12, 2009 he was appointed Executive Secretary of the Ministry of Transportation. Mr. Kassymbek was appointed as a member of the Board of Directors in April 2011. On March 07, 2014 Mr. Kassymbek was appointed as the Minister of Transportation and was re-appointed on 04 April 2014.
Tito Uakhapovich Syzdykov (Independent Director)	66	Mr. Syzdykov was born in 1948. In 1971, he graduated from Semipalatinsk Zootechnical and Veterinary Institute where he specialised in Academic Zootechnician. In 1999, Mr. Syzdykov obtained a Master's degree in Economics and Management from Pavlodar University. In 2005 he obtained a Ph.D. degree in Economics. He started his career in 1971, in a position of Chief Specialist at "Belovodskiy", which he held until 1977. From 1977 to 1980, he held a position as a Director of "Kharkovskiy", a state- owned farm in the Pavlodar oblast.

Name and position	Age	Background and principal outside activities and duties
		From 1980 to 1988, he worked as a Second Secretary of the Yermakovskiy District and City Committees of Communistic Party of Kazakhstan. From 1988 to 1992, he worked as a Chairman of the Executive Committee, First Secretary of the District Committee and Chairman of the Council of People's Deputies in the Uspensk district of the Pavlodar oblast. Then, during the period from 1992 to 1997, he was a Head of Administration and Akim (Mayor) of the Irtysh district of the Pavlodar oblast. From 1997 to 1999, he held a position of Akim (Mayor) of Aksu city of the Pavlodar oblast. From 1999 to 2000, Mr. Syzdykov held a position as a Deputy in the Mazhilis of the Republic of Kazakhstan (lower chamber of the Parliament of the Republic of Kazakhstan), member of the committee on finance and budget. From 2000 to 2004, was a Deputy, Chairman of the Committee on Questions of Ecology and Use of Natural Resources of the Mazhilis. From 2004 to 2011, he was a Deputy of the Mazhilis, member of the committee on finance and budget. Since 2012, he has served as Head of the Regional Development Directorate at the chancellery of Prime Minister's Office. Mr. Syzdykov was appointed as an Independent Director of the Company on 2 October 2012. In addition to being a member of the Board of Directors, Mr. Syzdykov is also the Chairman of the HR and Remuneration Committee of the Company.
Chris Walton (Independent Director)	56	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 the Chairman 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, 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 related party transactions with companies within the group of the sole shareholder; and (ix) approving other decisions relating to the competency of the general meeting of shareholders/participants of the joint stock companies/limited liability partnerships, in which ten percent or more of the shares/participating interest belong to the Company.

In accordance with the Company's charter, the Management Board must consist of not less than five members.

As at the date of this Prospectus, the Company's Management Board consists of ten 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)	48	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 (Advisor to the President of the Company)	53	Mr. Kizatov was born in 1961 and graduated from Almaty Institute of Railway Engineers in 1983 specialising in 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, 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 the 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 Vice-President of Business Development of the Company. On 28 April, 2014 Mr. Kizatov was appointed as the Advisor to the Company's President, previously he served as the Vice-President.
Kanat Kalievich Alpysbayev (Vice-President of Logistics)	42	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

Name and position	Age	Background and principal outside activities and duties
		Department; and Director of ASE Locomotive. From 2002 to 2003, he worked as Vice-President of Finance of JSC Air Astana, national air carrier of the Republic of Kazakhstan. Between 2003 and 2005, he worked as First Deputy General of CJSC "Dala Group" and as a Director of "Mercury – Invest", also he held the positions of 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 January 2013.
Askhat Harisovich Akchurin (Vice-President of Human Resources Management and Social Issues)	52	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 the Republic 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.
Adelsha Magrupovich Yermuhanov (Vice-President of Procurement)	55	Mr.Yermuhanov was born in 1959 in Orenburg Oblast, Russia. He graduated from the Orenburg Technology University with specialization in industrial and civil construction. He has a Degree in the Economic Science. After graduating from the University he worked as a master of a Construction Division N19 (Russia). From 1986 to 1988 he was a chief engineer in Aktubinskelevatorselstroi. From 1993 to 1997 he worked in Aktubinsk territorial committee of the State Property Managing. From 1997 to 2006 he held the positions in Ministry of Labor and Social Protection of citizens, served as Akim of Khromtau region of Aktubinsk Oblast, Deputy Chairman of the Committee of highway transportation facilities and construction of infrastructure complex of Transport and Telcommunication Ministry. From 2006 to 2008 he was the President of Zhylstroi JSC. From 2008 he worked on managing positions of the Group. Mr. Yermuhanov was appointed as the Vice-President of Procurement in March 2013.
Rustem Koibagarovich Khasenov (Managing Director of Legal Issues)	51	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 in the housing department of Kokshetau Municipal Administration, Senior Specialist in legal department of Koskshetau Regional Agricultural Committee, and as a senior consultant in legal department of the Kokshetau Regional Executive Committee. From 1991 to 1997, Mr.Khasenov held the positions of Kokshetau Prosecutor's assistant, Kokshetau

Name and position	Age	Background and principal outside activities and duties
		Region Prosecutor and Head of the Legal Department of Kokshetau Regional Agricultural Department. From 1997 to 2003, he worked as Head of the Legal Department of LLP. Between 2003 and 2006, he held the following legal positions with the 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 (Vice-President of Economy and Finance)	35	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 to him by the Ministry of Education and Science. In 2011, he was awarded a PhD in Transport Economics of the Russian Academy of Transport. Mr. Lepesbayev started his career in 2000 as a Lead Engineer in the Department of Technical Policy of the 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 Director of Economy of the Company and in 2009 he was appointed as Managing Director of Economy of the Company. Since 2010 he has been a member of the Management Board of the Company. From 2010 to 29 November 2011, he served as Managing Director of Kazakhstan Temir Zholy Finance B.V. From 2009 to May 2012, he served as a member of the Board of Directors of Kaztemirtrans. From September 2013 he was appointed as the Vice-President of Economy and Finance.
Bauyrzhan Pazylbekovich Urynbasarov (Vice-President)	43	Mr. Urynbasarov was born in 1970. He graduated from the Almaty Institute of Railway Engineers with the specialization in "Transport Management and Administration of Railway". He began his career as a railway inspector at the West – Kazakhstan Railroad station. Later he worked as a senior engineer, head of industrial engineering department of the Railway Management Department, Assistant to First Deputy General Director of the RSE "KTZ" in Almaty. From April 2012 to February 2014 Mr.Urynbasarov served as the Managing Director of Field Operations. According to the decision of the Company issued on 17 February 2014 Mr. Urynbasarov was appointed as the Acting Chariman of the Management Board (President) of the JSC Kaztemirtrans. On 28 April 2014 Mr. Urynbassarov was appointed as the Vice-President.
Yerkin Semetayevich Zhusanbayev (Managing Director of Corporate Development)	44	Mr. Zhusanbayev was born in 1970 in Tselinograd. He graduated from the Moscow State University named after Lomonosov with the specialization in engineer and applied mathematics. He began his career in 1992 as an engineer in Engineer and Machine science Institute of the Science Academy of Kaz SSR. From 1994 to 1998 he worked as a specialist, leading and chief specialist of the National Aerospace Agency of the Republic of Kazakhstan. After, he worked as a commercial employee in the Representative of the Japan company Marubeni Corporation. From 1998 to 2002 he held executive position in the Company, Kazgiprozheldortrans. From

Name and position	Age	Background and principal outside activities and duties
		2002 to 2007 served as the Managing Director of the Synergy Co LLP, acting director of the Department on the regulation and control in the sphere of railway transport of the Regulation of the Natural Monopoly Agency. From 2007 to 2008 Advisor of the President on tariff policy of the Company. From April 2008 he was appointed as the Managing Director of Corporate Development.
Nurdaulet Igilikuly Kilybai (Managing Director – Secretary General of the Company)	35	Mr. Kilybai was born in 1978 in Mangistau oblast. He graduated from the Kazakh Academy of the Transport and Communication named after M. Tynyshpayev, Eurasian National University named after Gumilev. He has a qualification in Engineer of the transportation management, financial expert. His career entirely connected with the railway transportation. He began his career in 1999 as a Mangyslak station operator in Atyrau division. Later he worked as a scholar of the acceptance/delivery agent, then as acceptance/delivery agent, chief specialist. From 2002 to 2008 he was appointed for different positions in the Company. From 2008 to 2011 served as the Deputy Chairman of the Railroads Committee of the Transport and Telecommunication Ministry, President of the JSC Vokzal-service, Managing director of the passenger transportation. From 2011 he held managing positions in the Transport and Telecommunication Ministry. From 2013 he was appointed as the Managing Director, Secretary General.

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. In May 2009, the Management Board of Samruk-Kazyna by its resolution adopted the "Rules on Remuneration and Reimbursement of Expenses 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 2013, the Company set the annual fixed fee to be paid to its independent directors at an aggregate amount of KZT 18.6 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 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 0.3 billion and KZT 0.3 billion for the years ended 31 December 2013 and 31 December 2012, respectively.

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

For the period ended 31 December 2013, the Group had an average of 153,309 employees, compared to an average of 155,131 employees for the year ended 31 December 2012. The decrease in employees for the year ended 31 December 2013 compared to the year ended 31 December 2012 was primarily due to the corporate downsizing. The following tables present the distribution of the Group's employees for the periods indicated:

	Average Number of Employees	
	For the year ended 31 December	
Activity	**2013**	**2012**
Locomotives	20,544	20,405
Rolling Stock	2,606	2,553
Infrastructure	53,952	54,981
Freight Transportation	19,876	20,052
Passenger Transportation	14,127	13,938
Other	42,204	43,202
Total	153,309	155,131

	Average Number of Employees	
	For the year ended 31 December	
Employer	**2013**	**2012**
Company	77,609	78,813
Lokomotiv	20,544	20,405
Kaztemirtrans	2,606	2,553
Other	52,550	53,360
Total	153,309	155,131

From 1 December, 2013 employees of the Group received a 7% increase in their salary. Besides, according to the instruction of the President of the Republic of Kazakhstan operational employees receive 10% salary increase from 1 April 2014 to mitigate consequences of debt devaluation. 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 2013 had 143,768 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 "*The Guarantors – Kaztemirtrans – Employees of Kaztemirtrans*".

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 2013 and 2012 were KZT 21.7 billion and KZT 21.0 billion, respectively, and were recorded in profit or loss within cost of sales and general and administrative expenses. The Group also withholds and contributes 10% from the salaries of its employees as the employee's contribution to their cumulative pension funds. Employee benefit obligations are payable in accordance with the collective bargaining agreement.

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

Training Programmes

The Company maintaining the course on modernization of the national education system pays particular attention to the professional development and quality of employees, actively involved in the implementation of the program of the dual system of education.

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, located in Astana, Aktobe, Karaganda, Pavlodar, Taraz and in JSC "Kazakh Academy of Transportation and Communication named after M. Tynyshpayev". Approximately 100,000 employees of the Company are involved in the educational process, including technical trainings.

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 and in accordance with the Company's needs.

In August 2012 the Company opened Technology Centre on Transport (the "Learning Centre"). The Learning Centre is located in one of the fastest developing areas of Astana, in Industrial Park, and equipped with modern laboratory instruments received from recognized companies such as General Electric, Alstom, Bombardier Transportation. The main objectives of the Learning Centre are:

- implementation of corporate standards and training programmes;
- providing high quality learning and development of employees;
- introduction of new modern teaching methods;
- efficiency and mobility in the restructuring of professional development in the implementation of innovative technologies in the production of the priority activities of the Company.

Programmes of the professional development and training of employees are adopted to the needs of the production and technologies processes of the Company, are adjusted in response to changing business conditions and meet strategic goals and objectives of the Company. The Learning Centre is designed to train and accommodate up to 12,000 employees of the Company. The Centre provides trainings to the managers, specialists and production employees of the Company, as well as to the students from different universities in Kazakhstan and implements dual training system.

Besides, the Learning Centre is one of the prominent education organisation, which organises events on international level. In August 2012 the Learning Centre trained engineers from General Electric Company. From September 2012 it organised trainings for 275 managers of the Company with the assistance of the University in Berkley, Kuhne Logistic University in Hamburg, Duke University and Logistic Centre in Saragossa.

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 professional development of the Company's 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 has provided scholarships for its employees to obtain graduate level and doctoral degree. In 2012 the Company awarded scholarships to 12 employees, in 2013 to 17 employees. 10 scholarships grants allowed obtaining degree from top universities in Germany, Belgium, United Kingdom, Malaysia, Latvia, and other states.

Social Support of Employees

The Company in order to enhance human capacity and improve the attractiveness of working in the rail industry is committed to provide employees with social guarantees, one of which is to create accessible conditions to obtain residential property, 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.

As at the date of this Prospectus, the Company implements two programmes to provide housing to its employees. The first housing programme for 2011-2015 providing houses with the payment plan by instalments for a period of 15 years (equal shares, without the overpayment). 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, inter alia, 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, victims of industrial accidents and occupational diseases in the Company and material aid for young professionals' living arrangements. On 26 June 2013 the Company signed Additional Agreement to the Labor Contracts under which the Company takes obligation to pay difference of social benefits of the pregnancy and maternity leave, adoptive parent's leave.

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 2.0 billion and KZT 1.9 billion for the years ended 31 December 2013 and 31 December 2012, 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
Chris Walton..	Independent Director; Chairman of the Audit Committee

Tito Syzdykov	Independent Director
Nigmatzhan Issingarin..	Independent Director
Zhenys Kassymbek...	Member of the Board of Directors

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, to oversee risk management of the Company and the execution of documents under corporate governance and to provide 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, 20 individuals serve on the Internal Audit Service, comprising a Head of the Service, a Deputy Head of the Service, twelve Senior Auditors and six Auditors.

External Audit Service

The Company's financial statements are subject to an external audit. Currently and for two years ended 31 December 2012 and 31 December 2013, Deloitte LLP, state licence on auditing in the Republic of Kazakhstan No.0000015, type MFU-2, issued by the Ministry of Finance of the Republic of Kazakhstan, located at the 36/2, Al-Farabi Ave, Almaty Financial District, Building "B", Almaty, 050000, the Republic of Kazakhstan has been acting as the licensed independent auditor of the Company.

SHARE CAPITAL AND PRINCIPAL SHAREHOLDERS

The Company

The Company, formed in March 2002, had a total authorised share capital of 502,040,458 common voting shares as at 31 December 2013, of which 491,297,819 were issued and paid-in and held by Samruk-Kazyna. As at 31 December 2013, the share capital of the Company totalled KZT 683.9 billion. 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, which acceded to ownership by operation of law. As at the date of this Prospectus, Samruk-Kazyna is the sole shareholder of the Company. Common voting shares entitle Samruk-Kazyna to make decisions on matters of the Company that are exclusively reserved for the general meeting of shareholders, to receive dividends and, in the event of the Company's liquidation, to receive assets of the Company remaining after the full discharge of claims of the Company's creditors in accordance with the laws of Kazakhstan.

Share capital of the Company was formed through series of issuances financed in cash and through contribution of fixed assets and non-current assets by the sole shareholder and the Government of Kazakhstan. From 2009 through 2013 the sole shareholder increased the share capital of the Company by KZT 199.3 billion of which KZT 148.8 billion was paid in cash and KZT 50.4 billion was contributed in kind by contribution of 100% shares of Repair Corporation Kamkor LLP, railway line Khomtau-Altynsarin, property at the Tokyrau station, 1,000 gondolas, buildings of railway stations and passenger platforms and long-term assets in the form of design and estimate documentation for the railway line between Uzen and the border of Turkmenistan. The appraisal of all assets contributed to the share capital in kind was performed by independent appraisal firms as at the date of respective contributions.

As at the date of this Prospectus, neither the Company itself nor other members of the Group or any companies acting on behalf of any of them hold common voting shares 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 State Property Committee 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 and Budget Planning, the Minister of Finance, the Assistant of the President of Republic of Kazakhstan, 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 Block B, 8 Kunayev street, 010000 Astana, the Republic of Kazakhstan and the telephone number is: +7 7172 554-002.

Dividends

In accordance with the Charter of the Company the decision on payment of dividend is within the exclusive competence of the shareholder of the Company.

By its resolution of the Management Board dated 2 October 2012 Samruk-Kazyna has approved the dividend policy in respect of the Company, whereby the amount of dividends that the Company pays will be set based on how the Company performs against certain predetermined performance ratios and the amount of shareholder distributions (i.e. commitments the Company undertakes on behalf of Samruk-Kazyna) and investment projects approved by Samruk-Kazyna as well as costs for scientific and research works. The minimum amount of dividends to be paid under the policy will be 15% of profit for the year attributable to the owner of the Company, however given the amount of deductions that are envisaged by the dividend policy the Company believes that amount of dividend should not exceed 15% of profit for the year attributable to the owner of the Company. The dividend policy does not provide for the possibility to defer the payments, however the Company may request deferral of a dividend to shareholder by sending the relevant request to the Chairman of the Management Board of Samruk-Kazyna.

The Company declared and paid dividends to its sole shareholder, Samruk-Kazyna, as indicated in the table below:

	For the year ended 31 December				
	2009 for 2008	**2010 for 2009**	**2011 for 2010**	**2012 for 2011**	**2013 for 2012**
			(thousands, KZT)		
Dividends declared....	2,888,266	2,923,319	9,776,307	36,866,070	16,999,211
Dividends paid..........	2,888,266	2,923,319	9,776,307	28,866,070	24,999,211*

* Includes payment of dividend for 2012 and repayment of indebtedness in respect of a dividend for 2011.

On 17 April 2014 Samruk-Kazyna passed a resolution approving dividends in the amount of KZT 16,165,051 thousand amounting to 13.98% of profit for the year ending 31 December 2013.

The payment of dividends to the shareholder is due 20 days after date of the resolution and the Company requested the Chairman of the Management Board of Samruk-Kazyna to defer the payment. However there can be no assurances that such deferral will be granted.

THE GUARANTORS

Kaztemirtrans

General

Kaztemirtrans is a joint stock company organised under the laws of Kazakhstan. Kaztemirtrans was initially registered with the Ministry of Justice of the Republic 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' charter was approved by the sole shareholder on 20 August 2011 (minutes of the Management Board of the Company No.02/29).

Kaztemirtrans has a total authorised share capital of 123,000,000 common shares. The total share capital of Kaztemirtrans is KZT 62.3 billion, all of which is held by the Company. Share capital was formed through a series of issuances in exchange for cash and assets. In 2005 the Company contributed fixed assets, mainly freight railcars. In 2010 the Company contributed to the share capital of Kaztemirtrans fixed assets. Additionally, in 2012 and 2013 the Company contributed 1,000 gondolas, special lift-off cover for gondolas, a land plot, 100% participation of the interests in Ertis Service LLP and Kazukurt-Ug LLP and a 0.36% interest in Kazakhstan Temir Zholy Finance B.V. The appraisal of all assets contributed to the share capital was performed by independent appraisal firms as at the date of respective contributions. In 2013 the Company made an additional contribution by property, plant and equipment and as at 31 December 2013 the legal registration of this contribution was not completed. The appraisal of all assets contributed to the share capital was performed by independent appraisal firms as at the date of respective contributions.

Kaztemirtrans is managed by its Board of Directors, except for those limited matters expressly reserved to its sole shareholder, the Company. The President, elected by the sole shareholder in coordination with the Management Board of Samruk-Kazyna, is responsible for the executive authority of the day-to-day management and affairs of Kaztemirtrans.

Kaztemirtrans publishes information in respect of its activities on the website www.kazcargo.kz.

Kaztemirtrans owns the Group's freight railcar fleet, which is primarily provided for the Company's transportation services if a customer uses the Group's freight cars, 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.

According to article 5 of its charter, the purpose of Kaztemirtrans is the generation of profit through, inter alia, the following activities: transportation of freight by railways; forwarding services; cars operator services; renting out freight railcars; freight and commercial works; and other activities not prohibited by law.

Sole Shareholder

The sole shareholder of Kaztemirtrans is the Company who retains exclusive authority over the operations of Kaztemirtrans as set forth in the JSC Law, other laws and regulations of Kazakhstan and the Kaztemirtrans' charter.

The exclusive functions of the sole shareholder include, among other things; (i) making 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 or participation 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.

Dividends

Kaztemirtrans declared and paid dividends to the Company as indicated in the table below:

	For the year ended 31 December				
	2009 for 2008	**2010 for 2009**	**2011 for 2010**	**2012 for 2011**	**2013 for 2012**
			(thousands, KZT)		
Dividends declared....	2,968,770	1,130,600	1,978,746	2,219,255	2,159,371
Dividends paid..........	2,968,770	1,130,600	1,978,746	2,219,255	2,159,371

For the year ended 31 December 2013 Kaztemirtrans anticipates that it will declare dividends due to the Company in the third quarter 2014.

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; and (vii) approving all interested party transactions, excluding transactions with companies owned by Samruk-Kazyna.

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 set by the sole shareholder. A person generally shall not serve as a member of Boards of Directors for an aggregate of more than nine years; however, in exceptional cases an appointment for more than nine years is permitted but such person shall be reappointed 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. Alpysbayev 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**
Kanat Kaliyevich Alpysbayev (Chairman of the Board of Directors of Kaztemirtrans, Vice-President of Logistics of the Company)	42	For information regarding Mr. Alpysbayev, see – "*Management and Employees – Management Board of the Company*".
Baurzhan Pazylbekovich Urynbasarov (Vice-President of the Company)	43	For information regarding Mr. Urynbasarov, see "*Management and Employees – Management Board of the Company*".
Yeltay Nurbolatovich Mukhamedzhanov (Independent Director)	31	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 2007 to 2010 he worked for HSBC Kazakhstan on different positions. Since May 2012 Mr. Mukhamedzhanov has been an Independent Director and member of the Board of Directors of JSC Kaztemirtrans. From 2013 – Regional director of Al Hilal Bank.
Yevgenyi Pavlovich Ogay	59	Mr. Ogay has been working in the Company since 2002. He is a General Manager of the Department of Asset

Name and position	Age	Background and principal outside activities and duties
(General Manager of the Department of Asset Management of the Company)		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 (Independent Director)	63	Mr. Smailov was born in 1951. He graduated from Pavlodar Industrial Institute. From 1984 to 1996 he held different positions in Ekibastuz, Almaty and Zhezkazgan cities. From 1996 to 1997, he served as Akim (Mayor) of the Zhezkazgan oblast. From 1997 to 2002, he served as President of “Kazenergoservis”. From 2000 to 2002, he was President of JSC “Zhezkazgan ore”. From 2003 to 2007 he was the Director of the Company “KVANT”. He is currently the Independent Director of Kaztemirtrans.

The business address of each member of the Board of Directors is the legal address of Kaztemirtrans located at 10 Kunayev Street, Esil District, Astana, 010000, the Republic of Kazakhstan.

President of Kaztemirtrans

The President (or the Chairman of the Management Board) is appointed and dismissed by the sole shareholder in coordination with the Management Board of Samruk-Kazyna, as set forth in Kaztemirtrans’ charter. As at the date of this Prospectus, the acting President of Kaztemirtrans is Mr. Zhakishev Y.T., who was appointed by the resolution of the Company dated 28 April 2014. 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 on behalf of 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 average 2,606 and 2,553 individuals for the period ended 31 December 2013 and 2012, respectively. As at 31 December 2013, 82 of Kaztemirtrans’ employees were members of the Public Association “Trade Union of Employees of JSC “Kaztemirtrans”.

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

Legal Address of Kaztemirtrans

The legal address of Kaztemirtrans is 10 Kunayev Street, Esil District, Astana, 010000, the 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. As at year ended 31 December 2013, the annual fixed fee paid to each independent director of Kaztemirtrans was KZT 2.16 million.

The President of Kaztemirtrans received an aggregate of KZT 12.5 million and 13.8 million in compensation for the year ended 31 December 2013 and for the year ended 31 December 2012, respectively, which excludes bonuses. In 2012 the President of Kaztemirtrans received bonuses at a rate of KZT 9.2 million, in 2013 bonuses to the President of Kaztemirtrans were not paid.

Kaztemirtrans' External Audit Service

The Kaztemirtrans' financial statements are subject to an external audit. Currently and for the two years ended 31 December 2012 and 31 December 2013, Deloitte LLP, state licence on auditing in the Republic of Kazakhstan No.0000015, type MFU-2, issued by the Ministry of Finance of the Republic of Kazakhstan, located at the 36/2, Al-Farabi Ave, Almaty Financial District, Building "B", Almaty, 050000, the Republic of Kazakhstan has been acting as the licensed independent auditor of Kaztemirtrans.

Lokomotiv

General

Lokomotiv is a joint stock company organised under the laws of the Republic of Kazakhstan. Lokomotiv's principal activity is the provision of locomotive haulage services. Lokomotiv was registered with the Ministry of Justice of the Republic of Kazakhstan under state registration number 14689-1901-AO on 14 October 2003 for an indefinite duration. Lokomotiv's charter was approved by the sole shareholder on 27 July 2011 (minutes of the Management Board of the Company No.02/27).

Lokomotiv has a total authorised share capital as at the date of this Prospectus of 50,588,990 common shares of which 48,897,878 common shares paid by the sole shareholder. The total share capital of Lokomotiv is KZT 48.9 billion, all of which is held by the Company. The share capital was formed by means of a series of issuances paid by contributions of cash and fixed assets. In 2004 through 2008 the Company contributed fixed assets primarily diesel generator sets and other assets. The market value of the assets was appraised by the independent appraisal firms at the date of contributions. In 2007 and 2008 the Lokomotiv issued additional 5,148,802 shares to the Company.

Lokomotiv is managed by its Board of Directors, except for those limited matters expressly reserved to its sole shareholder, the Company. The President elected by the sole shareholder in coordination with the Management of Board of Samruk-Kazyna, is responsible for the executive authority of the day-to-day management and affairs of Lokomotiv.

Lokomotiv publishes information in respect of its activities on the website www.lokomotiv.kz.

Lokomotiv owns Group's locomotives, provides locomotive haulage services for Company's freight and passenger transportation and provides shunting operations, which involve sorting of rolling stock into trains.

According to article 5 of its charter, Lokomotiv's purposes are, inter alia, generation of profit, meeting the demand of carriers to provide locomotive haulage services and shunting operations, procurement of safe movement of trains, transition to full informatisation and automatisation of locomotive fleet management system, personnel training to provide locomotive haulage services, maintenance of facilities, installations and equipment.

Sole Shareholder

The sole shareholder of Lokomotiv is the Company who retains exclusive authority over the operations of Lokomotiv as set forth in JSC Law and the Lokomotiv's charter.

The functions of the sole shareholder include, among other things: (i) introducing 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, appointing its Chairman; and determination of the rate and conditions of their remunerations; (viii) appointment and early termination of the Chairman of the Management Board (President) in coordination with the Management of the Samruk-Kazyna; 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.

Dividends

Lokomotiv declared and paid dividends to the Company as indicated in the table below:

	For the year ended 31 December				
	2009 for 2008	**2010 for 2009**	**2011 for 2010**	**2012 for 2011**	**2013 for 2012**
			(thousands, KZT)		
Dividends declared....	216,301	—	1,333,366	1,647,139	3,249,195
Dividends paid..........	—	216,301	1,333,366	1,647,139	3,249,195

Lokomotiv will neither declare nor pay dividends for the year ended 31 December 2013, because it intends to direct all of its net profit to implementation of the existing investment programme.

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; and (vii) 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 set by the sole shareholder. A person generally shall not serve as a member of the Board of Directors for an aggregate 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 five members with Mr. Alpysbayev 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**
Kanat Kaliyevich Alpysbayev (Chairman of the Board of Directors of Lokomotiv, Vice-President of Logistics of the Company)	42	For information regarding Mr. Alpysbayev, see – "*Management and Employees – Management Board of the Company*".
Kadyl Sekenovich Talaspekov (Managing Director of Safety in Operation of the Company)	62	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	34	Mr. Ismukhambetov was born in 1980. From 1998 to 2002

Name and position	Age	Background and principal outside activities and duties
Ismukhambetov (Director of the Department of Legal Issues of the Company)		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" in 2007. He has held the position of the Director of the Department of Legal Support of the Company since February 2012. Previously, he had worked as the Head of the Legal Administration and then as Executive Director of Kaztemirtrans from 2008. From 2007 to 2008 he served as a counsel of the General Director of Legal Issues of JSC "NCM" LLP. From 2010 to 2011 he served as the Head of Legal Issues in JSC Kaztemirtrans, from 2011 to 2012 he held a position of the Executive Director. For his current position as the Director of the Department of Legal Issues in the Company he was appointed in 2012.
Begendyk Sautovich Utibayev (Independent Director)	63	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 TuranAstana 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)	67	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.

The business address of each member of the Board of Directors is the legal address of Lokomotiv located at 10 Kunayev Street, Esil District, Astana, 010000, the Republic of Kazakhstan.

President of Lokomotiv

The President is appointed by the Management of Board of Samruk-Kazyna, in coordination with the Board of Directors of Lokomotiv as set forth in Lokomotiv's charter. As at the date of this Prospectus, the acting President of Lokomotiv is Mr. Medeubayev M. Zh., who was appointed by the resolution of the Company dated 18 April 2011. 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 on behalf of 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 average 20,544 and 20,405 employees for the period ended 31 December 2013 and 31 December 2012, 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 10 Kunayev Street, Esil District, Astana, 010000, the Republic of Kazakhstan, 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 2013 and 31 December 2012 the annual remuneration paid to each independent director of Lokomotiv was approximately KZT 2.16 million. The Independent Directors are the only members of the Board of Directors who receive remuneration from Lokomotiv.

The President of Lokomotiv received an aggregate of KZT 9.98 million and KZT 9.46 million for the years ended 31 December 2013 and 2012, respectively, which includes both short-term and post-term employee benefits.

Lokomotiv's External Audit Service

Lokomotiv's financial statements are subject to an external audit. Currently and for the two years ended 31 December 2012 and 31 December 2013, Deloitte LLP, state licence on auditing in the Republic of Kazakhstan No.0000015, type MFU-2, issued by the Ministry of Finance of the Republic of Kazakhstan, located at the 36/2, Al-Farabi Ave, Almaty Financial District, Building "B", Almaty, 050000, the Republic of Kazakhstan has been acting as the licensed independent auditor of Lokomotiv.

THE GUARANTEES

The following is the text of the guarantees provided by the Guarantors pursuant to Clause 5 of the Trust Deed:

GUARANTEE AND INDEMNITY

5.1 Guarantee

Each Guarantor jointly and severally unconditionally and irrevocably guarantees that if the Issuer does not pay any sum payable by the Issuer under this Trust Deed or the Notes by the time and on the date specified for such payment (whether on the normal due date, on acceleration or otherwise), such Guarantor shall pay that sum to or to the order of the Trustee, in the manner provided in Clause 2.2 (Covenant to pay) (or if in respect of sums due under Clause 8 (Remuneration and Indemnification of the Trustee), in London in immediately available funds) before close of business on that date in the city to which payment is so to be made. Clauses 2.2 (Covenant to pay) shall apply (with consequential amendments as necessary) to such payments other than those in respect of sums due under Clause 8 (Remuneration and Indemnification of the Trustee). All payments under the Guarantee by the Guarantors shall be made subject to Condition 10 (Taxation) and Clause 4.2 (Change of Taxing Jurisdiction).

5.2 Guarantors as Principal Debtor

Without affecting the Issuer's obligations, each Guarantor shall be liable as a guarantor as if it were the sole principal debtor and not merely a surety, and it shall not be discharged, nor shall its liability be affected, by (a) any time, indulgence, waiver or consent at any time given to the Issuer or any other person, (b) any amendment to any other provisions of this Trust Deed or to the Conditions or to any security or other guarantee or indemnity, (c) the making or absence of any demand on the Issuer or any other person for payment, (d) the enforcement or absence of enforcement of this Trust Deed or the Notes or of any security or other guarantee or indemnity, (e) the taking, existence or release of any security, guarantee or indemnity, (f) the dissolution, amalgamation, reconstruction or reorganisation of the Issuer or any of the Guarantors (g) the illegality, invalidity or unenforceability of or any defect in any provision of this Trust Deed or the Notes or any of the Issuer's or any of the Guarantors' obligations under any of them) or (h) any other event, act or omission which would or might otherwise discharge or affect its liability as a surety.

5.3 Guarantor's Obligations Continuing

Each Guarantor's obligations under this Trust Deed are and shall remain in full force and effect by way of continuing security until no sum remains payable under this Trust Deed or the Notes by the Issuer or any Guarantor. Furthermore, the obligations of each Guarantor are additional to, and not instead of, any security or other guarantee or indemnity at any time existing in favour of any person, whether from a Guarantor or otherwise and may be enforced without first having recourse to the Issuer, any other person, any security or any other guarantee or indemnity. Each Guarantor irrevocably waives all notices and demands of any kind.

5.4 Exercise of Guarantor's Rights

So long as any sum remains unpaid and overdue under this Trust Deed or the Notes:

a) any right of a Guarantor, by reason of the performance of any of its obligations under this Clause 5, to be indemnified by the Issuer or to take the benefit of or to enforce any security or other guarantee or indemnity shall be exercised and enforced by such Guarantor only in such manner and on such terms as the Trustee may require or approve; and
b) any amount received or recovered by a Guarantor (i) as a result of any exercise of any such right or (ii) in the dissolution, amalgamation, reconstruction or reorganisation of the Issuer shall be held in trust for the Trustee and immediately paid to the Trustee and the Trustee shall hold it on the trusts set out in Clause 6.1 (Declaration of Trust).

5.5 Suspense Accounts

Any amount received or recovered by the Trustee from the Guarantors (otherwise than as a result of a payment by the Issuer to the Trustee in accordance with Clause 2 (Amount of the Notes and Covenant to Pay) in respect of any sum payable by the Issuer under this Trust Deed or the Notes may be placed in a suspense account and kept there for so long as the Trustee determines such security is necessary.

5.6 Avoidance of Payments

Each Guarantor shall jointly and severally on demand indemnify the Trustee and each Noteholder against any cost, loss, expense or liability sustained or incurred by such Noteholder or the Trustee, as the case may be, as a result of such Noteholder or the Trustee being required for any reason (including any bankruptcy, insolvency, winding-up, dissolution, or similar law of any jurisdiction) to refund all or part of any amount received or recovered by such Noteholder or the Trustee, as the case may be, in respect of any sum payable by the Issuer under this Trust Deed or the relevant Note and shall in any event pay to such Noteholder or the Trustee, as the case may be, on demand the amount as refunded by such Noteholder or the Trustee, as the case may be.

5.7 Debts of Issuer

If any moneys become payable by a Guarantor under this Guarantee, the Issuer shall not (except in the event of the liquidation of the Issuer), so long as any such moneys remain unpaid, pay any moneys for the time being due from the Issuer to such Guarantor.

5.8 Indemnity

As separate, independent and alternative stipulations, each Guarantor jointly and severally unconditionally and irrevocably agrees (a) that any sum that, although expressed to be payable by the Issuer under this Trust Deed or the Notes, is for any reason (whether or not now existing and whether or not now known or becoming known to the Issuer, any Guarantor, the Trustee or any Noteholder) not recoverable from such Guarantor on the basis of a guarantee shall nevertheless be recoverable from it as if it were the sole principal debtor and shall be paid by it to the Trustee on demand and (b) as a primary obligation to indemnify the Trustee and each Noteholder against any loss suffered by it as a result of any sum expressed to be payable by the Issuer under this Trust Deed or the Notes not being paid on the date and otherwise in the manner specified in this Trust Deed or any payment obligation of the Issuer under this Trust Deed or the Notes being or becoming void, voidable or unenforceable for any reason (whether or not now existing and whether or not now known or becoming known to the Trustee or any Noteholder), the amount of that loss being the amount expressed to be payable by the Issuer in respect of the relevant sum.

5.9 Additional Guarantors

The Issuer and the Guarantors shall procure that any entity required to guarantee the obligations of the Issuer under the Notes pursuant to the Conditions shall become an Additional Guarantor in accordance with the terms of the Conditions.

TERMS AND CONDITIONS OF THE NOTES

The following (subject to amendment) are the terms and conditions of the Notes (as defined below):

The CHF[●] [●]% Notes due 20[●] (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 16 (*Further Issues*) and forming a single series therewith), are issued by Joint Stock Company "National Company "Kazakhstan Temir Zholy" (the "**Issuer**") and guaranteed by 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 4 (*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 [●] 2014 (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 [●] 2014 with the Trustee, Credit Suisse AG, as principal paying agent (the "**Principal Paying Agent**") and UBS AG (together with the Principal Paying Agent, the "**Paying Agents**") which expression includes any successor paying agents appointed from time to time in connection with the Notes.

The holders of the Notes and the holders of the interest coupons appertaining to definitive Notes (the Couponholders and the Coupons, respectively) are bound by, subject to, and are deemed to have notice of, all the provisions of the Notes, the Coupons, 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 Paying Agents and the Trustee. The initial Paying Agents and their initial specified offices are listed in Condition 9(b).

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 bearer form in the denomination of CHF5,000 or higher integral multiples thereof.

The Notes will initially be represented by a permanent global note (the "**Permanent Global Note**"). The Permanent Global Note shall be deposited by the Principal Paying Agent with SIX SIS Ltd (SIX SIS Ltd or any other intermediary in Switzerland recognised for such purpose by SIX Swiss Exchange Ltd, the "**Intermediary**"). Once the Permanent Global Note is deposited with the Intermediary and entered into the accounts of one or more participants of the Intermediary, the Notes will constitute intermediated securities (*Bucheffekten*) in accordance with the provisions of the Swiss Federal Intermediated Securities Act (*Bucheffektengesetz*). Prior to expiry of the distribution compliance period (as defined in Regulation S), beneficial interests in the Permanent Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person and may not be held otherwise than through the Intermediary and the Permanent Global Note will bear a legend regarding such restrictions on transfer.

Neither the Issuer nor the Noteholders (as defined below) shall at any time have the right to effect or demand the conversion of the Permanent Global Note (*Globalurkunde*) into, or the delivery of, uncertificated securities (*Wertrechte*) or definitive Notes (*Wertpapiere*) with Coupons attached.

No physical delivery of the Notes shall be made unless and until definitive Notes (*Wertpapiere*) and the Coupons shall have been printed. Notes and the Coupons may only be printed, in whole, but not in part, if the Principal Paying Agent determines, in its sole discretion, that the printing of the definitive Notes (*Wertpapiere*) and the Coupons is necessary or useful. Should the Principal Paying Agent so determine, it shall provide for the printing of definitive Notes (*Wertpapiere*) and the Coupons without cost to the Noteholders.

If printed, the definitive Notes (*Wertpapiere*) and the Coupons shall be executed by affixing thereon the facsimile signatures of two authorised officers of the Issuer. In the case definitive Notes (*Wertpapiere*) and the Coupons are delivered, the Permanent Global Note will immediately be cancelled by the Principal Paying Agent and the definitive Notes (*Wertpapiere*) and the Coupons shall be delivered to the Noteholders against cancellation of the Notes in the Noteholders' securities accounts.

As used herein:

"**Regulation S**" means Regulation S promulgated under the Securities Act;

"**Noteholders**" means the several persons who are for the time being bearers of the Notes save that, for so long as such Notes or any part thereof are represented by the Permanent Global Note, each person holding Notes in a securities account (*Effektenkonto*) in their own name or, in the case of an intermediary (*Verwahrungsstellen*), the intermediary holding such Notes for their own account in a securities account (*Effektenkonto*) which is in their name shall be deemed to be the holder of such principal amount of such Notes (and the holder of the relevant Permanent Global Note shall be deemed not to be the holder) for all purposes of these presents other than with respect to the payment of principal or interest on such principal amount of such Notes, the rights to which shall be vested, as against the Issuer and the Trustee, solely in the Intermediary and for which purpose the Intermediary shall be deemed to be the holder of such principal amount of such Notes in accordance with and subject to its terms and the provisions of these Condition and Trust Deed; and the words **holder** and **holders** and related expressions shall (where appropriate) be construed accordingly.

"**Securities Act**" means the United States Securities Act of 1933, as amended;

(b) *Title*

Each Noteholder shall have a quotal co-ownership interest (*Miteigentumsanteil*) in the Permanent Global Note to the extent of his claim against the Issuer, provided that for so long as the Permanent Global Note remains deposited with the Intermediary the co-ownership interest shall be suspended and the Notes may only be transferred by the entry of the transferred Notes in a securities account of the transferee.

The records of the Intermediary will determine the number of Notes held through each participant in that Intermediary.

Title to the definitive Notes and to the Coupons will pass by delivery.

(c) Holder Absolute Owner

Subject as provided in paragraph (a) above, the Issuer, the Guarantors and any Paying Agents may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon).

2. **Status**

(a) *Status of the Notes*

The Notes and the Coupons constitute direct, general, unconditional, unsubordinated and (subject to Condition 3 (*Negative Pledge*)) unsecured obligations of the Issuer and 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 (as defined below) will unconditionally and irrevocably guarantee (or, in the case of a Person becoming a Guarantor pursuant to the provisions of Condition 4 (*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 3 (*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.

3. **Negative Pledge**

(a) *Negative Pledge of the Issuer*

So long as any Note remains outstanding (as defined in the Trust Deed), 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 Material Subsidiary 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 Coupons 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 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 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 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 the Issuer 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 the Issuer 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 the Issuer 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 the Issuer's consolidated statement of income and (v) after deducting any gains and adding any losses attributable to the foreign currency exchange differences applicable to the Issuer or any Consolidated Subsidiary.

"**Consolidated Subsidiaries**" means, at any time, those Subsidiaries of the Issuer that are consolidated in the most recent consolidated audited accounts of the Issuer 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 the Issuer (including each of the Guarantors) whose gross assets, gross revenues or pre tax profits attributable to the Issuer represent 10.0% or more of the consolidated gross assets, consolidated gross revenues or pre tax profits, as the case may be, of the Issuer 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 the Issuer delivered to the Trustee stating which of its Subsidiaries are Material Subsidiaries and, for the avoidance of doubt, a Subsidiary of the Issuer 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 the Issuer that in the Issuer's management's opinion a Subsidiary of the Issuer 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 the Issuer 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 the Issuer or any Guarantor by any Material Subsidiary to secure Financial Indebtedness owed by such Material Subsidiary to the Issuer or such Guarantor, as the case may be; (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 the Issuer, 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 the Issuer, or 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 the Issuer, 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 the Issuer 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 the Issuer, 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 the Issuer 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.

4. **Limitations on Changes in Business and Disposals of Assets**

(a) *Limitation on Changes in Business*

The Issuer shall procure that the business of the Issuer 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*

For so long as any Note remains outstanding, except as permitted by Condition 5 (*Limitations on Merger or Consolidation*), neither the Issuer nor any Guarantor will, and the Issuer will procure that any Material Subsidiary 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) or (v) below) to the Issuer or a Subsidiary of the Issuer (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 the Issuer and (in the case of a disposal to either a Transferee Subsidiary or an Eligible Transferee) no Event of Default (as defined in Condition 11 (*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 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 6 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 6 (*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 Issuer's or the relevant Guarantor's business;

(iv) disposals of other Core Assets provided that the aggregate value of all such other Core Assets disposed of since 31 December 2013 does not exceed at any time 15% of the value of property, plant and equipment as shown in the Issuer's then most recent audited consolidated financial statements prepared in accordance with IFRS; or

(v) disposals which are Permitted Disposals.

(c) *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 Lokomotiv or 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 the Issuer but is engaged in business in the railway transportation sector in Kazakhstan and is controlled by the Government of Kazakhstan;

"**Group**" means the Issuer and its consolidated subsidiaries, collectively;

"**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;

"**Permitted Disposal**" means a disposal by the Issuer on arm's length commercial terms of up to a 49 per cent. interest in Kaztemirtans provided that Kaztemirtans remains a consolidated subsidiary of the Group ; 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.

5. **Limitations on Merger or Consolidation**

(a) *Limitations on the Issuer and each Guarantor*

Neither the Issuer 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 to assume, by a trust deed supplemental to the Trust Deed in form and substance satisfactory to the Trustee, 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, of the managing director, or vice president or other senior representative acting on the basis of a power of attorney issued by the Issuer or such Guarantor (each, an "**Authorised Signatory**") stating that the consolidation or merger complies with this Condition 5 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 5(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 10 (*Taxation*), (A) to pay such Additional Amounts (as defined in Condition 10) 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.

In any such case, the Trustee shall be obliged to agree to any substitution of any such Successor Company as the principal obligor under the Notes, the Trust Deed and the Agency Agreement or as the case may be, as Guarantor of the Issuer's payment obligations under the Trust Deed and the Notes, and to the assumption by such Successor Company of the obligations of the Issuer or as the case may be the of the relevant Guarantor under the Notes, the Trust Deed and the Agency Agreement, subject to compliance by the Issuer, the Guarantor(s) and/or such Successor Company with paragraphs (i) to (iii) above and shall not be liable to the Noteholders or any other person if it does so.

(b) *Effect of Consolidation or Merger*

Upon any consolidation, merger, conveyance or transfer in accordance with this Condition 5 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.

6. Additional Guarantors

The Issuer and each Guarantor shall ensure that on the Issue Date and as at the end of each of the Issuer's fiscal years beginning with the fiscal year ending 31 December 2014 (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 the Issuer and its Subsidiaries (determined on a consolidated basis), by causing one or more of its Subsidiaries that are not Guarantors to become Guarantors (each, an "**Additional Guarantor**") 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 the Issuer 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 15 (Notices) of the addition of each Additional Guarantor and, so long as the Notes are listed on the SIX Swiss 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 SIX Swiss Exchange and/or such other exchange The accession of the Additional Guarantors pursuant to this Condition 6 shall be conditional upon receipt by the Trustee of legal opinion(s), 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 and as to any limitations as referred to in (i) and (ii) below. 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.

(b) The Trustee shall be obliged to execute the Additional Guarantee Agreements with any such limitations to the relevant Guarantee subject to compliance by the Issuer and each Guarantor with the applicable rules of the SIX Swiss Exchange and/or such other exchange and receipt of the legal opinion(s) referred to above.

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

(i) 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 4 (*Limitations on Changes in Business and Disposals of Assets*) and Condition 5 (*Limitations on Merger or Consolidation*); or

(ii) 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 4 (*Limitations on Changes in Business and Disposals of Assets*) and Condition 5 (*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 6 (*Additional Guarantors*).

The Issuer shall promptly notify the Trustee and the Noteholders in accordance with Condition 15 (*Notices*) of the release of any Guarantor.

7. Interest

(a) *Interest Payment Dates*

The Notes bear interest from (and including) [●] 2014 (the "**Issue Date**") to (but excluding) the Final Redemption Date (as defined in Condition 8 (*Redemption, Purchase and Cancellation*) at the rate of [●]% per annum, payable annually in arrear on [●] in each year commencing on [●] 2014 (each, an "**Interest Payment Date**"), subject as provided in Condition 9 (*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 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.

8. **Redemption, Purchase and Cancellation**

(a) *Final Redemption*

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on [●] 20[●] (the "**Final Redemption Date**"), subject as provided in Condition 9 (*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 (as defined in Condition 10) 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 10 (*Taxation*) as a result of any change in, or amendment of, 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 [●] 2014, and such obligation cannot be avoided by the Issuer taking reasonable measures available to it or (ii) the Issuer satisfies the Trustee immediately prior to the giving of such notice 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 10 (*Taxation*) or the Guarantee, as the case may be, 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 [●] 2014, and such obligation cannot be avoided by the relevant Guarantor, 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, or such Guarantor, as the case may be, would be obliged to pay such Additional Amounts (as defined in Condition 10) or make such withholding or deduction. Prior to the publication of any notice of redemption pursuant to this Condition 8(b), the Issuer shall deliver or procure that there is delivered to the Trustee a certificate signed by an Authorised Signatory 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 8(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 8(b).

(c) *Redemption at the option of the Noteholders*

Following the occurrence of a Relevant Event, the Issuer will, give notice in accordance with Condition 15 (*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 8(c) the holder of a Note must, not less than 15 days before the Put Settlement date, deposit with the Principal Paying Agent the relevant Note and a duly completed put option notice (a "**Put Option Notice**") in the form obtainable from the Principal Paying Agent specifying the principal amount of the Notes in respect of which such option is exercised and in which the holder must specify a bank account to which payment is to be made under this Condition accompanied by this Note or evidence satisfactory to the Principal Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. No Note, once deposited or so held with a duly completed Put Option Notice in accordance with this Condition 8(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 on the Put Settlement Date, payment of the redemption moneys is improperly withheld or refused, such Note shall, without prejudice to the exercise of the relevant option, be returned to the holder or cease to be so held. Neither the Trustee nor the Principal Paying Agent shall 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 Controlled by the Government of the Republic of Kazakhstan or any Guarantor ceasing to be a Subsidiary of the Issuer or otherwise Controlled by the Government of Kazakhstan.

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

If 85% 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 8(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 15 (*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 8.

(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 provided that all unmatured Coupons appertaining to the Notes are purchased with the 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). 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, together with all relative unmatured Coupons attached to the Notes or surrendered with the Notes, forthwith and may not be re-issued or re-sold.

Cancellation of any Note represented by the Permanent Global Note will be effected by reduction in the principal amount of the Permanent Global Note. Such reduction shall be effected by recording by the Intermediary in electronic book-entry form in accordance with its customary procedures, where upon the principal amount hereof shall be reduced for all purposes by the amount so cancelled and endorsed or, as the case may be, recorded.

9. **Payments**

(a) *Principal and interest*

Payment of principal and/or interest under the Notes represented by the Permanent Global Note shall be made, in freely disposable Swiss francs through the Principal Paying Agent to the Intermediary for distribution to the Noteholders shown on the Record Date, without collection costs in Switzerland, without any restrictions and whatever the circumstances may be, irrespective of nationality, domicile or residence of the Noteholders and without requiring any certification, affidavit or the fulfilment of any formality. None of the Issuer or any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Permanent Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. As used herein, "**Record Date**" means the business day before due date for the relevant payment.

Payment of principal and/or interest under the Notes in definitive form shall be made, in freely disposable Swiss francs at the offices of the Principal Paying Agent or any other Paying Agent upon presentation of such Note in definitive form (in the case of principal) and on presentation and surrender (or in the case of part payment only, endorsement) of the relevant Coupon. Such payments will be made by credit or transfer and surrender (or in the case of part payment only, endorsement) to an account in Swiss francs maintained by the payee.

If the due date for payment of interest or principal is not a Business Day, a Noteholder shall not be entitled to payment of the amount due until the next following Business Day and shall not be entitled to any further interest or other payment in respect of any such delay.

(b) *Agents*

The names of the initial Paying Agents and their initial specified offices are set forth below:

Principal Paying Agent:	Credit Suisse AG Paradeplatz 8 CH-8001 Zurich Switzerland
Additional Paying Agent:	UBS AG Bahnhofstrasse 45 CH-8001 Zurich Switzerland

The Issuer and the Guarantors reserve the right under the Agency Agreement by giving to the Principal Paying Agent and any other Paying 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 and subject to the prior written consent of the Trustee, to remove any Paying Agent, and to appoint successor or additional Paying Agents, provided that it will at all times maintain a Principal Paying Agent with a specified office in Switzerland.

Notice of such removal or appointment and of any change in the specified office of any Paying Agent will be given to Noteholders in accordance with Condition 15 (*Notices*) as soon as practicable.

(c) *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 10 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *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 Zurich, Almaty and London.

(e) Missing Unmatured Coupons

Upon the date on which any Note becomes due and repayable, all unmatured Coupons appertaining to the Note (whether or not attached) shall become void and no payment shall be made in respect of such Coupons.

10. **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 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 or Coupons as may be necessary in order that every net payment of the principal of and interest on such Note or Coupon, 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 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 Coupon or (ii) the presentation by the holder of the relevant Note or interest coupon 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 or the agreements between the European Community and other countries or territories providing for measures equivalent to those laid down in the Directive including, but not limited to, the agreement between the European Union and Switzerland of 26 October 2004 and the EU Member States and any law or other governmental regulation implementing or complying with, or introduced in order to conform to, such agreements, or where such withholding or deduction is required to be made pursuant to any agreements between Switzerland and other countries on final withholding taxes and based on the Federal Act on International Tax Cooperation (*Bundesgesetz über die internationale Quellenbesteuerung*) which was adopted by the Swiss parliament during the summer session 2012 and entered into force on 20 December 2012 ("**Tax Cooperation Agreement**"), levied by Swiss paying agents in respect of persons resident in the other country on income of such person on Notes booked or deposited with a Swiss paying agent and any law or other governmental regulation implementing or complying with, or introduced in order to conform to, such Tax Cooperation Agreements; or (c) with respect to any payment on a Note or Coupon 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 or Coupon.

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 10 are or have become illegal, unenforceable or otherwise invalid, the Issuer and each Guarantor will indemnify and hold harmless each holder of a Note or Coupon 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 Coupons 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 Republic of Kazakhstan, references in these Conditions to the Republic of Kazakhstan shall be read and construed as a reference to 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 or Coupons shall be deemed also to include a reference to any Additional Amounts which may be payable under this Condition 10.

Notwithstanding anything to the contrary in this Condition 10, none of the Issuer, the Guarantor, the Trustee, 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 or Coupon 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.

11. 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 11) 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 5 (*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 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*: the Issuer, 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 the Issuer 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.

12. Prescription

Claims in respect of principal of and interest or other amounts (including Additional Amounts) payable under the Notes and Coupons (whether in definitive form or represented by the Permanent Global Note) 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 in respect of the Notes or as the case may be in respect of the Coupons.

13. Replacement of Notes and Coupons

If any Note or Coupon is mutilated, defaced, destroyed, stolen or lost it may be replaced at the specified office of the Principal Paying 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 may reasonably require. Mutilated or defaced Notes and Coupons must be surrendered before replacements will be issued.

14. **Meetings of Noteholders, Modification, Waiver and Substitution**

(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 10 (*Taxation*) or under the Trust Deed; (vi) to modify the covenants of the Issuer or any Guarantor in Conditions 3 (*Negative Pledge*), 4 (*Limitations on Changes in Business and Disposals of Assets*), 5 (*Limitations on Merger or Consolidation*), 8(c) (*Redemption at the option of the Noteholders*) or 8(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 and on all Couponholders.

(b) *Modification and Waiver*

Subject to the Trust Deed, the Trustee may agree, without the consent of the Noteholders or Couponholders, (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 or Couponholders. Any such modification, waiver or authorisation shall be binding on the Noteholders or Couponholders 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 14), 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 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 the Issuer or a Guarantor, or of any previous substituted company.

15. **Notices**

(a) *To Noteholders*

All notices to the Noteholders shall be deemed to have been duly given if, so long as the Notes are listed on the SIX Swiss Exchange and on the KASE and so long as the rules of the SIX Swiss Exchange or the KASE so require, by publication (i) on the internet website of the SIX Swiss Exchange Ltd (www.six-swiss-exchange.com, where notices are currently published under the address www.six-swiss-exchange.com/news/official_notices/search_en.html) and the internet website of the KASE at www.kase.kz or (ii) otherwise in accordance with the regulations of SIX Swiss Exchange and the KASE.

If the Notes cease to be listed on the SIX Swiss Exchange and on the KASE, any notice shall be deemed to have been duly given to the Noteholders if sent to the Intermediary for communication by it to the holders of the Notes and shall be deemed to be given on the date on which it was so sent.

In case by reason of any other cause it shall be impracticable to publish or deliver any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee shall constitute sufficient notice to such holders for every purpose hereunder.

(b) *To the Issuer and any Guarantor*

Notices to the Issuer or any Guarantor will be deemed to be validly given if delivered to the Issuer at 6 Kunayev street, Esil District, Astana, 010000, the Republic of 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 15(a)) and will be deemed to have been validly given when delivered.

(c) *To the Trustee*

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

16. **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 or Couponholders 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.

17. **Enforcement**

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 shall not be bound to take such proceedings or any other action under the Notes or the Trust Deed 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. 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.

18. **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 11 (*Events of Default*)) and may rely upon the information provided to it in any certificate, of an Authorised Signatory of the Issuer or a Guarantor, as the case may be, 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 SIX Swiss Exchange Ltd. or the Kazakhstan 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.

19. **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.

20. **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 Swiss Francs 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 Swiss Francs 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 Swiss Francs 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 Swiss Francs, 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.

21. **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.

22. **Governing Law and Jurisdiction**

(a) *Governing Law*

The Notes, the Coupons 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, the Coupons 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 22(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 22(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 22(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 22(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 22(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 15 (*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 22(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 Issuer and 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.

SUBSCRIPTION AND SALE

The Joint Lead Managers have, pursuant to a Subscription Agreement dated [●] 2014, severally but not jointly agreed with the Issuer and the Guarantors, subject to the satisfaction of certain conditions, to subscribe the Notes at [●]% of their principal amount plus accrued interest, if any. The Issuer (failing whom the Guarantors) has agreed to pay to the Joint Lead Managers an underwriting commission of up to [●]% of such principal amount. In addition, the Issuer (failing whom the Guarantors) has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Joint Lead 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.

General

Each of the Joint Lead Managers has represented and agreed that no action has been or will be taken in any jurisdiction by any Joint Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required, and, to the best of its knowledge and belief, it will not, directly or indirectly, offer or sell any Notes or distribute or publish any prospectus, form of application, advertisement or other document or information relating to the Offering in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

United States

The Notes and the Guarantees have not been and will not be registered under the Securities Act and 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 the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person. Under U.S. Treasury Regulation §1.163-5(c)(2)(i)(c), the Notes must be issued and delivered outside the United States and its possessions in connection with their original issuance by an issuer that (directly or indirectly through its agents) does not significantly engage in interstate commerce within the United States with respect to the issuance. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder.

Each of the Joint Lead Managers has represented and agreed that it will not offer, sell or deliver Notes and the Guarantees (a) as part of its distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the Joint Lead Managers, within the United States or to, or for the account or benefit of, U.S. persons. Each of the Joint Lead Managers has further agreed that it will send to each dealer to which it sells any Notes and the Guarantees during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes and the Guarantees within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such 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 an available exemption from registration under the Securities Act.

United Kingdom

Each Joint Lead 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.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Joint Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Prospectus to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of Notes to the public in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

Kazakhstan

Each Joint Lead Manager has severally (and not jointly or jointly and severally) represented and agreed in the Subscription Agreement that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for, purchase or sell the Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan, except in compliance with the applicable laws of Kazakhstan and the KASE's regulations.

General

No action has been or will be taken in any jurisdiction by the Joint Lead 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 Joint Lead 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 EU Savings Directive (as defined below) and, Kazakhstan 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 advisors 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.

On 24 March 2014, the European Council adopted an EU Council Directive amending and broadening the scope of the requirements described above. In particular, the changes expand the range of payments covered by the Directive to include certain additional types of income, and widen the range of recipients payments to whom are covered by the Directive, to include certain other types of entity and legal arrangement. Member States are required to implement national legislation giving effect to these changes by 1 January 2016 (which national legislation must apply from 1 January 2017).

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 advisors as to the tax consequences to them of holding or transferring Notes.

Interest

The Tax Code came into effect in Kazakhstan on 1 January 2009. Payments of interest on the Notes to an individual who is not a resident of Kazakhstan for tax purposes or to a legal entity that is neither established under Kazakhstan law, nor has its actual governing body (place of actual management), nor maintains a permanent establishment in Kazakhstan or otherwise has no legal taxable presence in Kazakhstan (together, "**Non-Kazakhstan Holders**") will be subject to withholding tax at a rate of 15 per cent. unless reduced by an applicable double taxation treaty. Payments of interest on the Notes to Non-Kazakhstan Holders registered in countries with a favourable tax regime and which appear in a list published from time to time by the Government (these countries currently include Cyprus, Liechtenstein, Nigeria, Malta, Monaco, Belize and others) will be subject to withholding of Kazakhstan tax at a rate of 20 per cent. unless reduced by an applicable double taxation treaty.

Payment of interest on the Notes to residents of Kazakhstan or to non-residents who either have a registered branch or representative office in Kazakhstan or maintain a permanent establishment in Kazakhstan (together, "**Kazakhstan Holders**"), other than to individuals (who are exempt) and Kazakhstan investment funds and certain other entities, will be subject to Kazakhstan withholding tax at a rate of 15 per cent.

Under the Tax Code, the withholding tax on interest mentioned above would not apply if the Notes are included, as at the date of accrual of interest, in the official list of a stock exchange operating in Kazakhstan (such as the KASE).

Gains

Gains realised by Non-Kazakhstan Holders as a result of disposal, sale, exchange or transfer of the Notes will be subject to withholding tax at a rate of 15 per cent. If the transferor is registered in a country with a favourable tax regime, as referred to above, gains realised from such a disposal are subject to withholding tax in Kazakhstan at the rate of 20 per cent. However, Kazakhstan tax legislation does not define procedures to collect withholding tax where payment is made by a non-resident without taxable presence in Kazakhstan, and it is otherwise not clear if such non-resident may be treated as a tax agent for Kazakhstan tax purposes.

Withholding tax on the gains realised by a Non-Kazakhstan Holder may be reduced or eliminated under an applicable double taxation treaty.

Any gains realised by Non-Kazakhstan Holders in relation to the Notes which are included, as of the date of sale, in the official list of a stock exchange operating in the territory of Kazakhstan or a foreign stock exchange and sold through open trades on such stock exchanges are not subject to withholding tax.

Any gains realised by Kazakhstan Holders in relation to the Notes which are included, as at the date of sale, in the official list of a stock exchange operating in the territory of Kazakhstan and sold through open trades on such stock exchange are not subject to Kazakhstan income tax.

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, as referred to above, 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%. Payments under the Guarantees to individuals will be subject to withholding tax at a rate of 10%. 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. Payments under the Guarantees are subject to taxation in Kazakhstan irrespective of the listing of the Notes on KASE.

Switzerland

The following discussion is a summary of certain material Swiss tax considerations relating to (i) Notes where the Holder is tax resident in Switzerland or has a tax presence in Switzerland or (ii) Notes where the Paying Agent, custodian or securities dealer is located in Switzerland. The discussion bases on legislation as of the date of this Prospectus. It does not aim to be a comprehensive description of all the Swiss tax considerations that may be relevant for a decision to invest in Notes. The tax treatment for each investor depends on the particular situation. All investors are advised to consult with their professional tax advisors as to the respective Swiss tax consequences of the purchase, *ownership, disposition, lapse, exercise or redemption of Notes (or options embedded therein) in light of their particular circumstances.*

Swiss Federal Withholding Tax

Payments by the Issuer, of interest on, and repayment of principal of, the Notes, will not be subject to Swiss federal withholding tax, provided that the Issuer is at all times resident and managed outside Switzerland for Swiss tax purposes.

On August 24, 2011, the Swiss Federal Council issued draft legislation, which, if enacted, may require a paying agent in Switzerland to deduct Swiss withholding tax at a rate of 35 per cent. on any payment of interest in respect of a debt security to an individual resident in Switzerland or to a person resident outside of Switzerland. If this legislation or similar legislation were enacted and an amount of, or in respect of, Swiss withholding tax were to be deducted or withheld from that payment, it is possible that neither the Issuer nor any paying agent nor any other person would pursuant to the terms of the Notes be obliged to pay additional amounts with respect to any debt security as a result of the deduction or imposition of such withholding tax.

Swiss Federal Stamp Taxes

The issue and redemption of Notes by the Issuer are not subject to Swiss federal stamp duty on the issue of securities.

Purchases or sales of Notes with a maturity in excess of 12 months where a Swiss domestic bank or a Swiss domestic securities dealer (as defined in the Swiss federal stamp duty act) is a party, or acts as an intermediary, to the transaction may be subject to Swiss federal stamp duty on dealings in securities at a rate of up to 0.3 per cent. of the purchase price of the Notes. Where both the seller and the purchaser of the Notes are non-residents of Switzerland or the Principality of Liechtenstein, no Swiss federal stamp duty on dealing in securities is payable.

Income Taxation on Principal or Interest

(a) Notes held by non-Swiss holders

Payments by the Issuer of interest and repayment of principal to, and gain realized on the sale or redemption of Notes by, a holder of Notes who is not a resident of Switzerland and who during the relevant taxation year has not engaged in a trade or business through a permanent establishment or a fixed place of business in Switzerland to which the Notes are attributable and who is not subject to income taxation in Switzerland for any other reason will not be subject to any Swiss federal, cantonal or communal income tax.

(b) Notes held by Swiss holders as private assets

An individual who resides in Switzerland and privately holds a Note is required to include all payments of interest received on such Note as well as an original issue discount or a repayment premium in his or her personal income tax return for the relevant tax period and is taxable on the net taxable income (including the payment of interest on the Note) for such tax period at the then prevailing tax rates.

Swiss resident individuals who sell or otherwise dispose of privately held Notes realize either a tax-free private capital gain or a non-tax-deductible capital loss. See “Notes held as Swiss business assets” below for a summary on the tax treatment of individuals classified as “professional securities dealers.”

(c) Notes held as Swiss business assets

Individuals who hold Notes as part of a business in Switzerland and Swiss-resident corporate taxpayers and corporate taxpayers residing abroad holding Notes as part of a permanent establishment or fixed place of business in Switzerland are required to recognize the payments of interest and any capital gain or loss realized on the sale or other disposition of such Notes in their income statement for the respective tax period and will be taxable on any net taxable earnings for such tax period. The same taxation treatment also applies to Swiss-resident individuals who, for income tax purposes, are classified as “professional securities dealers” for reasons of, inter alia, frequent dealings and leveraged transactions in securities.

Taxes withheld by Switzerland for other countries

(a) European Savings Tax

On 26 October 2004, the European Community and Switzerland entered into an agreement on the taxation of savings income pursuant to which Switzerland will adopt measures equivalent to those of the European Directive 2003/48/EC of 3 June 2003 on the taxation of savings income in the form of interest payments. The agreement came into force as of July 1, 2005.

In accordance with this agreement respectively the Swiss law implementing this agreement, Swiss paying agents have to withhold tax at a rate of 35 per cent. on interest payments made under the Bonds to a beneficial owner who is an individual and resident of an EU member state, with the option of the individual to have the paying agent and Switzerland provide to the tax authorities of the EU member state the details of the interest payments in lieu of the withholding.

(b) Foreign Final Withholding Tax

The Swiss Federal Council recently signed treaties with the United Kingdom and Austria providing, inter alia, for a final withholding tax. The treaties entered into force on 1 January 2013 and might be followed by similar treaties with other European countries.

According to the treaties, a Swiss paying agent may levy a final withholding tax on capital gains and on certain income items deriving, inter alia, from Notes. The final withholding tax will substitute the ordinary income tax due by an individual resident of a contracting state on such gains and income items. In lieu of the final withholding, individuals may opt for a voluntary disclosure of the relevant capital gains and income items to the tax authorities of their state of residency.

As regards the regularization of specific assets defined in the treaties and held by individuals of a contracting state with a Swiss paying agent prior to the entry into force of the treaties, such individuals may opt either for a one-off payment substituting the tax liability in the state of residency with regard to such assets or for the voluntary disclosure of such assets to the tax authority of the state of residency.

Holders of Notes who might be in the scope of the abovementioned treaties should consult their own tax adviser as to the tax consequences relating to their particular circumstances.

Foreign Account Tax Compliance Act (FATCA)

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to any non-U.S. financial institution (a "foreign financial institution", or "**FFI**" (as defined by FATCA)) that does not become a "**Participating FFI**" by entering into an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA The Issuer may be classified as an FFI.

The new withholding regime will be phased in beginning 1 July 2014 for payments from sources within the United States and will apply to "**foreign passthru payments**" (a term not yet defined) no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of (i) any Notes characterised as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued after the "**grandfathering date**", which is the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified after the grandfathering date and (ii) any Notes characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Notes are issued on or before the grandfathering date, and additional Notes of the same series are issued after that date, the additional Notes may not be treated as grandfathered, which may have negative consequences for the existing Notes, including a negative impact on market price.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an "**IGA**"). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "**Reporting FI**" not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being "**FATCA Withholding**") from payments it makes. The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS.

If the Issuer becomes a Participating FFI, the Issuer and financial institutions through which payments on the Notes are made may be required to withhold FATCA Withholding if any FFI through or to which payment on such Notes is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA.

Whilst the Notes are in global form and held within the ICSDs, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, the Guarantors and any paying agent, given that each of the entities in the payment chain between the Issuer and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Notes. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive Notes will only be printed in remote circumstances.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form.

TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

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*":

"**2009 Tax Code**" means the Code of the Republic of Kazakhstan on Taxes and Other Obligatory Payments to the Budget No.99 dated 10 December 2008, as amended;

"**2010 Government Development Programme**" means the Programme for Development of Transport Infrastructure in the Republic of Kazakhstan for the years 2010-2014, approved by Government Resolution No.1006 dated 30 September 2010, as amended;

"**2010 KTZ 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;

"**2014 Government Development Programme**" means the State Programme for Development and Integration of the Transport System Infrastructure of the Republic of Kazakhstan through 2020, approved by the Edict of the President of the Republic of Kazakhstan No.725 dated 13 January 2014

"**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;

"**Agency for Competition Protection**" means the Agency of the Republic of Kazakhstan for Protection of Competition;

"**Aktau Seaport**" means JSC "National Company "Aktau International Sea Commercial Port", a Samruk-Kazyna owned company in which 100% shares was transferred to the Company for trust management, and all its owned and operated port facilities;

"**AMG**" means Airport Management Group LLP, a wholly owned subsidiary of KTZ Express established for the purpose of managing airports transferred to KTZ Express for trust management;

"**Annual Financial Statements**" means the Issuer's audited consolidated statements of financial position as at 31 December 2013 and 31 December 2012 (restated) and the consolidated statements of profit or loss and comprehensive income, cash flows and changes in equity for the years ended 31 December 2013 and 31 December 2012 (restated), together with the related notes;

"**Bankruptcy Law**" means the Law on Rehabilitation and Bankruptcy No 176-V 3PK, dated 7 March 2014;

"**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;

"**CHF**" means Swiss Francs;

"**CIS**" means the Commonwealth of Independent States;

"**CIS Tariff Agreement**" means the Tariff Agreement of the Railway Administrations (Railways) of the States-Participants of the CIS dated 17 February 1993, as amended; the Concept on Establishment of the Agreed Tariff Policy for the Railway Transportation of the States-Participants of the CIS dated 18 October 1996, approved by the Decision of the Council of the Heads of Governments of the CIS; and the Agreement on Coordinated Policy in Determination of Transport Tariffs dated 17 January 1997, collectively;

"**CIS Tariff Policy**" means the Tariff Policy of the Railways of the States-Participants of the CIS for International Cargo Transportation, which establishes the framework for tariffs that CIS members have agreed to follow in a particular year;

"**Civil Code**" means the Civil Code of the Republic of Kazakhstan (General Part) dated 27 December 1994, as amended;

"**Clearstream, Luxembourg**" means Clearstream Banking, *société anonyme*;

"**Code**" means U.S. Internal Revenue Code of 1986, as amended;

"**Competition Laws**" means the Law on Competition and the Law on Natural Monopolies;

"**Company**" means Joint Stock Company "National Company "Kazakhstan Temir Zholy";

"**Convention**" means the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards;

"**Coupon**" means a certificate authorising its holder to receive interest payment under the Notes when due;

"**Couponholder**" means a person holding a Coupon;

"**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;

"**Defined Benefit Scheme**" means certain benefits provided by the Issuer to employees upon retirement in accordance with collective bargaining agreements with the Trade Union;

"**distribution compliance period**" means the time period to which: (a) each Joint Lead 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;

"**EBITDA**" means profit for the year before income tax expense, finance costs, finance income, depreciation and amortisation;

"**EBRD**" means the European Bank for Reconstruction and Development;

"**EBRD EBITDA**" means consolidated operating profit of the Group before goodwill amortisation, net interest expense, tax, any share of the profit of any associated company or undertaking, except for dividends received in cash by the Group or any of its subsidiaries and extraordinary and exceptional items, after adding back all amounts provided for depreciation and amortisation;

"**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/NV;

"**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 Issuer and its consolidated subsidiaries, collectively;

"**Group EBITDA**" means profit for the year from continuing operations 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 Kaztemirtrans and Lokomotiv;

"**Guarantors**" means Kaztemirtrans and Lokomotiv, collectively;

"**HMRC**" means Her Majesty's Revenue and Customs;

"**ICBC Khorgos**" means JSC Khorgos International Centre of Boundary Cooperation, a state owned company in which 100% shares was transferred to the Company for trust management;

"**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;

"**Investor's Currency**" means the currency or currency unit of the investor;

"**IRS**" means the United States Internal Revenue Service;

"**Issuer**" means Joint Stock Company "National Company "Kazakhstan Temir Zholy";

"**Joint Lead Managers**" means Credit Suisse AG, Deutsche Bank AG London Branch, acting through Deutsche Bank AG Zurich Branch, HSBC Bank plc, JSC Halyk Finance and UBS AG, collectively;

"**JSC Law**" means the Law of the Republic of Kazakhstan on Joint Stock Companies No.415-II dated 13 May 2003, as amended;

"**KASE**" means the Kazakhstan Stock Exchange;

"**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;

"**Kaztemirtrans**" means Joint Stock Company "Kaztemirtrans", a wholly owned subsidiary of the Issuer and owner of the freight fleet;

"**Khorgos Managing Company**" means JCS Managing Company of Special Economic Zone "Khorgos – East Gate", a wholly owned subsidiary of KTZ Express and manager of the SEZ Khorgos;

"**km**" means kilometres;

"**KTZ Express**" means Joint Stock Company KTZ Express, a wholly owned subsidiary of the Issuer and provider of multimodal transportation and logistics services;

"**KZT**" means Kazakhstan Tenge, the official currency of the Republic of Kazakhstan;

"**Land Code**" means the Land Code of the Republic of Kazakhstan No. 442-II dated 20 June 2003, as amended;

"**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 Joint Stock Company "Lokomotiv", a wholly owned subsidiary of the Issuer and owner of the locomotives;

"**Market**" means the SIX Swiss 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;

"**Natural Monopoly Agency**" means the Agency of the Republic of Kazakhstan for Regulation of Natural Monopolies;

"**NBK**" means the National Bank of the Republic of Kazakhstan;

"**New KTZ Development Strategy**" means the draft of the Development Strategy for the Group of Companies of Joint Stock Company "National Company "Kazakhstan Temir Zholy" through 2022, approved by the Company's Management Board on 28 June 2013 and pending adoption by the Company's Board of Directors (*not yet in force*);

"**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);

"**Notes**" means the notes described in this Prospectus;

"**Noteholder**" means a person holding the Notes;

"**NSA**" means the Agency of the Republic of Kazakhstan for Statistics;

"**OFAC**" means the United States Treasury Department's Office of Foreign Assets Control;

"**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;

"**Procurement Rules**" means the Rules on Procurement of Goods, Work and Services by the Joint Stock Company "Sovereign Wealth Fund "Samruk-Kazyna" and Legal Entities, in which Fifty Percent and More of the Voting Shares (Participating Interests) Directly or Indirectly Belong to JSC

"Samruk-Kazyna" on the Right of Ownership or Trust Management", approved by the Decision of the Board of Directors of JSC "Samruk-Kazyna" No.80 dated 26 May 2012;

"**Prospectus**" means the final prospectus in connection with the admission of the Notes to the Official List of the SIX Swiss Exchange and the Market;

"**Prospectus Directive**" means the Directive 2003/71/EC;

"**Record Date**" means the Business Day (as defined in the Conditions) before due date for the relevant payment;

"**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;

"**S&P**" means Standard & Poor's Credit Market Services Europe Limited;

"**Samruk-Kazyna**" means Joint Stock Company "Sovereign Wealth Fund "Samruk-Kazyna", as amended;

"**Samruk-Kazyna Law**" means the Law of the Republic of Kazakhstan on the Sovereign Wealth Fund No. 550-IV dated 1 February 2012, as amended;

"**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;

"**SEZ Khorgos**" means the Special Economic Zone "Khorgos – East Gate";

"**SIEC**" means Specialised Interdistrict Economic Court of Astana;

"**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 of the Republic of Kazakhstan";

"**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;

"**U.S. Dollars**" or "**U.S.$**" means United States Dollars.

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Consolidated Financial Statements as of 31 December 2013 and 31 December 2012 (restated) and for the years then ended

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

Consolidated Financial Statements
for the years ended December 31, 2013 and 2012 (restated)

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (RESTATED)

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (RESTATED)

Management of JSC National Company Kazakhstan Temir Zholy (the "Company") is responsible for the preparation of consolidated financial statements that present fairly the financial position of the Company and its subsidiaries (collectively, the "Group") as at December 31, 2013 and 2012 (restated), and the results of its operations, cash flows and changes in equity for the years ended December 31, 2013 and 2012 (restated), in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("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 local 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 for the years ended December 31, 2013 and 2012 (restated) were approved by management on March 14, 2014.

On behalf of management of the Group:

A.U. Mamin **President**	**A.M. Lepesbayev** **Vice-President of Economics and Finance**	**N. Kh. Abilova** **Chief Accountant**
March 14, 2014	March 14, 2014	March 14, 2014

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INDEPENDENT AUDITORS' 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 statement of financial position as at December 31, 2013 and 2012 (restated), and the consolidated statements of profit or loss and other comprehensive income, cash flows and changes in equity for the years ended December 31, 2013 and 2012 (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 as issued by the International Accounting 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.

Auditors' 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 auditors' 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.

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Member of Deloitte Touche Tohmatsu Limited

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2013 and 2012 (restated), and its financial performance and cash flows for the years ended December 31, 2013 and 2012 (restated) in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Andrew Weekes
Engagement Partner
Chartered Accountant
Certificate of Public Practice 78586
Australia

Deloitte, LLP

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

DulatTaituleyev
Qualified auditor
Qualification certificate No.0000095
dated August 27, 2012,
the Republic of Kazakhstan

Nurlan Bekenov
General Director
Deloitte, LLP

March 14, 2014

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013 AND 2012 (RESTATED)
(in thousands of tenge)

	Notes	December 31, 2013	December 31, 2012 (restated)	January 1, 2012 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	5	1,980,001,428	1,644,295,010	1,295,772,517
Intangible assets	6	9,564,865	8,570,847	8,369,072
Investments in associates	7	1,943,788	2,633,746	2,186,636
Investments in joint ventures	7	24,746,576	12,845,453	2,752,868
Investment property	8	7,296,492	7,129,207	6,578,879
Asset held for the benefit of the Shareholder	13	10,757,881	7,000,000	-
Other financial assets	12	1,922,971	1,874,213	296,800
Other non-current assets	9	185,849,386	134,010,200	55,544,123
Total non-current assets		2,222,083,387	1,818,358,676	1,371,500,895
Current assets				
Inventories	10	37,723,901	34,510,578	42,105,512
Trade accounts receivable	11	8,107,149	7,784,113	4,610,897
Other financial assets	12	36,789,673	48,366,850	57,332,864
Prepaid income tax		2,194,087	2,549,670	6,386,247
Asset held for the benefit of the Shareholder	13	29,204,088	28,238,638	47,777,020
Loans given	14	3,639,298	-	-
Cash and cash equivalents	16	85,855,902	69,706,429	133,596,150
Restricted cash		1,170,375	1,178,134	1,477,440
Other current assets	15	60,709,412	48,160,363	38,855,924
		265,393,885	240,494,775	332,142,054
Assets classified as held for sale	17	-	37,720,512	-
Total current assets		265,393,885	278,215,287	332,142,054
Total assets		2,487,477,272	2,096,573,963	1,703,642,949
EQUITY AND LIABILITIES				
Equity				
Share capital	18	683,932,991	675,526,248	579,417,097
Additional paid-in capital and unissued share capital		242,447,850	43,407,831	103,121,474
Foreign currency translation reserve		(144,081)	(112,268)	(197,201)
Retained earnings		388,868,887	322,966,218	277,824,940
Equity attributable to owner of the Company		1,315,105,647	1,041,788,029	960,166,310
Non-controlling interests	35	14,065,376	7,522,579	6,155,366
Total equity		1,329,171,023	1,049,310,608	966,321,676

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2013 AND 2012 (RESTATED) (CONTINUED)

(in thousands of tenge)

	Notes	December 31, 2013	December 31, 2012 (restated)	January 1, 2012 (restated)
Non-current liabilities				
Borrowings	19	295,369,338	220,128,879	178,248,140
Debt securities issued	20	338,063,638	331,688,969	154,927,950
Finance lease liabilities	21	3,413,415	4,546,064	5,016,103
Employee benefit obligations	22	27,737,065	27,211,583	23,439,160
Deferred income tax liability	23	225,465,889	153,590,261	121,030,361
Other non-current liabilities	26	25,010,252	25,215,745	179,704
Total non-current liabilities		915,059,597	762,381,501	482,841,418
Current liabilities				
Borrowings	19	34,868,844	29,166,061	35,694,957
Current portion of debt securities issued	20	1,866,159	7,587,539	2,056,610
Current portion of finance lease liabilities	21	450,644	552,251	614,257
Current portion of employee benefit obligations	22	2,490,345	2,485,748	2,083,485
Trade accounts payable	24	77,375,619	98,503,421	71,573,394
Income tax payable		1,339,275	91,648	117,074
Other taxes payable	25	10,154,715	9,494,682	7,785,408
Other current liabilities	26	114,701,051	120,325,660	134,554,670
		243,246,652	268,207,010	254,479,855
Liabilities directly associated with assets classified as held for sale	17	-	16,674,844	-
Total current liabilities		243,246,652	284,881,854	254,479,855
Total liabilities		1,158,306,249	1,047,263,355	737,321,273
Total equity and liabilities		2,487,477,272	2,096,573,963	1,703,642,949

A.U. Mamin **President**	**A.M. Lepesbayev** **Vice-President of Economics and Finance**	**N. Kh. Abilova** **Chief Accountant**
March 14, 2014	March 14, 2014	March 14, 2014

The notes below form an integral part of the consolidated financial statements.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (RESTATED)

(in thousands of tenge)

	Notes	2013	2012 (restated)
Continuing operations			
Revenue			
Freight transportation		742,800,361	686,097,952
Passenger transportation		73,549,271	63,484,428
Government grants		23,880,765	22,148,264
Other revenue	27	33,335,306	32,728,012
Total revenue		873,565,703	804,458,656
Cost of sales	28	(576,862,081)	(549,358,013)
Gross profit		296,703,622	255,100,643
General and administrative expense	29	(94,155,179)	(79,619,964)
Selling expenses		(154,403)	(193,391)
Loss from impairment of property, plant and equipment	5	(1,523,433)	(101,945)
Other income and expense		3,815,236	5,661,151
Finance income	30	5,703,644	4,353,838
Finance costs	31	(37,811,417)	(30,024,236)
Foreign exchange loss		(8,012,635)	(4,109,145)
Share of profit of associates	7	432,057	489,452
Share of loss of joint ventures	7	(4,701,206)	(561,661)
Profit before taxation		160,296,286	150,994,742
Income tax expense	23	(39,048,623)	(31,022,566)
Profit for the year from continuing operations		121,247,663	119,972,176
Discontinued operations			
Loss for the year from discontinued operations	17	(2,812,097)	(1,109,451)
Profit for the year		118,435,566	118,862,725
Other comprehensive loss, net of income tax			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial remeasurement of defined benefit obligation	22	(3,808,063)	(2,402,869)
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation (loss)/gain		(31,813)	84,933
Other comprehensive loss for the year		(3,839,876)	(2,317,936)
Total comprehensive income for the year		114,595,690	116,544,789
Profit for the year attributable to:			
Owner of the Company		115,627,571	117,772,108
Non-controlling interests	35	2,807,995	1,090,617
		118,435,566	118,862,725
Total comprehensive income attributable to:			
Owner of the Company		111,787,767	115,454,172
Non-controlling interests		2,807,923	1,090,617
		114,595,690	116,544,789
Earnings per share from continuing and discontinued operations (in whole tenge)	33	235	240
Earnings per share from continuing operations (in whole tenge)	33	241	242

A.U. Mamin **President**	**A.M. Lepesbayev** **Vice-President of Economics and Finance**	**N. Kh. Abilova** **Chief Accountant**
March 14, 2014	March 14, 2014	March 14, 2014

The notes below form an integral part of the consolidated financial statements.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (RESTATED)
(in thousands of tenge)

	Notes	2013	2012 (restated)
Cash flows from operating activities:			
Profit for the year		118,435,566	118,862,725
Income tax expense recognized in profit or loss		39,124,709	31,382,376
Adjustments for:			
Depreciation and amortization		90,624,626	77,744,796
Finance costs		37,974,159	30,538,415
Allowance for unrecoverable value added tax	9	3,845,992	180,792
Provision on legal claims	29	(907,721)	99,277
Loss from impairment of property, plant and equipment	5	1,523,433	101,945
Loss on disposal of property, plant, and equipment and other fixed assets		404,391	640,221
Finance income		(5,706,120)	(4,386,239)
Accrual of defined benefit plan		(1,254,018)	3,684,888
Share of profit of associates	7	(432,057)	(489,452)
Share of loss of joint ventures	7	4,701,206	561,661
Recovery of allowance for obsolete and slow-moving inventories	10	(148,070)	(32,931)
Allowance for doubtful debts		1,535,663	1,497,821
Unused vacation provision expense		535,279	941,400
Foreign exchange loss		8,066,197	4,343,631
Loss on disposal of assets related to discontinued operations	17	2,274,564	-
Other		(498,577)	(338,160)
Operating income before changes in working capital		300,099,222	265,333,166
Increase in trade accounts receivable		(1,338,033)	(8,924,513)
Decrease in inventories		1,028,942	1,317,325
Decrease/(increase)in other current and non-current assets (including non-current VAT recoverable)		867,202	(20,682,088)
Increase in trade accounts payable		11,583,973	19,054,628
(Decrease)/increase in other taxes payable		(22,100,874)	1,320,472
Increase/(decrease) in other current liabilities		8,775,589	(2,688,788)
Decrease in employee benefit obligations		(2,023,966)	(1,889,242)
Decrease in other non-current liabilities		(18,886)	(9,361)
Cash generated from operations		296,873,169	252,831,599
Interest paid		(41,399,092)	(22,054,866)
Interest received		5,020,020	3,258,839
Income tax paid		(3,872,389)	(5,125,637)
Net cash flows from operating activities		256,621,708	228,909,935

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (RESTATED) (CONTINUED)
(in thousands of tenge)

	Notes	2013	2012 (restated)
Cash flows from investing activities:			
Purchase of property, plant and equipment		(466,475,313)	(497,685,779)
Purchase of intangible assets		(2,827,957)	(2,604,920)
Proceeds from disposal of property, plant and equipment and other non-current assets		1,392,402	3,650,968
Purchase of other non-current assets		(11,315,142)	(7,377,801)
Acquisition of subsidiaries, less cash and cash equivalents acquired	32	(6,606,733)	-
Purchase of investments in associates		(2,177,211)	-
Purchase of investments in joint ventures		(3,724,340)	(1,269,261)
Purchase of available for sale investments		-	(573,327)
Purchase of other financial assets		(38,684,386)	(105,085,403)
Proceeds from sale of other financial assets		50,805,737	111,705,784
Loans given	14	(10,000,000)	-
Repayment of loans given	14	6,000,000	-
Net cash inflows associated with disposal of a subsidiary	17	4,088,122	-
Net cash flows used in investing activities		(479,524,821)	(499,239,739)
Cash flows from financing activities:			
Receipt of payment for unissued share capital	18	30,000,000	4,000,000
Proceeds from borrowings		283,996,501	190,063,370
Bonds issued		-	173,418,791
Repayments of borrowings		(44,744,451)	(111,072,657)
Dividends and distributions paid		(25,406,373)	(34,219,790)
Purchase of asset held for the benefit of the Shareholder		(3,757,881)	(14,916,953)
Repayments of finance lease liabilities		(1,369,118)	(607,852)
Net cash flows from financing activities		238,718,678	206,664,909
Net increase/(decrease) in cash and cash equivalents		15,815,565	(63,664,895)
Cash and cash equivalents at the beginning of the year	16	69,726,277	133,596,150
Effect of foreign exchange rates on cash and cash equivalents		314,060	(204,978)
Cash and cash equivalents at the end of the year	16	85,855,902	69,726,277
Non-cash transactions:			
Additions of property, plant and equipment as a contribution to share capital		2,992,994	5,514,165
Fair value adjustments on loans received from the Shareholder, recognized in equity	18	148,219,928	33,601,679
Additions of property, plant and equipment within accounts payable		21,073,300	14,554,719
Capitalization of interest expense		3,906,368	1,806,889
Railway administrations debt offset		1,636,176	4,707,817
Contribution of non-current assets to the share capital of LLP Tulpar Talgo	7	-	9,384,985
Acquisition of shares of JSC Kazakh Academy of Transport and Communication	9,26	-	6,996,752
Fair value adjustments on loans given to joint venture, recognized in investment in joint venture	14	589,813	-
Purchase of other non-current assets within accounts payable		838,774	-
Additions of property, plant and equipment for the borrowing funds directly transferred by bank to supplier		17,854,093	-

A.U. Mamin **President**	**A.M. Lepesbayev** **Vice-President of Economics and Finance**	**N. Kh. Abilova** **Chief Accountant**
March 14, 2014	March 14, 2014	March 14, 2014

The notes below form an integral part of the consolidated financial statements.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (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 December 31, 2012 (restated)	675,526,248	43,407,831	(112,268)	322,966,218	1,041,788,029	7,522,579	1,049,310,608
Profit for the year	-	-	-	115,627,571	115,627,571	2,807,995	118,435,566
Other comprehensive loss for the year	-	-	(31,813)	(3,807,991)	(3,839,804)	(72)	(3,839,876)
Comprehensive income for the year	-	-	(31,813)	111,819,580	111,787,767	2,807,923	114,595,690
Contribution from Shareholder (Note 18)	2,976,983	30,016,011	-	(1,859,405)	31,133,589	-	31,133,589
Contribution of entity under common control (Note 18)	-	26,233,840	-	(26,233,840)	-	-	-
Transfer due to legal registration of shares issuance (Note 18)	5,429,760	(5,429,760)	-	-	-	-	-
Dividends declared (Note 18)	-	-	-	(16,999,211)	(16,999,211)	(407,162)	(17,406,373)
Distribution (Notes 18 and 26)	-	-	-	(824,455)	(824,455)	-	(824,455)
Contribution - Adjustment of loan to the fair value, net of deferred tax of 37,054,982 thousand tenge (Notes 19 and 23)	-	148,219,928	-	-	148,219,928	-	148,219,928
Acquisition of subsidiaries (Note 32)	-	-	-	-	-	4,142,036	4,142,036
As at December 31, 2013	683,932,991	242,447,850	(144,081)	388,868,887	1,315,105,647	14,065,376	1,329,171,023

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (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 January 1, 2012 (as previously reported)	579,417,097	103,121,474	(197,201)	261,978,267	944,319,637	6,158,078	950,477,715
Adjustments (Note 3)	-	-	-	15,846,673	15,846,673	(2,712)	15,843,961
As at January 1, 2012 (restated)	579,417,097	103,121,474	(197,201)	277,824,940	960,166,310	6,155,366	966,321,676
Profit for the year	-	-	-	117,772,108	117,772,108	1,090,617	118,862,725
Other comprehensive loss for the year	-	-	84,933	(2,402,869)	(2,317,936)	-	(2,317,936)
Comprehensive income for the year	-	-	84,933	115,369,239	115,454,172	1,090,617	116,544,789
Contribution to share capital (Note 18)	4,084,405	5,429,760	-	-	9,514,165	-	9,514,165
Transfer due to legal registration of shares issuance (Note 18)	92,024,746	(92,024,746)	-	-	-	-	-
Dividends declared (Note 18)	-	-	-	(36,866,070)	(36,866,070)	-	(36,866,070)
Distribution (Notes 18 and 26)	-	-	-	(32,958,124)	(32,958,124)	-	(32,958,124)
Contribution - Adjustment of loan to the fair value, net of deferred tax of 6,720,336 thousand tenge (Notes 19 and 23)	-	26,881,343	-	-	26,881,343	-	26,881,343
Change of non-controlling interests in subsidiaries	-	-	-	(403,767)	(403,767)	276,596	(127,171)
As at December 31, 2012 (restated)	675,526,248	43,407,831	(112,268)	322,966,218	1,041,788,029	7,522,579	1,049,310,608

A.U. Mamin **President**	**A.M. Lepesbayev** **Vice-President of Economics and Finance**	**N. Kh. Abilova** **Chief Accountant**
March 14, 2014	March 14, 2014	March 14, 2014

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 strategy 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 segregation of the passenger and cargo transportation and the associated rail tariffs and the introduction of Government subsidies for passenger travel. The Group's development strategy through 2020 assumes significant investment in the railway assets. Within this strategy the Group has developed a detailed restructuring action plan, which will result in the establishment of JSC KTZh-Infrastructure and JSC NC KTZh (corporate center), JSC KTZh-Cargo Transportations, JSC KTZh-Passenger Transportations and JSC KTZh-Production and Repair.

The Group operates a Government regulated nationwide railway system providing freight transportation, passenger transportation and maintenance of railway infrastructures 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 freight 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. The tariff for freight transportation in international transit direction is not regulated by the Government.

In 2013 and 2012 the Group, with the Government's permission, increased freight transportation tariffs by an average of 8.4% and 15%, respectively, and passenger transportation tariffs for international, interregional and inter-district direction by 7% and 10%, respectively. Government grants provided to the Group have also increased.

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") as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared on a going concern basis.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Adoption of new and revised standards

Standards and Interpretations adopted during the current year:

In the current year, the following new and revised Standards have been adopted and have affected the amounts reported in these financial statements.

New and revised standards on consolidation, joint arrangements, associates and disclosure

The Group has applied retrospectively a package of five Standards on consolidation, joint arrangements, associates and disclosures, including IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interest in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*.

The key requirements of these five standards are described below.

IFRS 10 replaced the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-12 *Consolidation – Special Purpose Entities* has been withdrawn. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

The Group assessed whether the consolidation conclusion under IFRS 10 differs from IAS 27 /SIC 12 as at January 1, 2013. The Group concluded that the adoption of IFRS 10 did not result in any change in the consolidation status of its subsidiaries.

IFRS 11 replaced IAS 31 *Interests in Joint Ventures*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* has been withdrawn. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting. The adoption of IFRS 11 did not result in changes to the Group's consolidated financial statements.

IFRS 12 *Disclosure of Interests in Other Entities* is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (Note 7).

IFRS 13 Fair Value Measurement

IFRS 13 *Fair Value Measurement* establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures amount fair value measurements, except in specified circumstances. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

IAS 19 (as revised in 2011) Employee Benefits

The amendments to IAS 19 *Employee Benefits* change the accounting for defined benefit plans and termination benefits. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income.

As a result, the Group recognised all past service costs when they occurred adjusting its financial statements retrospectively. See Note 3 for the effect of adoption of revised IAS 19 on the previously reported amounts. Management of the Group believes that the effect of this application of the amendments to IAS 19 is insignificant to the consolidated financial statements of the Group.

(in thousands of tenge unless otherwise stated)

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 have had no effect on amounts reported.

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
IFRS 9 Financial instruments	January 1, 2015
Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosures	January 1, 2015
Amendments to IAS 32 Financial Instruments: Offsetting Financial Assets and Financial Liabilities	January 1, 2014
Amendments to IFRS 10, IFRS 12 Investment Entities and IAS 27	January 1, 2014
Amendments to IAS 36 Impairment of Assets	January 1, 2014
Amendments to IAS 39 Financial Instruments: Recognition and Measurement	January 1, 2014
IFRIC 21 Levies	January 1, 2014

Management anticipates that the adoption of the above 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 judgments and use estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting 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.

Control assessment

Control over JSC National Company Aktau International Sea Commercial Port

JSC National Company Aktau International Sea Commercial Port is recognized as a subsidiary of the Group (Notes 3, 18 and 35), although the Group does not legally own shares in JSC National Company Aktau International Sea Commercial Port. The Group assessed whether it has control over JSC National Company Aktau International Sea Commercial Port, considering all relevant facts and circumstances arising from a trust management agreement concluded with JSC National Welfare Fund Samruk-Kazyna, the legal owner, in respect of its 100% ownership interest in JSC National Company Aktau International Sea Commercial Port. As a result, the Group concluded that the Group controls Aktau International Sea Commercial Port. In making their judgment, management of the Group considered the broad power granted to the Group by the sole shareholder, which gives the Group the practical ability to unilaterally direct the relevant activities of JSC National Company Aktau International Sea Commercial Port to affect its returns to the Group.

Control over Tulpar-Talgo LLP

Tulpar-Talgo LLP is not recognized as a subsidiary of the Group (Note 7), although the Group holds a 99.99% interest in Tulpar-Talgo LLP. The Group has no control over Tulpar-Talgo LLP, due to an option contract whereby Talgo Kazajstan S.L. may re-acquire 49.99% of the charter capital of Tulpar-Talgo LLP. Consequently, the Group recognizes Tulpar-Talgo LLP as joint venture and accounts for it using the equity method.

Control over airports

On May 8, 2013 the Group, represented by the subsidiary JSC National Centre for Transport Logistics Development, and the Committee of the state property and privatization of the Ministry of Finance of the Republic of Kazakhstan (hereinafter - the "Committee") entered into an agreement on the trust management of 100% state-owned shares of joint-stock companies Kokshetau Aircompany, Petropavlovsk International Airport, Astana International Airport, Kostanay International Airport, which are owned by the Ministry of Transport and Communications of the Republic of Kazakhstan. The Group has not recognized the airports as subsidiaries of the Group, as the Group is acting as an agent and does not control these airports, exercising its decision making authority delegated to the Group by the Committee for and on behalf of the Committee. This agreement does not entitle the Group to any returns from the operating activities of the airports.

Control over JSC Khorgos International Centre of Boundary Cooperation

On July 1, 2011 the Group entered into a trust management agreement with the Committee in respect of the entire equity interest in JSC Khorgos International Centre of Cross-border Cooperation (hereinafter, "Khorgos"), a state-owned company. The Group has not recognized Khorgos as a subsidiary as the Group is acting as an agent, exercising decision-making authority for and on behalf of the Committee, and does not control the entity. This agreement does not entitle the Group to any returns from the operating activities of Khorgos.

Impairment of tangible and intangible assets other than goodwill

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 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.

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 the 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 used in determining the benefit obligation 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 from its actuaries. A change in assumptions could have a significant impact on its future operating results. See further information in Note 22.

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 a collection from the tax authorities. In assessing the recoverability of the VAT receivable, the Group considers information from its internal tax department regarding projected collection of VAT, correspondence with government tax authorities, and historical recovery experience. The actual amount of VAT recovered could differ materially from the Group's estimate and this could materially impact future 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.

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 13.75% 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, 2013. Any difference between the estimated amount and the actual amount paid, if any, could have a significant impact on future operating results.

Loans from the Shareholder at a rate below the market interest rate

The Group receives loans from the Shareholder at a rate below the market rate of interest for similar loans in arms length transactions. These loans are initially recognized at the fair value of the consideration received less directly attributable transaction costs. The Group calculates the fair value of these loans using market rates on governmental long-term treasury bonds with comparable maturities and recognizes an adjustment to the loan value (less the related deferred tax) within additional paid-in capital. When no comparable maturities exist, the Group extrapolates the most comparable market rates to the life of the loan received by the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company and its subsidiaries listed in Note 35.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intragroup 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 recognized in profit or loss as incurred.

The identifiable assets acquired and the liabilities assumed are recognized 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. If the fair value of the net identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognized immediately in profit or loss as a bargain purchase gain.

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 profit or loss and is not reversed in subsequent periods.

Business combinations under common control

Business combinations of entities under common control (entities controlled by the Government of Kazakhstan) 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 these branches are translated into tenge at the exchange rate 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 translation are recorded directly to other comprehensive income. Upon disposal of a foreign operation, all of the accumulated exchange differences related to that specific foreign operation are recognized in profit or loss.

The tenge is not a fully convertible currency outside the Republic of Kazakhstan. Transactions in currencies other than the Group's functional 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 cross-rates to the US Dollar ("USD" or "US$") in accordance with quotations received from Reuters.

(in thousands of tenge unless otherwise stated)

Monetary assets and liabilities that are denominated in foreign currencies are translated to the entity's functional currency 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 profit or loss. 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, 2013	December 31, 2012
US Dollar	153.61	150.74
Swiss Franc	172.34	165.09
Russian Ruble	4.69	4.96

Weighted-average tenge exchange rates for the years ended December 31 were as follows:

	2013	2012
US Dollar	152.13	149.11
Swiss Franc	164.20	159.06
Russian Ruble	4.78	4.80

Recognition of financial instruments

The Group recognizes financial assets and liabilities on its consolidated statement of financial position 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, "available-for-sale" ("AFS") financial assets 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 amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL. AFS financial assets are accounted for at the fair value as of the end of each reporting period.

AFS financial assets are stated at fair value at the end of each reporting period. AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Trade receivables are recognized and carried at the original invoice amount less an allowance for doubtful debts.

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.

An allowance for doubtful debts is recognized when the trade receivable is not collected within its 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 profit or loss in the period in which they become known. Bad debts are written-off when identified against an allowance previously recognized.

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

Trade and other accounts payable

Trade and other accounts payable are initially measured at fair value and subsequently revalued at amortized cost using the 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 profit or loss 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 and continues to control the asset, the Group continues to recognize 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 the 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 costs necessary to make the sale. Inventory is valued on a weighted-average cost basis.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

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 cash paid or fair 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 their 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 when the 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 profit or loss in the year the asset is derecognized.

Subsequent expenditure

Track renewals and major capital 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 profit or loss. All expenditures relating to track renewals that do not provide future economic benefit are expensed immediately in profit or loss.

Depreciation

Property, plant and equipment, excluding land and capital 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 and construction	18-45
Railway infrastructure	10-80
Machinery and equipment	3-30
Railway transport	15-32
Other transport	5-20
Other	3-40

Land and capital construction in progress are not depreciated. Capital construction in progress is transferred to the appropriate asset category upon completion and then depreciated as described above. The estimated useful life and depreciation method are reviewed at the end of each annual reporting period taking into account any changes in assessment in the future.

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 expensed based on a straight-line basis.

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.

Investment properties are depreciated on a straight-line basis over the estimated useful lives of the assets as follows (in years):

Buildings	45
Machinery and equipment	4-20

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 profit or loss. 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 on such transactions can be collected from 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 collected in the upcoming 12 months. 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 joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The investment in associates and joint ventures are carried in the consolidated statement of financial position at cost adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates and joint ventures. 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 profit or loss and other comprehensive income reflects the Group's share of the results of operations of the associates and joint ventures.

Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

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 profit or loss.

All other borrowing costs, including any excess exchange differences, are recognized in profit or loss 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 profit or loss and other 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.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss in the line items 'cost of sales' and/or 'general and administrative expense' (Note 22). Curtailment gains and losses are accounted for as past service costs.

The Group presents the 'Remeasurement' component in other comprehensive income.

For other long-term employee benefits, the Group recognises the 'Remeasurement' component in profit or loss.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

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 the 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 measured based upon the fair value of the consideration received or receivable.

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 the use of wagons is recognized in the period of use of the Group's wagons.

In respect to the sale of goods, revenue is recognized when the goods are delivered and titles have passed, at which time all of the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be reliably measured;
- it is probable that the economic benefits associated with the transaction with flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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, submits an application for these grants to the Government on an annual basis. If awarded the contract, the Group is eligible for a subsidy of the 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 recognized in profit or loss 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 offset 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 an expense in profit or loss on a straight-line basis over the lease term.

Finance leases

The Group recognizes assets under finance leases in the consolidated statement of financial position at amounts equal to the fair value of the leased property at the commencement of the lease term or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as finance lease obligation. 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 term of the lease is less than the depreciation period of similar fixed assets, the leased asset is depreciated 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.

3. CHANGE IN CLASSIFICATION, RETROSPECTIVE APPLICATION OF AMENDMENTS TO IFRS, BUSINESS COMBINATION UNDER COMMON CONTROL

IAS 19 Employee Benefits

According to the Amendments to IAS 19, the Group has revised comparative information as at January 1 and December 31, 2012.

Business combination under common control

In November 2013, in accordance with Government Degree #1539 dated December 4, 2012 and based on the agreement on trust management, the sole Shareholder transferred its 100% ownership interest in JSC National Company Aktau International Sea Commercial Port for trust management to the Group.

As the transfer of shares of JSC National Company Aktau International Sea Commercial Port represents a business combination under common control, these consolidated financial statements have been prepared as if the transfer of JSC National Company Aktau International Sea Commercial Port had occurred at the beginning of the earliest period presented (i.e. January 1, 2012), and, as a result, the related comparative data as at December 31, 2012 and January 1, 2012 have been restated.

Change in classification

In 2013 the Group revised its presentation of interest received on bank deposits in the consolidated statement of cash flows. The Group now presents the interest received on bank deposits within operating activities, where previously it was presented within investing activities. As a result, the Group has reclassified comparative information for year ended December 31, 2012 in accordance with the presentation of financial information adopted for the year ended December 31, 2013.

The effect of the changes described in the previous four paragpahs on the corresponding financial information at January 1 and December 31, 2012 as well as for the year eneded December 31, 2012 is presented in the table below:

(in thousands of tenge unless otherwise stated)

Effect on the consolidated statement of financial position

	As previously reported	IAS 19 (2011)	Business combination under common control	Restated
At December 31, 2012				
ASSETS				
Non-current assets				
Property, plant and equipment	1,618,330,771	-	25,964,239	1,644,295,010
Intangible assets	8,522,684	-	48,163	8,570,847
Other financial assets	-	-	1,874,213	1,874,213
Other non-current assets	133,189,328	-	820,872	134,010,200
Total non-current assets	1,789,651,189	-	28,707,487	1,818,358,676
Current assets				
Inventories	33,794,699	-	715,879	34,510,578
Trade accounts receivable	7,689,604	-	94,509	7,784,113
Other financial assets	43,050,711	-	5,316,139	48,366,850
Prepaid income tax	2,125,829	-	423,841	2,549,670
Cash and cash equivalents	67,313,397	-	2,393,032	69,706,429
Restricted cash	223,531	-	954,603	1,178,134
Other current assets	47,688,985	-	471,378	48,160,363
Total current assets	267,845,906	-	10,369,381	278,215,287
Total assets	2,057,497,095	-	39,076,868	2,096,573,963
LIABILITIES AND EQUITY				
Equity				
Retained earnings	305,078,378	(5,195,539)	23,083,379	322,966,218
Equity attributable to owner of the Company	1,023,900,189	(5,195,539)	23,083,379	1,041,788,029
Non-controlling interests	7,525,291	(2,712)	-	7,522,579
Total equity	1,031,425,480	(5,198,251)	23,083,379	1,049,310,608
Non-current liabilities				
Borrowings	210,731,801	-	9,397,078	220,128,879
Employee benefit obligations	21,581,319	5,197,526	432,738	27,211,583
Deferred income tax liability	150,504,835	-	3,085,426	153,590,261
Other non-current liabilities	25,150,747	-	64,998	25,215,745
Total non-current liabilities	744,203,735	5,197,526	12,980,240	762,381,501
Current liabilities				
Borrowings	27,279,361	-	1,886,700	29,166,061
Current portion of employee benefit obligations	2,387,767	-	97,981	2,485,748
Trade accounts payable	98,355,798	-	147,623	98,503,421
Income tax payable	89,812	-	1,836	91,648
Other taxes payable	9,488,936	-	5,746	9,494,682
Other current liabilities	119,452,297	-	873,363	120,325,660
Liabilities directly associated with assets classified as held for sale	16,674,119	725	-	16,674,844
Total current liabilities	281,867,880	725	3,013,249	284,881,854
Total liabilities	1,026,071,615	5,198,251	15,993,489	1,047,263,355
Total equity and liabilities	2,057,497,095	-	39,076,868	2,096,573,963

(in thousands of tenge unless otherwise stated)

	As previously reported	IAS 19 (2011)	Business combination under common control	Restated
At January 1, 2012				
ASSETS				
Non-current assets				
Property, plant and equipment	1,269,468,987	-	26,303,530	1,295,772,517
Intangible assets	8,356,743	-	12,329	8,369,072
Other financial assets	-	-	296,800	296,800
Other non-current assets	55,428,341	-	115,782	55,544,123
Total non-current assets	1,344,772,454	-	26,728,441	1,371,500,895
Current assets				
Inventories	41,484,666	-	620,846	42,105,512
Trade accounts receivable	4,568,143	-	42,754	4,610,897
Other financial assets	51,221,664	-	6,111,200	57,332,864
Prepaid income tax	5,538,970	-	847,277	6,386,247
Cash and cash equivalents	130,211,949	-	3,384,201	133,596,150
Restricted cash	224,665	-	1,252,775	1,477,440
Other current assets	38,437,374	-	418,550	38,855,924
Total current assets	319,464,451	-	12,677,603	332,142,054
Total assets	1,664,236,905	-	39,406,044	1,703,642,949
LIABILITIES AND EQUITY				
Equity				
Retained earnings	261,978,267	(5,631,253)	21,477,926	277,824,940
Equity attributable to owner of the Company	944,319,637	(5,631,253)	21,477,926	960,166,310
Non-controlling interests	6,158,078	(2,712)	-	6,155,366
Total equity	950,477,715	(5,633,965)	21,477,926	966,321,676
Non-current liabilities				
Borrowings	167,374,546	-	10,873,594	178,248,140
Employee benefit obligations	17,455,418	5,633,965	349,777	23,439,160
Deferred income tax liability	118,599,053	-	2,431,308	121,030,361
Other non-current liabilities	104,554	-	75,150	179,704
Total non-current liabilities	463,477,624	5,633,965	13,729,829	482,841,418
Current liabilities				
Borrowings	33,119,423	-	2,575,534	35,694,957
Current portion of employee benefit obligations	1,985,504	-	97,981	2,083,485
Trade accounts payable	70,963,528	-	609,866	71,573,394
Income tax payable	107,835	-	9,239	117,074
Other taxes payable	7,779,382	-	6,026	7,785,408
Other current liabilities	133,655,027	-	899,643	134,554,670
Total current liabilities	250,281,566	-	4,198,289	254,479,855
Total liabilities	713,759,190	5,633,965	17,928,118	737,321,273
Total equity and liabilities	1,664,236,905	-	39,406,044	1,703,642,949

(in thousands of tenge unless otherwise stated)

Effect on the consolidated statement of profit or loss and other comprehensive income

	As previously reported	IAS 19 (2011)	Business combination under common control	Restated
For the year ended December 31, 2012:				
Other revenue	24,058,149	-	8,669,863	32,728,012
Total revenue	795,788,793	-	8,669,863	804,458,656
Cost of sales	(547,142,199)	2,418,638	(4,634,452)	(549,358,013)
Gross profit	248,646,594	2,418,638	4,035,411	255,100,643
General and administrative expense	(78,800,676)	379,739	(1,199,027)	(79,619,964)
Other income and expense	5,605,289	-	55,862	5,661,151
Finance income	3,991,446	-	362,392	4,353,838
Finance costs	(29,188,901)	-	(835,335)	(30,024,236)
Foreign exchange loss	(4,053,360)	-	(55,785)	(4,109,145)
Profit before taxation	145,832,847	2,798,377	2,363,518	150,994,742
Income tax expense	(30,304,707)		(717,859)	(31,022,566)
Profit for the year from continuing operations	115,528,140	2,798,377	1,645,659	119,972,176
Profit for the year	114,418,689	2,798,377	1,645,659	118,862,725
Actuarial remeasurement of defined benefit obligation	-	(2,362,663)	(40,206)	(2,402,869)
Other comprehensive income/(loss) for the year	84,933	(2,362,663)	(40,206)	(2,317,936)
Total comprehensive income for the year	114,503,622	435,714	1,605,453	116,544,789
Profit for the year attributable to the owner of the Company (thousand tenge)	113,328,072	2,798,377	1,645,659	117,772,108
Earnings per share from continuing and discontinued operations (in whole tenge)	231	6	3	240
Profit for the year from continuing operations attributable to the owner of the Company (thousand tenge)	114,437,523	2,798,377	1,645,659	118,881,559
Earnings per share from continuing operations (in whole tenge)	233	6	3	242

Effect on the consolidated statement of cash flows

	As previously reported	Reclassifications	Business combination under common control	Restated
For the year ended December 31, 2012:				
Cash flows from operating activities	221,663,352	3,258,839	3,987,744	228,909,935
Cash flows used in investing activities	(493,490,252)	(3,258,839)	(2,490,648)	(499,239,739)
Cash flows from/(used in) financing activities	209,175,805	-	(2,510,896)	206,664,909
Net decrease in cash and cash equivalents	(62,651,095)	-	(1,013,800)	(63,664,895)
Effect of foreign exchange rates on cash and cash equivalents	(227,609)	-	22,631	(204,978)

(in thousands of tenge unless otherwise stated)

4. SEGMENT INFORMATION

The Group determines reportable segments based on the services provided, and consequently the Group discloses two segments: cargo transportation and passenger transportation. All other segments include mainly communication services, utilities services, loading and unloading services and vessels servicing, which in aggregate do not exceed quantitative thresholds for disaggregation, and thus are not separately disclosed.

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 segment profitability such as profit before taxation, profit for the year and gross profit. However, profit for the year from continuing operations is the primary measure used for the purpose of resource allocation and assessment of segment performance. The Group does not have a specified pricing policy for inter-segmental sales, however in general intersegment transactions are charged at prevailing market prices.

	For the year ended December 31, 2013			
	Cargo transportation	Passenger transportation	All other segments	Total
Key operating measures				
Revenue				
Transportation	771,487,429	75,626,319	-	847,113,748
Government grants	-	23,880,765	-	23,880,765
Other revenue	18,312,991	3,783,242	30,625,259	52,721,492
Intersegment revenue	(31,224,586)	(2,614,905)	(16,310,811)	(50,150,302)
Revenue	758,575,834	100,675,421	14,314,448	873,565,703
Cost of sales	(489,927,305)	(82,164,126)	(4,770,650)	(576,862,081)
General and administrative expense	(81,274,639)	(6,944,216)	(5,936,324)	(94,155,179)
Selling expenses	(154,403)	-	-	(154,403)
Finance income	4,740,517	279,161	683,966	5,703,644
Finance costs	(34,479,155)	(1,104,341)	(2,227,921)	(37,811,417)
Foreign exchange loss	(7,837,733)	49,567	(224,469)	(8,012,635)
Loss from impairment of property, plant and equipment	(1,410,805)	(77,621)	(35,007)	(1,523,433)
Share of profit/(loss) of associates	665,480	-	(233,423)	432,057
Share of profit/(loss) of joint ventures	777,880	-	(5,479,086)	(4,701,206)
Other income and expense	2,129,886	1,494,801	190,549	3,815,236
Income tax expense	(34,239,815)	(3,046,812)	(1,761,996)	(39,048,623)
Profit for the year from continuing operations	117,565,742	9,161,834	(5,479,913)	121,247,663
Other key segment information				
Capital expenditures for property, plant and equipment	372,335,883	40,965,869	15,966,317	429,268,069
Depreciation of property, plant and equipment	80,478,342	6,145,354	4,818,007	91,441,703

(in thousands of tenge unless otherwise stated)

	For the year ended December 31, 2012 (restated)			
	Cargo transportation	**Passenger transportation**	**All other segments**	**Total**
Key operating measures				
Revenue				
Transportation	711,871,117	65,291,005	-	777,162,122
Government grants	-	22,148,264	-	22,148,264
Other revenue	17,321,763	3,269,149	32,884,691	53,475,603
Intersegment revenue	(27,961,455)	(2,216,426)	(18,149,452)	(48,327,333)
Revenue	701,231,425	88,491,992	14,735,239	804,458,656
Cost of sales	(468,755,736)	(75,187,023)	(5,415,254)	(549,358,013)
General and administrative expense	(70,341,996)	(5,226,346)	(4,051,622)	(79,619,964)
Selling expenses	(193,391)	-	-	(193,391)
Finance income	3,701,777	233,473	418,588	4,353,838
Finance costs	(28,426,360)	595,853	(2,193,729)	(30,024,236)
Foreign exchange loss	(3,952,174)	120,938	(277,909)	(4,109,145)
Loss from impairment of property, plant and equipment	(137,786)	(23,481)	59,322	(101,945)
Share of profit of associates	489,452	-	-	489,452
Share of loss of joint ventures	-	-	(561,661)	(561,661)
Other income and expense	4,730,951	872,920	57,280	5,661,151
Income tax expense	(28,349,761)	(1,772,544)	(900,261)	(31,022,566)
Profit for the year from continuing operations	109,996,401	8,105,782	1,869,993	119,972,176
Other key segment information				
Capital expenditures for property, plant and equipment	442,968,339	20,895,716	10,021,393	473,885,448
Depreciation of property, plant and equipment	67,874,284	5,514,157	4,101,526	77,489,967

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	**2013**	**2012 (restated)**
Kazakhstan	867,306,230	789,131,688
Russia	4,933,932	8,631,408
Other	1,325,541	6,695,560
	873,565,703	804,458,656

Substantially all of the Group's non-current assets are in Kazakhstan.

(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, 2013 was as follows:

	Land	Buildings and construction	Railway infrastructure	Machinery and equipment	Railway transport	Other transport	Other	Capital construction in progress	Total
Historical cost:									
As at December 31, 2012 (restated)	1,978,290	135,092,544	665,970,515	255,806,995	825,951,619	15,345,137	14,513,927	101,558,193	2,016,217,220
Additions	42,065	2,360,388	304,214	8,560,875	133,938,494	3,755,373	2,270,060	278,036,600	429,268,069
Acquired through business combination (Note 32)	1,760,448	9,203,801	-	243,654	-	29,979	235,879	-	11,473,761
Transfers	71,861	6,878,230	48,901,259	13,583,901	13,644,910	1,484,365	2,304,993	(86,869,519)	-
Disposals	(24,274)	(201,885)	(117,952)	(1,316,298)	(9,890,643)	(93,965)	(237,450)	-	(11,882,467)
Transfer to inventory	-	(100)	(9,809,534)	(140,311)	(23,356)	(22,158)	(78,557)	(2,665,794)	(12,739,810)
Transfer to intangible assets (Note 6)	-	-	-	(152,805)	-	-	(742)	(2,451,768)	(2,605,315)
Transfer to investment property (Note 8)	(3,954)	(413,821)	-	(161,427)	-	-	-	-	(579,202)
As at December 31, 2013	3,824,436	152,919,157	705,248,502	276,424,584	963,621,024	20,498,731	19,008,110	287,607,712	2,429,152,256
Accumulated depreciation and impairment:									
As at December 31, 2012 (restated)	-	(17,608,827)	(89,360,481)	(68,975,226)	(180,858,996)	(6,093,000)	(4,980,243)	(4,045,437)	(371,922,210)
Charge for the year	-	(5,667,812)	(20,634,074)	(20,238,884)	(42,189,309)	(1,379,289)	(1,332,335)	-	(91,441,703)
Loss from impairment for the year	-	(40,869)	(414,073)	(18,912)	(3,571)	(39,224)	(39,433)	(967,351)	(1,523,433)
Transfers	-	10,671	-	1,218,826	(1,255,036)	897	24,642	-	-
Disposals	-	139,273	64,585	1,133,137	9,295,982	69,784	218,055	-	10,920,816
Transfer to inventory	-	100	4,632,201	67,365	20,240	39	6,727	-	4,726,672
Transfer to intangible assets (Note 6)	-	-	-	23,295	-	-	19	-	23,314
Transfer to investment property (Note 8)	-	65,716	-	-	-	-	-	-	65,716
As at December 31, 2013	-	(23,101,748)	(105,711,842)	(86,790,399)	(214,990,690)	(7,440,793)	(6,102,568)	(5,012,788)	(449,150,828)
Net book value:									
As at December 31, 2013	3,824,436	129,817,409	599,536,660	189,634,185	748,630,334	13,057,938	12,905,542	282,594,924	1,980,001,428

(in thousands of tenge unless otherwise stated)

The movement of property, plant and equipment for the year ended December 31, 2012 was as follows:

	Land	Buildings and construction	Railway infrastructure	Machinery and equipment	Railway transport	Other transport	Other	Capital construction in progress	Total
Historical cost:									
As at December 31, 2011 (restated)	1,830,630	139,837,341	572,536,810	214,562,689	550,939,813	13,807,668	10,935,226	101,627,299	1,606,077,476
Additions	264,092	170,932	219,821	16,629,187	261,207,829	1,081,865	1,027,641	193,284,081	473,885,448
Transfers	(53,593)	7,000,647	106,068,871	33,449,646	20,178,843	738,155	3,288,772	(170,671,341)	-
Disposals	(46,839)	(476,675)	(2,059,069)	(1,660,834)	(6,334,029)	(133,036)	(218,050)	(9,389,835)	(20,318,367)
Transfer to inventory	-	(93)	(10,262,642)	(163,546)	(25)	(21,277)	(210,517)	(6,834,375)	(17,492,475)
Transfer to other non-current assets	-	(989,118)	(533,276)	(59,520)	-	-	-	(3,646,907)	(5,228,821)
Transfer from/(to) intangible assets (Note 6)	-	-	-	16,820	-	-	-	(2,261,713)	(2,244,893)
Reclassified as held for sale (Note 17)	(16,000)	(9,653,190)	-	(6,815,022)	(40,812)	(128,238)	(309,145)	(549,016)	(17,511,423)
Transfer to investment property (Note 8)	-	(797,300)	-	(152,425)	-	-	-		(949,725)
As at December 31, 2012 (restated)	1,978,290	135,092,544	665,970,515	255,806,995	825,951,619	15,345,137	14,513,927	101,558,193	2,016,217,220
Accumulated depreciation and impairment:									
As at December 31, 2011 (restated)	-	(14,903,441)	(76,450,411)	(53,841,021)	(152,004,451)	(5,177,522)	(4,064,433)	(3,863,680)	(310,304,959)
Charge for the year	-	(3,587,743)	(19,705,956)	(17,740,114)	(34,127,607)	(1,135,616)	(1,192,931)	-	(77,489,967)
Loss from impairment for the year	-	37,585	(61,946)	56,506	49,096	(3,322)	1,893	(181,757)	(101,945)
Transfers	-	(43,213)	(66,984)	26,378	(3,184)	80,986	6,017	-	-
Disposals	-	159,890	1,914,888	1,063,373	5,210,910	97,689	199,962	-	8,646,712
Transfer to inventory	-	-	5,009,928	38,690	21	2,633	138	-	5,051,410
Transfer from intangible assets (Note 6)	-	-	-	(3,720)	-	-	-	-	(3,720)
Reclassified as held for sale (Note 17)	-	710,781	-	1,374,272	16,219	42,152	69,111	-	2,212,535
Transfer to investment property (Note 8)	-	17,314	-	50,410	-	-	-	-	67,724
As at December 31, 2012 (restated)	-	(17,608,827)	(89,360,481)	(68,975,226)	(180,858,996)	(6,093,000)	(4,980,243)	(4,045,437)	(371,922,210)
Net book value:									
As at December 31, 2012 (restated)	1,978,290	117,483,717	576,610,034	186,831,769	645,092,623	9,252,137	9,533,684	97,512,756	1,644,295,010

(in thousands of tenge unless otherwise stated)

In 2013 the Group received train stations and passenger platforms of 2,976,983 thousand tenge from the Shareholder, which is recognized as a contribution to share capital (2012: cargo carriages of 5,429,760 thousand tenge were recognised as a Shareholder contribution in additional paid-in capital in the statement of changes in equity) (Note 18).

As at December 31, 2013 and 2012, property, plant and equipment of the Group with a carrying value of 153,138,190 thousand tenge and 54,246,713 thousand tenge, respectively, was pledged as collateral for a portion of the Group's borrowings (Note 19).

As at December 31, 2013 and 2012, the cost of fully depreciated property, plant and equipment which was still in use, amounted to 196,677,251 thousand tenge and 185,537,366 thousand tenge, respectively.

As at December 31, 2013 the carrying value of property, plant and equipment under finance lease included in machinery and equipment and railway transport amounted to 6,190,687 thousand tenge (December 31, 2012: 6,674,426 thousand tenge).

6. INTANGIBLE ASSETS

The movement of intangible assets for the year ended December 31, 2013 was as follows:

	Licenses	Software	Other[1]	Goodwill	Total
Cost:					
As at December 31, 2012 (restated)	808,203	13,303,050	404,953	322,335	14,838,541
Additions	105,734	172,511	4,679		282,924
Business acquisitions (Note 32)	592	6,862		-	7,454
Transfer from inventory	7,589	163,901	-	-	171,490
Transfer from property, plant and equipment (Note 5)	311,965	2,254,824	38,526	-	2,605,315
Transfers	(14,750)	14,752	(2)	-	-
Disposals	(1,440)	(222,008)	(201)		(223,649)
As at December 31, 2013	1,217,893	15,693,892	447,955	322,335	17,682,075
Accumulated amortization:					
As at December 31, 2012 (restated)	(577,387)	(5,628,409)	(61,898)	-	(6,267,694)
Charge for the year	(47,606)	(1,945,745)	(54,493)	-	(2,047,844)
Transfer from property, plant and equipment (Note 5)	-	(23,314)	-	-	(23,314)
Transfers	539	(1,647)	1,108	-	-
Disposals	677	220,913	52	-	221,642
As at December 31, 2013	(623,777)	(7,378,202)	(115,231)	-	(8,117,210)
Net book value as at December 31, 2013	594,116	8,315,690	332,724	322,335	9,564,865

(in thousands of tenge unless otherwise stated)

The movement of intangible assets for the year ended December 31, 2012 was as follows:

	Licenses	Software	Other(1)	Goodwill	Total
Cost:					
As at December 31, 2011 (restated)	782,575	11,267,762	837,465	322,335	13,210,137
Additions	563	214,358	53,695	-	268,616
Business acquisitions (Note 32)	-	-	-	-	-
Transfer from inventory	-	136,337	-	-	136,337
Transfer from/(to) property, plant and equipment (Note 5)	41,098	2,047,533	156,262	-	2,244,893
Transfers	(10,011)	(16,171)	26,182	-	-
Reclassified as held for sale (Note 17)	-	(212,759)	(668,651)	-	(881,410)
Disposals	(6,022)	(134,010)	-	-	(140,032)
As at December 31, 2012 (restated)	808,203	13,303,050	404,953	322,335	14,838,541
Accumulated amortization:					
As at December 31, 2011 (restated)	(539,170)	(4,095,098)	(206,797)	-	(4,841,065)
Charge for the year	(152,631)	(1,696,601)	(21,594)	-	(1,870,826)
Transfer (from)/to property, plant and equipment (Note 5)	-	3,720	-	-	3,720
Transfers	108,427	16,174	(124,601)	-	-
Reclassified as held for sale (Note 17)	-	10,142	291,094		301,236
Disposals	5,987	133,254	-	-	139,241
				-	
As at December 31, 2012 (restated)	(577,387)	(5,628,409)	(61,898)	-	(6,267,694)
Net book value as at December 31, 2012 (restated)	230,816	7,674,641	343,055	322,335	8,570,847

As at December 31, 2013 the cost of fully amortized intangible assets, represented by software used by the Group in operations, which were still in use amounted to 2,563,214 thousand tenge (December 31, 2012: 1,821,584 thousand tenge).

(in thousands of tenge unless otherwise stated)

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates comprised the following as at December 31, 2013 and 2012:

	LLP Aktobe rail and section mill plant	Logistic System Management B.V. (JSC Kedentransservice)	Other	Total
Investments at December 31, 2011	-	2,186,636	-	2,186,636
Share of profit	-	489,452	-	489,452
Dividends received	-	(42,342)	-	(42,342)
Investments at December 31, 2012	-	2,633,746	-	2,633,746
Acquisitions	2,158,386	-	18,825	2,177,211
Share of (loss)/profit	(228,034)	665,480	(5,389)	432,057
Transfer to joint ventures	-	(3,066,714)	-	(3,066,714)
Dividends received	-	(232,512)	-	(232,512)
Investments at December 31, 2013	1,930,352	-	13,436	1,943,788

Details of each of the Group's significant associates at December 31 are as follows:

Name of associate	Principal activity	Place of incorporation and principal place of business	Nature of relations between the Group and its associates, and whether it is strategically important for the Group	Fair value of investments (if the investments are accounted for using the equity method, if quoted market prices for investment are available)
At December 31, 2012				
Logistic System Management B.V. (JSC Kedentransservice)	Forwarding services, handling rolling stock, terminal service	Kazakhstan	Operator of container transportation and terminal services for container transportation at Dostyk station.	Unquoted
At December 31, 2013				
LLP Aktobe rail and section mill plant	Production and sales of metal roll	Kazakhstan	Established to provide the Group with modern rails.	Unquoted

(in thousands of tenge unless otherwise stated)

As at December 31 and for the years then ended, summary financial information for the Group's investments in associates is as follows:

	December 31, 2013	December 31, 2012
	LLP Aktobe rail and section mill plant	Logistic System Management B.V. (JSC Kedentransservice)
Current assets	1,704,036	3,302,702
Non-current assets	15,512,078	6,878,915
Total assets	17,216,114	10,181,617
Current liabilities	99,379	1,791,715
Non-current liabilities	10,682,227	408,855
Total liabilities	10,781,606	2,200,570
Net assets	6,434,508	7,981,047
Proportion of the Group's ownership interest	30.00%	33.00%
Group's share of net assets of associates	1,930,352	2,633,746
Carrying amount of the Group's interest in associates	1,930,352	2,633,746

	LLP Aktobe rail and section mill plant	Logistic System Management B.V. (JSC Kedentrans-service)	2013 Total	Logistic System Management B.V. (JSC Kedentrans-service)	2012 Total
Revenue	-	32,086,790	32,086,790	17,293,142	17,293,142
(Loss) / profit from continuing operations	(760,112)	2,016,606	1,256,494	1,483,187	1,483,187
(Loss)/profit for the year	(760,112)	2,016,606	1,256,494	1,483,187	1,483,187
Total comprehensive income for the year	(760,112)	2,016,606	1,256,494	1,483,187	1,483,187
Group's share of (loss)/profit of associates	(228,034)	665,480	437,446	489,452	489,452

(in thousands of tenge unless otherwise stated)

Aggregate information for other associates of the Group:

	December 31, 2013	December 31, 2012
The Group's share of loss from continuing operations	(1,343,660)	(902,796)
The Group's share of total comprehensive loss	(1,343,660)	(902,796)
Recognised share of loss for the year	(5,389)	-
Unrecognised share of loss for the year	(1,338,271)	(902,796)

[1]The unrecognized share of losses relate to associates whose cumulate share of losses exceed the Group's interest in the entity, and for which the Group has not incurred legal or constructive obligations or made payments on behalf of the associate.

As of December 31, 2012, the Group had a 33% interest in its associate JSC Kedentransservice. In May 2013 the Group contributed its 33% share in associate JSC Kedentransservice in exchange for a 33% interest in Logistic System Managmeent B.V. Logistic System Management B.V. is a newly-formed holding company whose only investment is JSC Kedentrannservice. This exchange transaction lacked commercial substance and did not result in any changes to the accounting for the Group's investment.

In December 2013, the Group acquired an additional 17% share in Logistic System Management B.V. for 3,251,928 thousand tenge. As a result of this incremental acquisition, the Group now has a 50% interest in Logistic System Management B.V. and has joint control. The Group's investment was reclassified as a joint venture.

Investments in joint ventures comprised the following as at December 31, 2013 and 2012:

	LLP Electrovoz kurastyru zauyty	LLP Tulpar-Talgo	Logistic System Management B.V.	JSC Locomotive Kurastyru Zauyty	Other	Total
Investments at December 31, 2011	2,752,868	-	-	-	-	2,752,868
Acquisitions	1,269,261	9,384,985	-	-	-	10,654,246
Share of (loss)/profit	(189,177)	(372,484)	-	-	-	(561,661)
Investments at December 31, 2012	3,832,952	9,012,501	-	-	-	12,845,453
Acquisitions	-	819,690	3,253,657	9,071,018	391,250	13,535,615
Share of (loss)/profit	(251,674)	(5,227,412)	-	628,504	149,376	(4,701,206)
Transfer from associates	-	-	3,066,714	-	-	3,066,714
Investments at December 31, 2013	3,581,278	4,604,779	6,320,371	9,699,522	540,626	24,746,576

Details of each of the Group's material joint ventures at December 31 are as follows:

Name of joint ventures	Principal activity	Place of principal place of business	Place of incorporation (if different from principal place of business)	Nature of relations between the Group and its associates, and whether it is strategically important for the Group	Fair value of investments (if the investments are accounted for using the equity method, if quoted market prices for investment are available)
At December 31, 2012					
LLP Electrovoz kurastyru zauyty	Cargo and passenger electric locomotives production	Kazakhstan	Kazakhstan	JV satisfies the need of the Group in electric locomotives, thus ensuring the sustainability of transport activities. JV is strategically important for the Group	Unquoted
LLP Tulpar-Talgo	Passenger wagons production	Kazakhstan	Kazakhstan	JV satisfies the need of the Group in high-speed passenger carriages. JV is strategically important for the Group	Unquoted
At December 31, 2013					
LLP Electrovoz kurastyru zauyty	Cargo and passenger electric locomotives production	Kazakhstan	Kazakhstan	JV satisfies the need of the Group in electric locomotives, thus ensuring the sustainability of transport activities. JV is strategically important for the Group	Unquoted
LLP Tulpar-Talgo	Passenger wagons production	Kazakhstan	Kazakhstan	JV satisfies the need of the Group in high-speed passenger carriages. JV is strategically important for the Group	Unquoted
JSC Locomotive Kurastyru Zauyty	Assembly of locomotives	Kazakhstan	Kazakhstan	JV satisfies the need of the Group in diesel locomotives, thus ensuring the sustainability of transport activities. JV is strategically important for the Group	Unquoted
Logistic System Management B.V. (former JSC Kedentransservice)	Forwarding services, handling rolling stock, terminal service	Kazakhstan	Netherlands	Operator of container transportation and terminal services for container transportation at Dostyk station.	Unquoted

(in thousands of tenge unless otherwise stated)

As at December 31, 2013 and for the year then ended, summary financial information for the Group's investments in joint ventures is as follows:

	LLP Electrovoz kurastyru zauyty	LLP Tulpar-Talgo	Logistic System Management B.V.	JSC Locomotive Kurastyru Zauyty	Total
Current assets	10,270,836	8,438,971	4,826,664	35,694,977	59,231,448
Including cash and cash equivalents	25,566	96,060	773,664	5,003,082	5,898,372
Non-current assets	19,315,284	10,779,929	7,437,672	16,352,904	53,885,789
Total assets	29,586,120	19,218,900	12,264,336	52,047,881	113,117,237
Current liabilities	9,377,553	14,493,161	2,727,460	23,069,356	49,667,530
Including current financial liabilities (excluding trade and other payables and provisions)	*601,567*	*3,639,298*	*37,321*	*3,684,092*	*7,962,278*
Non-current liabilities	13,046,012	120,926	243,803	7,311,107	20,721,848
Including non-current financial liabilities (excluding trade and other payables and provisions)	*6,762,134*	-	-	*5,328,347*	*12,090,481*
Total liabilities	22,423,565	14,614,087	2,971,263	30,380,463	70,389,378
Net assets	7,162,555	4,604,813	9,293,073	21,667,418	42,727,859
Proportion of the Group's ownership interest	50.00%	99.999%	50.00%	50.00%	
Group's share of net assets of joint ventures	3,581,278	4,604,779	4,646,537	10,833,709	23,666,303
Goodwill	-	-	1,673,834	-	1,673,834
Fair value adjustment of the remaining interest	-	-	-	(1,134,187)	(1,134,187)
Carrying amount of the Group's interest in joint ventures at December 31, 2013	3,581,278	4,604,779	6,320,371	9,699,522	24,205,950
Revenue	20,205,980	28,651,968	-	25,061,388	73,919,336
Depreciation and amortisation	(528,803)	(512,775)	-	(1,099,149)	(2,140,727)
Finance income	12	-	-	56,383	56,395
Finance costs	(384,792)	(246,235)	-	(193,065)	(824,092)
Income tax expense (income)	2	(80,975)	-	(1,929,090)	(2,010,063)
(Loss) / profit from continuing operations	(503,348)	(5,227,451)	-	1,257,007	(4,473,792)
(Loss) / profit for the year	(503,348)	(5,227,451)	-	1,257,007	(4,473,792)
Total comprehensive (loss) / income for the year	(503,348)	(5,227,451)	-	1,257,007	(4,473,792)
Group's share of (loss)/profit of joint ventures for 2013	(251,674)	(5,227,412)	-	628,504	(4,850,582)

(in thousands of tenge unless otherwise stated)

As at December 31, 2012 and for the year then ended, summary financial information for the Group's investments in joint ventures is as follows:

	LLP Electrovoz kurastyru zauyty	LLP Tulpar-Talgo	Total
Current assets	5,951,827	10,791,415	16,743,242
Including cash and cash equivalents	*71,636*	*663,533*	*735,169*
Non-current assets	21,023,769	10,530,924	31,554,693
Total assets	26,975,596	21,322,339	48,297,935
Current liabilities	3,671,540	12,221,387	15,892,927
Including current financial liabilities (excluding trade and other payables and provisions)	*3,151*	*1,039,013*	*1,042,164*
Non-current liabilities	15,638,153	88,384	15,726,537
Including non-current financial liabilities (excluding trade and other payables and provisions)	*3,688,405*	-	*3,688,405*
Total liabilities	19,309,693	12,309,771	31,619,464
Net assets	7,665,903	9,012,568	16,678,471
Proportion of the Group's ownership interest	50.00%	99.999%	
Group's share of net assets of joint ventures	3,832,952	9,012,501	12,845,453
Carrying amount of the Group's interest in joint ventures at December 31, 2012	3,832,952	9,012,501	12,845,453
Revenue	-	11,632,307	11,632,307
Depreciation and amortisation	(4,292)	(209,686)	(213,978)
Finance income	-	-	-
Finance costs	(12,136)	(152,715)	(164,851)
Income tax expense (income)	-	-	-
Loss from continuing operations	(378,354)	(372,487)	(750,841)
Loss for the year	(378,354)	(372,487)	(750,841)
Total comprehensive loss for the year	(378,354)	(372,487)	(750,841)
Group's share of loss of joint ventures for 2012	(189,177)	(372,484)	(561,661)

Aggregate information for other joint ventures of the Group:

	December 31, 2013	December 31, 2012
The Group's share of profit from continuing operations	149,376	-
The Group's share of total comprehensive income	149,376	-
Unrecognised share of loss of an associate for the year	-	-

In October 2012, the Group, through its subsidiary JSC Remlocomotive made additional contributions of non-current assets in the amount of 9,384,984 thousand tenge to the charter capital of Tulpar-Talgo LLP, the joint venture with Talgo Kazajstan S.L., increasing its share from 50% to 99.99%. At the same time the Group entered into an option contract whereby Talgo Kazajstan S.L. may re-acquire 49.99% of the charter capital of Tulpar-Talgo LLP. The increase in ownership in Tulpar-Talgo LLP by the Group did not affect the right of veto by the other investor over key operating decisions. As a result, this investment continues to be accounted for as investment in a joint venture. The option contract is currently exercisable and expires on August 6, 2014.

(in thousands of tenge unless otherwise stated)

8. INVESTMENT PROPERTY

The movement of investment property for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012
Historical cost:		
As at the beginning of the year	7,874,955	6,925,230
Transfer from property, plant and equipment (Note 5)	579,202	949,725
As at the end of the year	8,454,157	7,874,955
Accumulated depreciation and impairment:		
As at the beginning of the year	(745,748)	(346,351)
Charge for the year	(346,201)	(331,673)
Transfer from property, plant and equipment (Note 5)	(65,716)	(67,724)
As at the end of the year	(1,157,665)	(745,748)
Net book value:		
As at the end of the year	7,296,492	7,129,207

For years ended December 31, 2013 and 2012 the Group recognized rental income of 909,669 thousand tenge and 926,574 thousand tenge, respectively, and depreciation and maintenance expenses of 854,232 thousand tenge and 705,516 thousand tenge, respectively.

The Group assessed the fair value of investment property as at December 31, 2013 and 2012. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties in Astana city. In estimating the fair value of the properties, the highest and best use of the properties was considred to be their current use. There has been no change to the valuation technique during the year.

As at December 31, 2013 and 2012 the fair value of investment property approximately equals its carrying value. Due to lack of exact comparable market for this investment property such assessment of fair value relates to Level 3 of the fair value hierarchy.

(in thousands of tenge unless otherwise stated)

9. OTHER NON-CURRENT ASSETS

Other non-current assets comprised the following as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012 (restated)
Advances to suppliers for property, plant and equipment	134,014,062	87,852,096
VAT receivable	33,695,637	30,429,912
Residential properties	20,262,309	7,517,201
Assets for sale to the Government	14,148,355	14,239,451
Available for sale investments	726,523	8,217,780
Other	2,026,768	2,135,238
	204,873,654	150,391,678
Less: allowance for advances to suppliers for property, plant and equipment	(1,499,823)	(2,703,025)
Less: allowance for unrecoverable VAT receivable	(17,524,445)	(13,678,453)
	185,849,386	134,010,200

As at December 31, 2013 advances to suppliers for property, plant and equipment primarily represent prepayments for the construction of Zhezkazgan – Beineu and Arkalyk – Shubarkol railway lines of 66,760,438 thousand tenge (December 31, 2012: 40,685,938 thousand tenge), advances paid for the supply of locomotives of 24,149,238 thousand tenge (December 31, 2012: 14,903,951 thousand tenge) and advances paid for the supply of passenger wagons of 21,824,138 thousand tenge (December 31, 2012: 17,976,773 thousand tenge).

During 2012 the Group concluded an agreement for the construction of residential properties for its employees. As at December 31, 2013 the Group incurred construction cost of 19,625,072 thousand tenge (2012: 3,845,427 thousand tenge) and paid advances of 547,186 thousand tenge (2012: 3,532,374 thousand tenge).

The movements in the allowance for advances to suppliers for property, plant and equipment for the years ended December 31, were as follows:

	2013	2012 (restated)
Allowance for advances to suppliers for property, plant and equipment at the beginning of the year	(2,703,025)	(2,012,763)
Accrued for the year	(79,263)	(785,435)
Written off during the year against the allowance previously recorded	15,265	95,173
Transfer to other current assets (Note 15)	1,267,200	-
Allowance for advances to suppliers for property, plant and equipment at the end of the year	(1,499,823)	(2,703,025)

As at December 31, 2013 and 2012, non-current VAT receivable represents amounts that arose from the purchases of goods, services, and property, plant and equipment and are expected to be recovered in more than one year.

(in thousands of tenge unless otherwise stated)

The movements in the allowance for unrecoverable VAT receivable for the years ended December 31, were as follows:

	2013	2012 (restated)
Allowance for unrecoverable VAT receivable at the beginning of the year	(13,678,453)	(13,497,661)
Accrued for the year	(3,845,992)	(180,792)
Allowance for unrecoverable VAT receivable at the end of the year	(17,524,445)	(13,678,453)

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, sells 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 2015 and while the sales price is yet to be agreed, it is expected to be at a minimum, the carrying value of the said assets. In these consolidated financial statements such assets have been presented within other non-current assets. As at December 31, 2013 and 2012 the carrying value of assets for sale to the Government is 14,148,355 thousand tenge and 14,239,451 thousand tenge, respectively.

As at December 31, 2012 available-for-sale investments include investments in JSC Kazakh Academy of Transport and Communications named after M.Tynyshpaev. In November 2012 the Group acquired 65% of shares of this entity for 7,496,751 thousand tenge to be paid in installments until June 2013. At that date and as at December 31, 2012 the Group had no control over the JSC Kazakh Academy of Transport and Communications named after M.Tynyshpaev, as the seller had the right to veto any decision of the Group until full payment for the acquired shares was made. As at December 31, 2012 the amount payable for the acquisition of shares was 6,996,752 thousand tenge (Note 26). As at December 31, 2013 the Group repaid the debt for the purchased shares and gained control of the entity (Note 32).

In addition, available for sale investments include other investments of 726,523 thousand tenge (2012: 721,028 thousand tenge).

10. INVENTORIES

Inventories comprised the following as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012 (restated)
Materials and supplies	14,560,641	12,999,560
Spare parts	10,418,550	13,246,710
Fuel	5,671,686	4,642,759
Upper railway components	4,038,067	1,562,678
Construction components	1,391,568	1,358,757
Work in process	707,826	693,240
Finished goods	532,577	551,867
Other	1,121,067	726,532
Less: allowance for obsolete and slow-moving inventories	(718,081)	(1,271,525)
	37,723,901	34,510,578

(in thousands of tenge unless otherwise stated)

The movements in the allowance for obsolete and slow-moving inventories were as follows for the years ended December 31:

	2013	2012 (restated)
Allowance for obsolete and slow-moving inventories at the beginning of the year	(1,271,525)	(1,619,110)
Recovered for the year	148,070	32,931
Written off during the year	405,374	314,654
Allowance for obsolete and slow-moving inventories at the end of the year	(718,081)	(1,271,525)

11. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012 (restated)
Trade accounts receivable	12,765,803	13,229,359
Less: allowance for doubtful debts	(4,658,654)	(5,445,246)
	8,107,149	7,784,113

As at December 31, 2013 eight debtors represented 41% of the Group's trade accounts receivable (December 31, 2012: eight debtors represented 42%).

The movements in the allowance for doubtful debts were as follows for the years ended December 31:

	2013	2012 (restated)
Allowance for doubtful debts at the beginning of the year	(5,445,246)	(5,204,454)
Provided against during the year	188,219	(555,228)
Written off during the year against the allowance previously recorded	598,373	314,436
Allowance for doubtful debts at the end of the year	(4,658,654)	(5,445,246)

As at December 31, 2013 and 2012 the Group's trade accounts receivable, net of allowance for doubtful debts, were denominated in various currencies as follows:

	December 31, 2013	December 31, 2012 (restated)
Tenge	7,154,473	5,369,491
Swiss Francs	491,782	1,987,559
US Dollars	355,472	381,837
Russian Rubles	105,422	45,226
	8,107,149	7,784,113

(in thousands of tenge unless otherwise stated)

12. OTHER FINANCIAL ASSETS

As at December 31, 2013 and 2012 other financial assets represent bank deposits with original maturities of greater than three months:

	December 31, 2013 Interest rate	December 31, 2013 Amount	December 31, 2012 (restated) Interest rate	December 31, 2012 (restated) Amount
Current other financial assets:				
JSC Tsesnabank	3.2%-4.5%	20,934,346	3.0%-7.0%	17,992,707
JSC Eurasian Bank	4.5%	9,312,153	2.7%-5.5%	6,512,525
JSC Halyk Bank of Kazakhstan	6.5%	4,000,000	-	-
JSC Kazinvest Bank	4.5%	1,766,516	6.5%	2,000,000
JSC Kaspi Bank	6.0%	400,000	-	-
JSC Alliance Bank (Note 36)	3.5%	101,757	-	-
JSC Kazkommertsbank	-	-	2.7%-5.0%	14,992,500
JSC SB Sberbank of Russia	-	-	2.0-4.0%	3,559,410
JSC Bank CenterCredit	-	-	3.5%-4.0%	1,663,858
JSC Bank RBK	-	-	4.8%-6.0%	1,553,748
Non-current other financial assets:				
JSC Tsesnabank	5%	1,834,302	4.9%	1,874,213
JSC Bank CenterCredit	2.0%-5.2%	35,722	-	-
JSC SB Sberbank of Russia	7.0%	50,000	-	-
		38,434,796		50,148,961
Accrued interest receivable		277,848		92,102
		38,712,644		50,241,063
Less: current portion of other financial assets		(36,789,673)		(48,366,850)
Non-current portion of other financial assets		1,922,971		1,874,213

As at December 31, 2013, bank deposits of the Group with a carrying value of nil (2012: 1,500,000 thousand tenge) were pledged as collateral for a portion of the Group's borrowings.

As at December 31, 2013 and 2012 other financial assets were denominated in the following currencies:

	December 31, 2013	December 31, 2012 (restated)
Tenge	4,510,570	37,117,595
US Dollars	34,202,074	13,123,468
	38,712,644	50,241,063

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. Group management formally approved the construction project in November 2010. In 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 and subsequently entered into an agreement for the supply of media and technical equipment for installation as well as incurred costs on the acquisition of land (Notes 18 and 26).

As at December 31, 2012 the Group had incurred total costs for construction of this complex, the supply of media and technical equipment and the acquisition of land of 58,926,941 thousand tenge. In July 2012 the building for the teleradio complex including the land on which it is located for a total cost of 30,688,303 thousand tenge was donated to the Information and Archives Committee of the Ministry of Culture and Information of the Republic of Kazakhstan on the basis of a contract of donation.

In July 2012 the Government directed the Group to construct a multifunctional ice palace in Astana at the Group's expense. The Group's management formally approved the construction of the ice palace in July 2012. In October 2012, the Group entered into an agreement with a construction company for 25,146,747 thousand tenge. In 2013 the Group entered into an additional agreement and reduced the estimated construction value for 140,995 thousand tenge (Notes 18 and 26). As at December 31, 2013 the Group prepaid advances for construction of 2,884,571 thousand tenge (2012: 7,000,000 thousand tenge) and incurred costs of construction of 7,873,310 thousand tenge (2012: nil). These costs are recognized as non-current assets held for the benefit of the 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 planned for June 2015.

In 2013 the Group entered into commitment to donate social facilities to Mangistau municipality of 965,450 thousand tenge built pursuant to a decree of the ultimate Shareholder within social-economic development of Mangistau oblast (Note 18 and 26). These costs are reflected as a current asset held for the benefit of the Shareholder in the consolidated statement of financial position, as it is expected that the asset will be transferred to the Shareholder during 2014.

14. LOANS GIVEN

During 2013 the Group's subsidiary JSC Remlocomotive gave interest free loans to Tulpar-Talgo LLP, a joint-venture, with maturities on December 31, 2013 and 2014 in the amount of 6,000,000 thousand tenge and 4,000,000 thousand tenge, respectively (2012: nil) (Note 36). During 2013, in-line with the stipulated maturity dates, Tulpar-Talgo LLP returned 6,000,000 thousand tenge of these loans.

As the loan was issued to Tulpar-Talgo, at an interest-free rate, the Group calculated the fair value of this loan and recognized an adjustment to the loan value of 589,813 thousand tenge within investments in joint-venture. To calculate the fair value of the loans, the Group used effective interest rates of 11% and 11.3% using the market interest rates. The unwinding of a discount of 229,111 thousand tenge has been recorded within finance income (2012: nil).

(in thousands of tenge unless otherwise stated)

15. OTHER CURRENT ASSETS

Other current assets comprised the following as at December 31, 2013 and 2012:

	December 31, 2013	**December 31, 2012 (restated)**
VAT recoverable	52,848,833	34,090,871
Advances paid	4,223,354	6,164,312
Claims, fines and penalties	3,659,833	2,698,650
Other taxes prepaid	1,547,027	1,298,834
Prepaid expense	1,122,870	2,807,506
Receivables from employees	780,929	872,867
Other	3,818,301	5,282,549
	68,001,147	53,215,589
Less: Allowance for doubtful debts	(7,291,735)	(5,055,226)
	60,709,412	48,160,363

The current VAT recoverable represents the amount the Group expects to recover against VAT liabilities in the upcoming year.

The movements in the allowance for doubtful debts related to advances paid and other current assets were as follows for the years ended December 31:

	2013	**2012 (restated)**
Allowance for doubtful debts at the beginning of the year	(5,055,226)	(5,204,371)
Provided for during the year	(1,665,155)	(6,187)
Written off during the year against the allowance previously recorded	695,846	149,023
Discontinued operations	-	6,309
Transfer from non-current assets (Note 9)	(1,267,200)	-
Allowance for doubtful debts at the end of the year	(7,291,735)	(5,055,226)

(in thousands of tenge unless otherwise stated)

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012 (restated)
Cash in current accounts in tenge	32,956,050	59,643,126
Cash in current accounts in US Dollars	11,749,561	8,723,151
Cash in current accounts in Euro	1,406,172	2,719
Cash in current accounts in Russian rubles	539,262	114,054
Cash in current accounts in Great Britain pounds	3,621	-
Cash in current accounts in Swiss francs	-	88,775
Short-term bank deposits in tenge	37,969,952	-
Short-term bank deposits in US Dollars	1,193,818	452,220
Short-term bank deposits in Euro	-	638,798
Petty cash	37,466	43,586
	85,855,902	69,706,429
Cash included in a disposal group held for sale (Note 17)	-	19,848
	85,855,902	69,726,277

Cash in current accounts earns interest at floating rates based on daily bank deposit rates ranging from 0.20% to 7.00% per annum (2012: 0.05% to 5.50% 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 0.07% to 10% per annum (2012: 0.2% to 0.3% per annum).

As at December 31, 2013 and 2012 the Group's cash in current accounts, which is in banks that are related parties of the Group, amounted to 173,446 and 412,264 thousand tenge, respectively (Note 36).

17. ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

During 2012 Group management committed the entity to a plan to sell a controlling interest (50%) in the subsidiary, JSC Locomotive Kurastyru Zauyty; and in May 2013 the transaction was completed through the sale of 26% of the Group's interest and simultaneous issue of 24% of shares of JSC Locomotive Kurastyru Zauyty to a third party. As a result of the sale, the Group lost control over JSC Locomotive Kurastyru Zauyty. The Group recognized its remaining 50% interest in JSC Locomotive Kurastyru Zauyty as investment in joint-venture (Note 7).

(in thousands of tenge unless otherwise stated)

The results of the discontinued operations

Loss from discontinued operations for the reporting period is presented as follows:

	2013	2012
Loss from discontinued operations for the period	(537,533)	(1,109,451)
Loss on disposal of assets related to discontinued operations	(2,274,564)	-
	(2,812,097)	(1,109,451)

The results of the discontinued operations, which have been included in the consolidated statement of profit or loss and other comprehensive income, were as follows:

	2013	2012
Revenue	34,128	2,978,342
Cost of sales	(9,581)	(2,413,994)
General and administrative expenses	(272,483)	(632,361)
Other income	317	60,572
Finance income	2,476	6,465
Finance costs	(162,742)	(514,179)
Foreign exchange loss	(53,562)	(234,486)
Loss before income tax	(461,447)	(749,641)
Income tax expense	(76,086)	(359,810)
Loss for the year from discontinued operations	(537,533)	(1,109,451)
Basic loss per share (in whole tenge)	(6)	(2)

The cash flows from discontinued operations are presented below:

	2013	2012
Net cash inflows from operating activities	2,634,211	1,045,021
Net cash outflows from investing activities	(475,328)	(1,265,601)
Net cash outflows from financing activities	(1,738,653)	(2,098,503)
Net cash inflows/(outflows)	420,230	(2,319,083)

(in thousands of tenge unless otherwise stated)

The assets and liabilities of the discontinued operation at the date of disposal were as follows:

	May 30, 2013
Assets	
Property, plant and equipment	14,941,115
Intangible assets	537,886
Other non-current assets	595,928
Inventories	22,627,994
Trade accounts receivable	12,123
Other current assets	2,126,482
Cash and cash equivalents	440,078
Liabilities	
Borrowings	10,605,396
Employee benefit obligations	23,829
Deferred tax liability	773,121
Trade accounts payable	12,440,528
Taxes payable	965,197
Other non-current liabilities	146,957
Other current liabilities	452,796
Disposed net assets	**15,873,782**

Loss from disposal of the subsidiary

	2013
Consideration received	4,528,200
Disposed net assets	(15,873,782)
Fair value of the remaining interest	9,071,018
Loss on disposal	(2,274,564)

The Group assessed the fair value of the remaining interest by reference to the value of consideration it received for its 50% interest in JSC Locomotive Kurastyru Zauyty which was disposed of.

Net cash inflows from disposal of the subsidiary

	2013
Consideration in cash	4,528,200
Less cash and cash equivalents disposed	(440,078)
	4,088,122

The major classes of assets and liabilities held for sale as at December 31, 2012 were as follows:

	December 31, 2012
Property, plant and equipment (Note 5)	15,298,888
Intangible assets (Note 6)	580,174
Other non-current assets	2,982,179
Inventories	18,750,948
Accounts receivable	11,186
Other current assets	77,289
Cash and cash equivalents	19,848
Assets held for sale	37,720,512
Borrowings	12,397,157
Employee benefit obligations	23,829
Deferred tax liability	697,035
Accounts payable	1,577,962
Taxes payable	1,563,916
Other non-current liabilities	101,345
Other current liabilities	313,600
Liabilities directly associated with assets classified as held for sale	16,674,844

18. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

Share capital consists of the following at December 31, 2013 and 2012:

	Number of shares authorized	Number of shares issued and paid	Share capital, in thousands of tenge
As at December 31, 2011	502,040,458	491,190,412	579,417,097
Cash contributions			
Transfer due to legal registration of share issuance (January 26, 2012)	-	91,567	90,821,510
Shares paid on July 12, 2012	-	4,000	4,000,000
Non-cash contributions			
Transfer due to legal registration of share issuance (January 26, 2012)	-	1,203	1,203,236
Transfer of non-current assets to the Company (May 3, 2012)	-	489	84,405
As at December 31, 2012	502,040,458	491,287,671	675,526,248
Non-cash contributions			
Transfer due to legal registration of share issuance (January 29, 2013)	-	6,189	5,429,760
Transfer of non-current assets to the Company (May 22, 2013)	-	3,959	2,976,983
As at December 31, 2013	502,040,458	491,297,819	683,932,991

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 the event of liquidation, and preference in purchasing the Company's shares or other securities convertible into the Company's shares.

The shares are issued at par value.

Contributions

During 2013, the Shareholder contributed to the Company's share capital (including additional paid-in capital and unissued share capital):

(a) cash of 30,000,000 thousand tenge. As at December 31, 2013 this contribution was recorded as additional paid-in capital as the shares were not legally issued.

(b) non-current assets of 2,992,994 thousands tenge, including buildings of train stations and passenger platforms of 2,976,983 thousands tenge. The contribution of train stations and passenger platforms has been made taking into account the costs of capital repairs incurred by the Group of 1,859,405 thousand tenge before contribution of these assets to share capital. The Group recognised these costs in retained earnings as at December 31, 2013.

During 2012, the Shareholder contributed to the Company's share capital (including additional paid-in capital and unissued share capital):

(a) cash of 4,000,000 thousand tenge;

(b) non-current assets of 5,514,165 thousands tenge of which 84,405 thousand tenge related to other assets recorded as shares issued and paid, and 5,429,760 thousand tenge related to cargo carriages recorded as additional paid in capital and unissued share capital. As at December 31, 2013, the Group has legally registered shares issuance of 5,429,760 thousand tenge and during 2013 the contribution was transferred from additional paid-in capital to share capital.

In addition during 2013 the Shareholder transferred to the Group for trust management 100% ownership interest in JSC National Company Aktau International Sea Commercial Port valued at 26,233,840 thousand tenge. The Group recorded this transaction within additional paid in capital.

During 2013 a fair value adjustment to loans of 185,274,910 thousand tenge (2012: 33,601,679 thousand tenge) less deferred tax of 37,054,982 thousand tenge (2012: 6,720,336 thousand tenge) was recognized within additional paid-in capital (Note 19).

Dividends and distributions

Dividends

As at December 31, 2013 the Group declared dividends of 16,999,211 thousand tenge relating to 2012 (2012: 36,866,070 thousand tenge relating to 2011).

As at December 31, 2013 dividends were fully paid to the Shareholder (2012: dividends of 28,866,070 thousand tenge were paid to the Shareholder and 8,000,000 thousand tenge was payable).

Distributions

Construction of a building for a teleradio complex for the benefit of the Shareholder

As described in Note 13 above, in 2010-2012 the Group entered into an irrevocable commitment totaling 58,926,941 thousand tenge with the Government to construct a building for a teleradio complex and to fit out the building with media and technical equipment to enable it to function. As a consequence of this transaction, an irrevocable commitment was recognized as a distribution to the Shareholder of 3,183,126 thousand tenge in 2012.

Construction of a multifunctional ice palace for the benefit of the Shareholder

As described in Note 13 above, in 2012 the Group entered into an irrevocable commitment with the Government to construct a multifunctional ice palace resulting in the recognition of a distribution to the Shareholder equaling the value of the associated construction contract of 25,146,747 thousand tenge. In 2013 the Group reduced its irrevocable commitment by 140,995 thousand tenge.

Social facilities of Mangistau oblast for the benefit of the ultimate Shareholder

During 2013 the Group entered into commitment to donate to Mangistau municipality social facilities of 965,450 thousand tenge built pursuant to a decree of the ultimate Shareholder within social-economic development of Mangistau oblast. As a consequence, the Group recognized a distribution to the Shareholder and an irrevocable commitment equaling the value of the associated construction.

Charity provided to the ultimate Shareholder

During 2012, the Group provided sponsorship support at the request of the ultimate Shareholder to support Kazakhstan's professional hockey and football teams. The cost of doing this was recognised as a distribution to the Shareholder in the amount of 4,628,251 thousand tenge.

(in thousands of tenge unless otherwise stated)

19. BORROWINGS

Borrowings, including accrued interest, comprised the following as at December 31, 2013 and 2012:

	Currency	Installments	Interest rate	December 31, 2013	December 31, 2012 (restated)
Short-term borrowings:					
JSC Citibank Kazakhstan:					
Loan 1	Tenge	July 22, 2013	6.00%	800,000	-
Loan 2	US Dollars	February 12, 2013	1-month LIBOR + 3%	-	4,523,032
JSC SB Sberbank					
Loan 1	Tenge	April - May 2013	9-9.5%	-	1,371,861
Loan 2	Tenge	February 28, 2013	4%	-	1,502,225
Loan 3	Tenge	February 13, 2014	9.00%	612,745	-
JSC SB Alfa-bank					
Loan 1	Tenge	May 31, 2013	9.00%	-	2,204,693
Loan 2	Tenge	February-December, 2014	9.00%	1,842,683	-
Other loans	Tenge	April 2013	8%-15%	-	181,317
Long-term borrowings:					
ABN Amro Bank N.V.	US Dollars	32 quarterly installments commencing May 15, 2005 (last installment, May 15, 2014)	3-month LIBOR + 0.07%	277,681	1,880,488
Japan Bank for International Cooperation ("JBIC")	Japanese Yen	37 semi-annual installments commencing December 20, 2002 (last installment, December 20, 2020)	3.00%	3,961,785	5,427,102
Instituto de Credito Oficial ("ICO")	US Dollars	25 semi-annual installments commencing July 9, 2009 (last installment, July 9, 2021)	2.50%	2,726,627	3,010,146
JSC Rehabilitation fund	US Dollars	August 2013	-	-	755,702
JSC Development Bank of Kazakhstan (Note 36):					
Loan 1	US Dollars	15 semi-annual installments commencing June 4, 2006 (last installment, June 4, 2013)	9.80%	-	190,576
Loan 2	Tenge	7 semi-annual installments commencing March 8, 2012 (last installment, March 8, 2015)	8%	501,162	985,648
Loan 3	US Dollars	July 20, 2023	1.15 * 6-month LIBOR + 1.28%	2,722,598	2,957,765
Loan 4	US Dollars	November 15, 2023	8.078%	6,943,000	7,570,311
Loan 5	Tenge	September 25, 2018	7.60%	11,371,859	-
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 + 3.25-3.35%	-	13,201,537
Loan 2	US Dollars	15 semi-annual installments commencing April 13, 2013 (last installment, April 13, 2020)	6-month LIBOR + 3.25%	6,682,658	7,571,116
Loan 3	US Dollars, tenge	12 semi-annual installments commencing May 10, 2013 (last installment, November 10, 2018)	3-month LIBOR + 2.95% for US Dollar tranche and all-in cost + 2.95% for tenge tranche	24,608,895	28,558,406

(in thousands of tenge unless otherwise stated)

	Currency	Installments	Interest rate	December 31, 2013	December 31, 2012 (restated)
Long-term borrowings:					
Eurasian Development Bank	Tenge	October 2020	7.70%	3,122,103	-
JSC National Welfare Fund Samruk-Kazyna (Note 36):					
Loan 1	Tenge	January 25, 2024	2%	22,296,575	21,716,866
Loan 2	Tenge	November 2036	0.75%	2,049,230	1,943,077
Loan 3	Tenge	December 2036	0.75%	7,668,079	7,270,865
Loan 4	Tenge	September 15, 2017	7.2%	15,048,000	15,048,000
Loan 5	Tenge	September 15, 2017	7.2%	60,192,000	60,192,000
Loan 6	Tenge	July 20, 2042	2%	29,192,639	28,644,289
Loan 7	Tenge	July 10, 2037	0.75%	1,299,188	1,248,361
Loan 8	Tenge	November 30, 2062	0.10%	4,571,761	-
Loan 9	Tenge	February 25, 2038	0.75%	11,848,374	-
Loan 10	Tenge	November 30, 2062	0.10%	1,482,705	-
Loan 11	Tenge	November 30, 2062	0.10%	148,575	-
JSC ATF Bank:					
Loan 1	Tenge	May 27, 2013	9.93%-15%	-	298
Loan 2	Tenge	September 20, 2017	8.48%	899,053	1,106,212
Loan 3	US Dollars	December 4, 2017	8.84%	1,452,503	1,771,843
Secured notes	Euro	April 30, 2016	5.48%	187,062	246,158
JSC Halyk Bank of Kazakhstan:					
Loan 1	Tenge	September 8, 2016	11%	-	297,370
Loan 2	Tenge	July 2013 – January 2016	7%-12%	8,304,487	6,999,034
Loan 3	Tenge	April 13, 2018	10%	6,580,971	4,217,201
JSC SB Sberbank					
Loan 1	Tenge	July 20, 2013	9.75%	-	120,642
Loan 2	Tenge	August 6, 2017	10.5%	1,075,959	1,285,088
Loan 3	Tenge	October 31, 2014	9.7%	6,481,148	3,160,444
HSBC Bank plc	US Dollars	16 semi-annual installments, starting from October 10, 2014 (last installment April 10, 2022)	6-month LIBOR + 3%	10,612,700	10,323,708
HSBC Bank France	Euro	20 semi-annual installments, starting from October 30, 2014 (last installment April 2024)	CIRR in Euro + 0.9%	18,539,131	-
JSC SB Alfa-bank	Tenge	October 9, 2015	9.5%	1,320,089	1,811,559
Export-Import Bank of United States of America	US Dollars	1st tranche: 28 quarter installments, 2nd tranche – 36- quarter installments,, 3rd-6th tranche – 40 quarter installments (last installment, September 15, 2023)	CIRR in US Dollar	52,814,157	-
				330,238,182	249,294,940
Less: Current portion of borrowings				(34,868,844)	(29,166,061)
				295,369,338	220,128,879

* All-in cost represents the costs of funding the loan (fees, commissions, etc.) that are repaid by the borrower over the term of the loan expressed as a rate per annum

(in thousands of tenge unless otherwise stated)

The bank loans disclosed above are repayable as follows:

	December 31, 2013	December 31, 2012 (restated)
Within 1 year	34,868,844	29,166,061
1 to 2 years	29,820,383	18,663,167
2 to 3 years	26,007,294	16,385,762
3 to 4 years	98,034,175	14,465,703
4 to 5 years	23,216,101	89,198,340
Over 5 years	118,291,385	81,415,907
	330,238,182	249,294,940

As at December 31, 2013 and 2012 borrowings were denominated in various currencies as follows:

	December 31, 2013	December 31, 2012 (restated)
Tenge	198,709,385	175,702,279
US Dollars	108,840,819	67,919,401
Japanese Yen	3,961,785	5,427,102
Euro	18,726,193	246,158
	330,238,182	249,294,940

EBRD

Loan 1: In 2010 the Group entered into a credit line agreement with EBRD 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 2010 and 59,134 thousand tenge in 2012. The loan is guaranteed by the Company. As at December 31, 2013 the loan was repaid.

Loan 2: On March 29, 2010 the Group's subsidiary, JSC Kaztemirtrans, entered into a loan agreement with EBRD to finance the purchase of up to 1000 units of cargo wagons for 50,000 thousand US Dollars. During 2012 JSC Kaztemirtrans received 49,800 thousand US Dollars (7,506,852 thousand tenge) under this loan. During 2013 the effective interest rate on the loan was 3.43% (2012: 3.96%). 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 EBRD to finance the purchase up to 4000 units of cargo wagons for 200,000 thousand US Dollars. During 2012 JSC Kaztemirtrans received a tranche in US Dollars of 95,142 thousand US Dollars (14,341,673 thousand tenge) and a tranche in tenge of 14,277,707 thousand tenge. In February 2013 within this loan agreement JSC Kaztemirtrans received a further tranches in US Dollars of 71,910 US Dollars (10,819 thousand tenge) and a tranche in tenge of 482,536 thousand tenge. According to a written confirmation of EBRD, the Group successfully completed the conversion option of tranche in tenge to US Dollars loan from February 11, 2013 at the rate of 150.4 tenge per US Dollar. For the year ended December 31, 2013 the effective interest rate was 3.43% (2012: 4.93%). 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 for 30,000,000 thousand tenge. This loan was provided for the construction of railway lines: Uzen – state border with Turkmenistan and Khorgos – Zhetigen. The loan is unsecured. Interest is paid semi-annually beginning from January 2011. The principal is paid at maturity. As the loan was issued at a rate below the market rate of interest, the fair value of the loan was calculated based on interest rate equal to 5.4%.

Loans 2 and 3: On December 23 and 28, 2011, the Group entered into loan agreements with the Shareholder for 4,000,000 thousand tenge and 15,000,000 thousand tenge, respectively. The loans are provided for the renewal of passenger rolling stock of its subsidiary, JSC Passenger Transportation. The loans are unsecured. Interest is paid in 25 annual installments beginning from November and December 2012, respectively. The principal is repaid in equal annual installments beginning after a five year grace period until full repayment in November and December 2036, respectively. As the loans were issued at a rate below the market rate of interest, the fair value of the loans was calculated based on interest rate equal to 7.02%.

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.

Loan 6: On July 13, 2012 the Group entered into a loan agreement with the Shareholder of 60,755,000 thousand tenge. These loans are provided for the construction of railway lines: Zheskazgan – Beineu and Arkalyk – Shubarkol. The loans are unsecured. Interest is paid semi-annually beginning from January 2013. The principal is paid at maturity. As the loans were issued at a rate below the market rate of interest, the fair value of the loans was calculated based on interest rate equal to 5.58%, 5.62%, 5.87%, 6.43%, 6.60%, 6.71%.

Loan 7: On September 11, 2012 the Group entered into loan agreements with the Shareholder for 2,155,239 thousand tenge. The loans are provided for the renewal of passenger rolling stock of the subsidiary, JSC Passenger Transportation. The loans are unsecured. Interest is paid in 25 annual installments beginning from July 2013. The principal is repaid in equal annual installments beginning after a five year grace period until full repayment in July 2037. As the loans were issued at a rate below the market rate of interest, the fair value of the loans was calculated based on interest rate equal to 5.15%.

Loan 8: On January 31, 2013 the Group signed a loan agreement with the Shareholder for 118,346,000 thousand tenge to finance the construction of railway lines Zhezkazgan-Beineu and Arkalyk-Shubarkol. The loan matures in November 2062. The Group received the full amount of the loan on February 1, 2013. The loan is not secured. The interest on loans is paid in semi-annual installments at an interest rate of 0.1% per annum beginning from July 2013. The principal is repaid at the maturity of the loan. As the loan was issued at a rate below the market rate of interest, the fair value of the loan was calculated based on interest rate equal to 7.68%.

Loan 9: On March 7, 2013 the Group signed a credit agreement with the Shareholder for 24,673,376 thousand tenge. This loan was given for the purposes of the renewal of the rolling stock of the railway passenger wagons of the Group's subsidiary, JSC Passenger Transportation. The loan is not secured. Interest on the loan is repayable at the interest rate of 0.75% per annum, starting from February 25, 2014. The principal is repayable in equal annual installments after a five year grace period with full repayment due in February 2038. As the loan was issued at a rate below the market rate of interest, the fair value of the loan was calculated based on interest rate equal to 7.37% and 6.53%.

Loan 10: On June 23, 2013 the Group signed a loan agreement with the Shareholder for 51,298,000 thousand tenge to finance the construction of railway lines Zhezkazgan-Beineu, with a maturity of November 2062. Under the agreement the Group received a loan in full amount. The loan is unsecured. Interest on the loan is repaid semi-annually at an interest rate of 0.1% starting from January 2014. The principal is paid at maturity. As the loan was issued at a rate below the market rate of interest, the fair value of the loan was calculated based on interest rate equal to 8.63% and 8.47%.

Loan 11: On December 28, 2013 the Group signed a loan agreement with the Shareholder for 8,166,000 thousand tenge to finance the construction of railway lines Zhezkazgan-Beineu, with a maturity of November 2062. Under the agreement the Group received a loan in full amount. The loan is unsecured. Interest on loan is repaid semi-annually at an interest rate of 0.1% beginning from July 2014. The principal is paid at maturity. As the loan was issued at a rate below the market rate of interest, the fair value of the loan was calculated based on interest rate equal to 7.83%.

During 2013 the Group recognized a fair value adjustment to loans of 185,274,910 thousand tenge (2012: 33,601,679 thousand tenge) less deferred tax effect of 37,054,982 thousand tenge (2012: 6,720,336 thousand tenge) within additional paid-in capital.

The Group is eligible for early repayment of the whole or a part of the loans upon an agreement with Shareholder without premium or penalty.

HSBC Bank France

On May 31, 2012, the Group's subsidiary, JSC Locomotive, concluded a General framework agreement with JSC SB HSBC Kazakhstan, jointly with HSBC Bank plc and HSBC Bank France with a support from export-credit agency COFACE for financing the delivery of 200 cargo and 95 passenger electric locomotives in the total amount of 880,877,000 Euro for 10 years. In accordance with the terms of loan agreement, the funds are to be transferred by 5 (five) tranches. In line with this Framework agreement, on May 31, 2012 JSC Locomotive concluded Credit agreement on purchase of cargo electric locomotives (1st tranche) of 172,123,456 Euro for 10 years at the interest rate of CIRR plus margin of 0.9%, whereby original lenders are HSBC BANK France, Citibank International Plc and The Bank of Tokyo – Mitsubishi UFJ, Ltd. The loan is repayable on a semi-annual basis until the full repayment in 2024. The loan was obtained under the guarantee of the Company. As part of signed supplementary agreement, in 2013 credit funds in the total amount of 97,104,195 Euro (19,623,433 thousand tenge) (amount takes into account COFACE premium) were obtained and used, funds were directly transferred to Alstom Transport SA. During 2013 the effective interest rate on the loan was 7.21%.

(in thousands of tenge unless otherwise stated)

Export-Import Bank of United States of America

On November 26, 2012 the Group's subsidiary, JSC Locomotive signed a 10 year loan agreement for 424,856,806 US dollars with Export-Import Bank of United States of America for the acquisition of 196 Evolution series locomotives. The interest rate on the loan is the Commercial Interest Reference Rate (in US dollars). In accordance with the terms of agreement, the funds are to be transferred by nine tranches. As at December 31, 2013, six tranches have been received in full: on January 23, 2013 (tranches 1, 2 and 3.1) and January 24, 2013 (tranche 3.2), May 13, 2013 (tranche 4), July 26, 2013 (tranche 5) and November 8, 2013 (tranche 6) in the total amount of 424,856,806 US dollars (64,241,395 thousand tenge) with a bank commission withheld of 44,297,573 US dollars (6,698,507 thousand tenge). The principal on the 1st tranche is repaid by 28 quarterly installments starting from March 15, 2013; on the 2nd tranche – by 36 quarterly installments; on the 3rd-6th tranches – by 40 quarterly installments. As at December 31, 2013 principal amount of 40,829,642 US dollars was repaid. The interest is paid quarterly. During 2013 the effective interest rate on the loan was 3.89%. The loan was obtained under the guarantee of the Company and its subsidiary, JSC Kaztemirtrans.

As at December 31, 2013 the Group's loans were secured by non-current assets (including buildings, railway transport, equipment and other property plant and equipment) with a carrying value of 153,138,190 thousand tenge (2012: 54,246,713 thousand tenge). The Group is not allowed to pledge these assets for other borrowings or to sell them to another entity.

The capitalization rate used to determine the amount of borrowing costs eligible for capitalization ranges from 5.15% to 11.63% (2012: from 5.15% to 7.02%).

20. DEBT SECURITIES ISSUED

The Group's debt securities issued as at December 31, 2013 and 2012 were as follows:

	Maturity date	Interest rate, per annum	December 31, 2013	December 31, 2012
Eurobonds issued at price				
7% Eurobonds due 2016 (98.292% - tranche 2)	May 11, 2016	7.00%	53,763,500	52,759,002
6.375% Eurobonds due 2020 (100%)	October 6, 2020	6.375%	107,527,000	105,517,999
6.95% Eurobonds due 2042 (105.521%)	July 10, 2042	6.95%	169,158,785	166,047,828
			330,449,285	324,324,829
Adjustments:				
Discount on debt securities issued			(339,854)	(458,995)
Transaction costs			(987,509)	(1,074,913)
Premium on debt securities issued			8,941,716	8,898,048
Accrued interest on debt securities issued			1,866,159	7,587,539
Total debt securities issued			339,929,797	339,276,508
Less: current portion of debt securities issued			(1,866,159)	(7,587,539)
Long-term portion of debt securities issued			338,063,638	331,688,969

(in thousands of tenge unless otherwise stated)

On May 11, 2006 Kazakhstan Temir Zholy Finance B.V. (the "Issuer"), a subsidiary of the Group, issued two tranches of Eurobonds totalling 800,000 thousand US Dollars on the the Singapore Exchange Securities Trading Limited (SGX-ST). 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). The 10-year Eurobonds (Tranche 2) mature May 11, 2016.

On October 6, 2010 the Issuer issued Eurobonds totalling 700,000 thousand US Dollars on the London Stock Exchange (LSE). Such Eurobonds are guaranteed by the Guarantors. Interest is payable semi annually on April 6 and October 6, and the Eurobonds mature on October 6, 2020.

On July 10, 2012 and November 8, 2012, the Issuer issued on the external (LSE) and internal (KASE) markets 6.95% Eurobonds totalling 800,000 thousand US Dollars and 300,000 thousand US Dollars, respectively. Such 6.95% Eurobonds are guaranteed by the Guarantors. Interest is payable semi annually on January 10 and July 10, and the Eurobonds mature on July 10, 2042.

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 the Eurobonds.

21. FINANCE LEASE LIABILITIES

The Group's finance lease liabilities as at December 31, 2013 and 2012 were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Within one year	1,057,642	1,351,102	450,644	552,251
From two to five years inclusive	4,123,390	5,168,999	2,527,083	2,810,225
After five years	987,324	1,868,529	886,332	1,735,839
Net minimum lease liabilities	6,168,356	8,388,630	3,864,059	5,098,315
Less future finance charges	(2,304,297)	(3,290,315)	-	-
Present value of lease payments	3,864,059	5,098,315	3,864,059	5,098,315
Less liability payable within 12 months			(450,644)	(552,251)
Amount payable after 12 months			3,413,415	4,546,064

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. Effective interest rate implicit in the lease is 18.25% per annum.

(in thousands of tenge unless otherwise stated)

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. Effective interest rate implicit in the lease is 10.77% per annum. The term of the finance lease is 10 years. This contract is secured by a guarantee from the Company.

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 two units of track equipment. In 2012 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. Effective interest rate implicit in the lease is 17.62% per annum. The term of the finance lease is five years. This contract is secured by a guarantee from LLP Temirzholenergo, a subsidiary of the Company, in the amount of 290,000 thousand tenge.

All lease liabilities are denominated in tenge.

22. 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 2013 and 2012 were 21,720,625 thousand tenge and 20,960,289 thousand tenge, respectively, and were recorded in profit or loss within cost of sales and general and administrative expenses.

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 in the agreement with the Labor Union (see below).

Defined benefits scheme and other non-current employee benefits

Employee benefit obligations are payable in accordance with the Labor Union Agreement concluded between the Group and its employees for 2012-2014.

The total liability payable in accordance with this agreement comprised the following as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012 (restated)
Present value of defined benefit obligation	30,227,410	29,697,331
Liability falling due within one year	(2,490,345)	(2,485,748)
Liability falling due after one year	27,737,065	27,211,583

The defined benefit scheme is unfunded.

(in thousands of tenge unless otherwise stated)

Movements in the present value of the obligation are as follows for the years ended December 31:

	2013	2012 (restated)
Total liability taken over at the beginning of the year	29,697,331	25,522,645
Current service cost	1,161,244	942,614
Past service cost	(4,471,546)	(12,321)
Interest cost	1,773,996	1,527,369
Actuarial remeasurement recognized in other comprehensive income, including:	3,808,063	2,402,869
- Changes in demographic assumptions	*(18,535)*	*66,744*
- Changes in financial assumptions	*1,498,367*	*660,005*
- Experience adjustments	*1,956,888*	*1,676,120*
- Other	*371,343*	-
Benefits paid during the year	(2,023,966)	(1,907,401)
Actuarial loss recognized in profit and loss during the year	282,288	1,236,391
Discontinued operations	-	(14,835)
Total liability at the end of the year	30,227,410	29,697,331

The past service cost recognized for the years ended December 31, 2013 and 2012 primarily resulted from changes in the Pension legislation regarding increase of women's retirement age at predetermined scale and also changes in the Labor Union Agreement.

The total amounts recognized in profit and loss in respect to these defined benefit obligations and other long term benefits during 2013 and 2012 were as follows:

	2013	2012 (restated)
Cost of sales (Note 28)	(1,106,104)	3,143,370
General and administrative expenses (Note 29)	(147,914)	550,683
Recognized in profit and loss during the year	(1,254,018)	3,694,053

The defined benefits plans typically expose the Group to actuarial risks such as: interest rate risk, longevity risk and salary risk.

- Interest risk - A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.
- Longevity risk - The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
- Salary risk - The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

(in thousands of tenge unless otherwise stated)

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:

	2013	2012
Discount rate	6.30%	6.00%
The expected rate of future annual material assistance increases	4.70%	5.43%
The expected rate of future annual minimum salary increases	4.70%	3.43%
The expected rate of future annual railway ticket price increases	7.70%	6.43%

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by 2,711,399 thousand tenge (increase by 3,204,105 thousand tenge).
- If the expected salary, inflation, monthly calculated index growth increases (decreases) by 1%, the defined benefit obligation would increase by 3,219,219 thousand tenge (decrease by 2,771,853 thousand tenge).
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by 1,051,914 thousand tenge (decrease by 1,109,346 thousand tenge).
- If the employee turnover increases (decreases) by 1%, the defined benefit obligation would decrease by 550,139 thousand tenge (increase by 595,480 thousand tenge).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

23. 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 2013 and 2012.

Income tax expense comprised the following for the years ended December 31:

	2013	2012 (restated)
Current income tax expense	3,381,290	4,460,347
Current income tax expense for prior years	846,687	385,430
Deferred income tax expense	34,820,646	26,176,789
	39,048,623	31,022,566

(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:

	2013	2012 (restated)
Profit before taxation from continuing operations	160,296,286	150,994,742
Statutory tax rate	20%	20%
Theoretical tax expense at the statutory rate	32,059,257	30,198,948
Tax effect of expenses/(gains) that are not deductible/(not taxable) for tax purposes:		
Change of income tax related to previous years	846,687	385,430
Non-deductible expenses	5,389,020	607,495
Change in previously unrecognized deferred tax losses	753,659	(169,307)
Income tax expense recognised in profit or loss (relating to continuing operations)	39,048,623	31,022,566

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, 2013 and 2012:

	December 31, 2013	December 31, 2012 (restated)
Deferred tax assets:		
Tax losses carried forward	35,902,760	12,868,077
Unused vacation provision	2,285,703	2,141,602
Differences in accounts receivable	876,562	1,097,800
Allowance for obsolete and slow-moving inventories	143,616	254,147
Loans given	72,141	-
Accrued liabilities	378,753	303,030
Accrued interest payable	588,233	-
	40,247,768	16,664,656
Deferred tax liabilities:		
Property, plant and equipment and other non-current assets	(218,741,842)	(159,897,123)
Adjustment of loan to fair value	(46,971,815)	(10,357,794)
	(265,713,657)	(170,254,917)
Total net deferred tax liabilities	(225,465,889)	(153,590,261)

	2013	2012 (restated)
Net deferred income tax liability as at the beginning of the year	(153,590,261)	(121,030,361)
Recorded in profit or loss	(34,820,646)	(26,176,789)
Recorded in the consolidated statement of changes in equity	(37,054,982)	(6,720,336)
Discontinued operations	-	337,225
Net deferred income tax liability as at the end of the year	(225,465,889)	(153,590,261)

(in thousands of tenge unless otherwise stated)

The Group has unrecognised deferred tax assets relating to tax losses carry 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. The total tax effect of unrecognised tax loss carryforwards as at December 31, 2013 amounted to 1,758,540 thousand tenge (December 31, 2012: 1,004,881 thousand tenge).

24. TRADE ACCOUNTS PAYABLE

Trade accounts payable comprised the following as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012 (restated)
Accounts payable for inventory	31,536,054	33,981,737
Accounts payable for services	24,947,864	16,631,486
Accounts payable for property, plant and equipment	19,451,884	40,060,897
Other accounts payable	1,439,817	7,829,301
	77,375,619	98,503,421

As at December 31, 2013 and 2012 trade accounts payable were denominated in various currencies as follows:

	December 31, 2013	December 31, 2012 (restated)
Tenge	72,009,932	92,153,312
US Dollars	3,378,345	5,187,865
Swiss Francs	438,116	413,183
Other currencies	1,549,226	749,061
	77,375,619	98,503,421

Trade payables principally comprise amounts outstanding for trade purchases of inventory, property, plant and equipment and ongoing costs. The average credit period taken for trade purchases is 55 days (2012: 56 days).

25. OTHER TAXES PAYABLE

Other taxes payable comprised the following as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
VAT	2,925,372	3,292,813
Personal income tax	2,848,742	2,355,319
Social tax	1,729,810	1,366,484
Social contribution	1,111,038	952,096
Withholding tax	737,752	737,539
Environmental tax	300,172	261,715
Property tax	159,275	65,065
Other	342,554	463,651
	10,154,715	9,494,682

(in thousands of tenge unless otherwise stated)

26. OTHER LIABILITIES

Other liabilities comprised the following as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012 (restated)
Construction commitment for benefit of the Shareholder	54,209,840	53,385,385
Advances received from customers	40,981,595	36,356,994
Salaries payable	14,617,858	13,017,616
Unused vacation provision	11,428,516	10,708,010
Deferred income	11,147,295	10,184,643
Obligatory pension contributions	3,657,412	3,125,827
Dividends payable (Note 18)	-	8,000,000
Payable for available for sale investments (Note 9)	-	6,996,752
Provision for additional payments to employees living in regions of environmental disaster	-	50,734
Other liabilities	3,668,787	3,715,444
	139,711,303	145,541,405
Less: other current liabilities	(114,701,051)	(120,325,660)
Other non-current liabilities	25,010,252	25,215,745

As described in Notes 13 and 18 above, in 2010 the Group entered into an irrevocable commitment to construct a building for a teleradio complex (27,129,708 thousand tenge), and in 2011, the Group entered into a similar commitment with respect to fitting out the complex (28,125,000 thousand tenge). In 2011 the Group also acquired the land on which the teleradio complex was built (489,107 thousand tenge). As discussed in the Summary of Significant Accounting Policies, distributions are recognized in equity, along with an associated "Construction commitment", 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. As a consequence of the commitments entered into by the Group with respect to the construction and fit out of the teleradio complex, a liability of 55,743,815 thousand tenge was recognized as of December 31, 2011.

In 2012 the Group recognized an additional obligation relating to VAT resulting from the transfer of title of the building to the Shareholder of 3,232,968 thousand tenge and reduced the "Construction commitment" by 49,842 thousand tenge resulting from a minor adjustment to the initial construction accruals, which consisted of a reduction of 163,480 thousand tenge related to the building construction accrual and increase of 113,638 thousand tenge related to the media and technical equipment construction accrual.

In July 2012 the teleradio complex (excluding the fit out thereof) together with the land on which it was located was transferred to the Shareholder. This resulted in a reduction of Assets held for the benefit of the Shareholder and the related "Construction commitment" of 30,688,303 thousand tenge.

(in thousands of tenge unless otherwise stated)

As described in Note 13 and 18 above, in 2012 the Group entered into an irrevocable commitment with the Government to construct a multifunctional ice palace in Astana. The value of that commitment was estimated by management to be the value of the related construction contract, namely 25,146,747 thousand tenge. In 2013 the Group reduced the "Construction commitment" by 140,995 thousand tenge resulting from a minor adjustment to the initial construction value. The commitment amount has been recognised as a "Construction commitment" above, and is considered non-current due to the expectation that the commitment will be fulfilled upon completion of construction planned for June 2015.

As described in Note 13 and 18 above, in 2013 the Group entered into commitment to donate social facilities to Mangistau municipality of 965,450 thousand tenge built pursuant to a decree of the ultimate Shareholder within social-economic development of Mangistau oblast. The commitment amount has been recognised as a "Construction commitment" above, and is considered current due to the expectation that the commitment will be fulfilled within 2014.

As at December 31, 2013 and 2012 the Group accrued for unused vacation, estimated based on quantity of unused vacation days and average salary per day, and for additional payments to employees living in regions of environmental disaster, estimated according to the labor legislation.

As at December 31, 2013 and 2012 current salaries payable and other current liabilities were primarily payable in tenge.

27. OTHER REVENUE

Other revenue for the years ended December 31 comprised the following:

	2013	2012 (restated)
Revenue from the sale of goods and provision of other services	30,537,425	29,762,273
Penalties received	2,797,881	2,965,739
	33,335,306	32,728,012

Revenue from the sale of goods and provision of other services consists primarily of profit on the sale of loading and unloading services, vessels servicing, the sale of inventory and scrap, communication services and sales of electricity.

Penalties received represent mainly revenue earned on the assessment of penalties on the late pickup of cargo cars for breach of contract terms.

(in thousands of tenge unless otherwise stated)

28. COST OF SALES

Cost of sales for the years ended December 31 comprised the following:

	2013	2012 (restated)
Personnel costs, including short-term provisions	214,957,848	208,471,826
Fuels and lubricants	88,255,494	82,996,544
Depreciation and amortization	85,795,861	72,238,098
Materials and supplies	61,720,563	65,605,670
Services	44,373,206	44,131,932
Electricity	32,261,100	30,649,736
Repair and maintenance	28,099,112	23,283,703
Railway charges of third parties	5,716,746	1,207,613
Business trip expenses	3,528,330	3,087,296
Utilities and building maintenance	2,139,253	1,652,877
Insurance	1,613,088	1,889,955
Operating lease expenses	1,409,658	1,440,643
Communication services	1,087,234	1,071,248
Personnel training	982,888	502,784
Transportation services	626,815	268,279
Security services	302,658	534,261
Lease of communication channels	223,507	1,921,889
Taxes	209,793	191,505
Fines and penalties	204,580	1,357,530
Employee benefit (recovery)/expenses (Note 22)	(1,106,104)	3,143,370
Other	4,460,451	3,711,254
	576,862,081	549,358,013

Personnel costs, including short-term provisions, for the years ended December 31 comprised the following:

	2013	2012 (restated)
Personnel costs	195,849,594	189,578,054
Social tax	18,684,639	18,039,206
Provision for additional payments to employees living in regions of environmental disaster (Note 26)	-	50,734
Unused vacation provision expense	423,615	803,832
	214,957,848	208,471,826

(in thousands of tenge unless otherwise stated)

29. GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expense for the years ended December 31 comprised the following:

	2013	2012 (restated)
Personnel costs, including short-term provisions	36,596,768	34,982,912
Property tax and other taxes	23,152,689	20,380,094
Charities and sponsorship	9,187,271	3,384,979
Depreciation and amortization	4,024,251	4,169,974
Allowance for unrecoverable VAT receivable (Note 9)	3,845,992	180,792
Consulting, audit and legal services	2,407,505	2,152,212
Professional services	1,838,414	1,475,329
Business trip expenses and representative expenses	1,625,459	1,766,831
Allowances for doubtful debts (Note 9, 11, 15)	1,556,199	1,346,850
Expenses on holiday and cultural events	1,385,967	1,311,775
Advertising expenses	1,036,819	932,941
Bank services	943,389	890,578
Utilities and building maintenance	863,061	753,266
Materials	832,077	1,064,721
Professional trainings and qualifications	826,938	558,780
Other services	649,899	743,917
Repair and maintenance	349,083	413,895
Social sphere objects maintenance	325,579	285,770
Operating lease expenses	263,385	258,079
Insurance	236,450	239,398
Employee benefit (recovery)/expenses (Note 22)	(147,914)	550,683
Obsolete inventory recovery of provision (Note 10)	(148,070)	(32,931)
(Recovery of)/accrual of provision on legal claims	(907,721)	99,277
Other expenses	3,411,689	1,709,842
	94,155,179	79,619,964

Personnel costs, including short-term provisions, for the years ended December 31 comprised the following:

	2013	2012 (restated)
Personnel costs	33,449,118	31,928,250
Social tax	3,035,986	2,921,083
Unused vacation provision expense	111,664	133,579
	36,596,768	34,982,912

(in thousands of tenge unless otherwise stated)

30. FINANCE INCOME

Finance income for the years ended December 31 comprised the following:

	2013	2012 (restated)
Interest income on short-term investments and bank deposits	4,780,841	4,249,204
Amortization of premium on debt securities issued	110,108	56,055
Other finance income	812,695	48,579
	5,703,644	4,353,838

For the years ended December 31, 2013 and 2012 the Group's finance income included interest income on short-term investments and bank deposits of 1,899 thousand tenge and 47,121 thousand tenge, respectively, placed with related parties (Note 36).

31. FINANCE COSTS

Finance costs for the years ended December 31 comprised the following:

	2013	2012 (restated)
Interest expense on debt securities issued	22,146,325	15,721,972
Interest expense on loans	13,308,342	12,452,405
Finance lease charge	1,020,146	955,841
Unwinding of discount on borrowings and debt securities issued	1,336,604	894,018
	37,811,417	30,024,236

For the years ended December 31, 2013 and 2012 the Group's finance costs included expenses of 8,250,933 thousand tenge and 7,770,642 thousand tenge, respectively, with related parties (Note 36).

32. BUSINESS COMBINATION

In November 2012 the Group acquired 65% of the shares of JSC Kazakh Academy of Transport and Communications named after M.Tynyshpaev ("KazATC JSC") for 7,496,752 thousand tenge to be paid in installments until June 2013. At that date the Group had no control over KazATC JSC, as the seller had the right to veto any decision of the Group until full payment for the acquired shares had been made. As at June 30, 2013 the Group repaid the debt for the purchased shares and gained control over the organisation. The business combination was accounted for using the acquisition method:

	Main activity	Date of acquisition	Share	Consideration paid
KazATC JSC	Education, training and re-training	June 30, 2013	65%	7,496,752

(in thousands of tenge unless otherwise stated)

The primary reasons for the business combination are to implement by Kaz ATC JSC technology assessment and examination, selection of the optimal specifications of railway transport and infrastructure taking into account existing and perspective technologies, as well as training, retraining and qualifying employees of railway transport.

If this business combination occurred on January 1, 2013, the Group's revenue would have been more for 1,658,006 thousand tenge more for the year ended December 31, 2013.

Consideration paid for acquisition

	2013
Cash	7,496,752
Less cash paid in prior period	(500,000)
Total paid for the period	6,996,752

The allocation of purchase consideration for the business acquired is based on fair value of assets and liabilities acquired at the date in which control was obtained. Net assets acquired are presented as follows:

ASSETS	
Non-current assets	
Property, plant and equipment	11,473,761
Intangible assets	7,454
Other non-current assets	5,495
Total non-current assets	11,486,710
Current assets	
Inventories	129,592
Accounts receivable	331,816
Other current assets	47,473
Cash and cash equivalents	390,019
Total current assets	898,900
Total assets	12,385,610
Current liabilities	
Accounts payable	11,465
Taxes payable	78,369
Other current liabilities	461,386
Total liabilities	551,220
Acquired net assets	11,834,390
Consideration given	7,496,752
Plus: non-controlling interest (35% in KazATC JSC)	4,142,036
Less fair value of acquired net assets	(11,834,390)
Bargain purchase gain	(195,602)

The fair value of acquired net assets has been arrived at on the basis of a valuation carried out by an independent appraiser. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar assets.

(in thousands of tenge unless otherwise stated)

Net cash payments related to acquisitions of the subsidiaries

	2013
Cash consideration	6,996,752
Less acquired cash and cash equivalents	(390,019)
	6,606,733

33. EARNINGS PER SHARE

Basic earnings per share are calculated based on the weighted average number of common shares outstanding during the year. Basic and diluted per share data are the same, as there are no material dilutions.

	2013	2012 (restated)
Profit for the year attributable to the owner of the Company (thousand tenge)	115,627,571	117,772,108
Weighted average number of common shares	491,295,733	491,278,795
Basic and diluted earnings per share from profit for the year (tenge)	235	240

	2013	2012 (restated)
Profit for the year from continuing operations attributable to the owner of the Company (thousand tenge)	118,439,668	118,881,559
Weighted average number of common shares	491,295,733	491,278,795
Basic and diluted earnings per share from continuing operations (tenge)	241	242

Book value per share is calculated based on the number of common shares outstanding as at the reporting date. Book value per share as at December 31, 2013 and 2012 is presented below.

	2013	2012 (restated)
Net assets, excluding intangible assets	1,305,540,782	1,033,217,182
Number of common shares in issue	491,297,819	491,287,671
Book value per share (tenge)	2,657	2,103

34. FINANCIAL AND CONTINGENT LIABILITIES

Capital and operating lease commitments

Capital commitments

As at December 31, 2013, the Group had committed to contracts for the construction of Zhezkazgan – Beineu and Arkalyk – Shubarkol railways, the construction of a multifunctional ice palace in Astana, the primary backbone transport communication net, and the purchase of cargo and passenger electric locomotives, cargo and passenger wagons and backbone locomotives totalling 567,979,072 thousand tenge (December 31, 2012: 748,373,215 thousand tenge). This amount includes commitments for purchase of passenger electric locomotives from joint venture JSC Electrovoz Kurastyru Zauyty for the amount of 215,934,453 thousand tenge (2012: 255,039,771 thousand tenge) for supply through December 31, 2020, locomotives from joint venture JSC Locomotive Kurastyru Zauyty for the amount of 82,173,533 thousand tenge and also commitments for purchase of passenger wagons from joint venture Tulpar-Talgo LLP for the amount of 21,138,992 thousand tenge (2012: 41,033,536 thousand tenge) for supply through December 31, 2014.

Operating lease commitments

As at December 31, 2013 the Group had operating lease commitments of 773,848 thousand tenge, which are all due within one year (December 31, 2012: 516,055 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. 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 13.75% of taxes not settled on a timely basis. As a result, penalties and interest can exceed the amount of additional accrued taxes.

Therefore, penalties and interest can result in amounts that are multiples of any incorrectly reported taxes resulting in an understatement.

During 2012 and 2011 the tax authorities conducted tax audits of the Group for the period of 2007-2010. As a result of these audits the tax authorities have assessed additional taxes, including fines and penalties of 13,289,087 thousand tenge. The Group has challenged these assessments and believes the claims were groundless, the Group intends to appeal the results in a court. During 2012 the Group has recognized a tax liability of 757,419 thousand tenge, which represents Group's best estimate of the amount required to settle this liability.

During 2012 and 2013, the tax authorities performed a tax audit of the Group on VAT return for the period from the first half of 2007 to 2008. As a result of this audit, the tax authorities identified VAT in the amount of 1,919,593 thousand tenge that were previously claimed but were unsubstantiated based on a counter check of suppliers. As a result, in 2013 the Group accrued a provision of 1,919,593 thousand tenge as the Group believes there is a high probability of future losses and reclassified this VAT to long-term portion (Note 9 and 29).

In 2013, the tax authorities conducted comprehensive tax audits of the Group's subsidiary, JSC Transtelecom, for the period of 2007-2011. As a result of these audits the tax authorities have assessed additional taxes, including fines and penalties of 1,479,161 thousand tenge associated with the agreement on joint activity with Kazakh Transit Telecommunications LLP. As management believes there is a high probability that they will have to pay this total amount, JSC Transtelecom accrued for this amount in full. The amount is recognized in the following line items: corporate income tax (561,069 thousand tenge), penalties on corporate income tax (326,886 thousand tenge), fine on corporate income tax (280,535 thousand tenge), value added tax (280,508 thousand tenge), and penalties on value added tax (30,163 thousand tenge).

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, 2013. 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 2011-2012 Kazakh Transit Telecommunications LLP (hereinafter – "KT&T") brought a number of actions against the Group's subsidiary, JSC Transtelecom, for non-compliance with its obligations under the agreement on joint activity. In May 2012 the Company filed a counter claim to KT&T and JSC Transtelecom on the recognition of the agreement on joint activity invalid. On August 14, 2013 based on decision of the Supreme Court of the Republic of Kazakhstan the agreement on joint activity was recognized as invalid. As as a result as at December 31, 2013 the Group reversed earlier established provisions of 694,415 thousand tenge.

Guarantees

On September 17, 2012 the Company entered into guarantee agreement #123 with Eurasian Development Bank and provided a guarantee of 2,370,000 thousand tenge to ensure fulfillment of obligations of a joint venture Electrovoz Kurastyru Zauyty LLP established by one of its subsidiaries provided for the purpose of financing the construction of electric locomotives manufacturing plant till 2022. The guarantee matures within 1 year of the fulfillment of obligations by the joint venture under a credit line agreement in 2022.

On July 4, 2013 the Company entered into guarantee #110-AO to Development Bank of Kazakhstan and provided a guarantee of 11,609,100 thousand tenge to ensure fulfillment of the obligations of an associate Aktobe rail and section mill plant LLP established by one of its subsidiaries provided for the purpose of financing the construction of rail and section mill plant till 2023.

On January 27, 2011 joint venture JSC Locomotive Kurastyru Zauyty concluded a credit agreement #K004-2011with JSC ATF Bank for refinancing of loan provided on August 4, 2008 by ABN Amro Bank N.V. (The Royal Bank of Scotland for the purpose of locomotive assembly plant construction in Astana of 13,952,650 thousand tenge (95,000 thousand US dollars). In accordance with the loan agreement the Company provided a guarantee of 95,000 thousand US dollars, with maturity till 2016.

As at December 31, 2013 and 2012, the Group has not recognized a liability in relation to the above listed guarantees.

(in thousands of tenge unless otherwise stated)

35. SUBSIDIARIES

Information about the composition of the Group at the end of the reporting period is included in the following table:

Subsidiary	Nature of activities	Country of residence	Percentage holding, % 2013	2012 (restated)
1. JSC Kaztemirtrans	Operation of cargo wagons	Kazakhstan	100	100
2. JSC Passenger Transportation	Passenger transportation	Kazakhstan	100	100
3. JSC Locomotive	Locomotive haul services	Kazakhstan	100	100
4. JSC KTZ Express (JSC National centre on development of transport logistics)	Formation of transport and logistics	Kazakhstan	100	100
5. JSC Temirzholsu	Utilities	Kazakhstan	100	100
6. JSC Remlocomotive	Repair of locomotives	Kazakhstan	100	100
7. JSC Almaty Wagon Repair Plant	Repair of wagons	Kazakhstan	100	100
8. JSC Locomotive Service Center	Repair of locomotives	Kazakhstan	100	100
9. JSC Kaztransservice	Transit cargo transportation	Kazakhstan	100	100
10. JSC Transtelecom	Communication services	Kazakhstan	100	100
11. LLP Lesozashita	Protection of railway transportation property from unfavorable weather conditions	Kazakhstan	100	100
12. JSC Center of Transport Service	Operating of local railway lines	Kazakhstan	100	100
13. JSC Militarized Railway Guard	Security services	Kazakhstan	100	100
14. LLP Akzhaiyk Zapad 2006	Flushing and steaming of wagons	Kazakhstan	100	100
15. JSC Locomotive Kurastyru Zauyty	Assembly of locomotives	Kazakhstan	-	100
16. Repair Corporation Kamkor LLP	Repair of railway rolling stock and mainline railway track	Kazakhstan	100	100
17. JSC Vokzal-service	Railway stations activities	Kazakhstan	100	100
18. JSC Kazakh Academy of Transport and Communications named after M.Tynyshpaev	Education, training and retraining	Kazakhstan	65	-
19. JSC National Company Aktau International Sea Commercial Port	Sea port services, loading, unloading vessels servicing	Kazakhstan	100	100
20. LLP Research Institute of Transport and Communications	Research and development activities	Kazakhstan	100	-

As at December 31, 2013 LLP Akzhaiyk Zapad 2006, the subsidiary of the Company, was in the process of liquidation.

In July 2012 the Group established a subsidiary Research Institute of Transport and Communications LLP. In 2013 this subsidiary began its operations.

In July 2013 the Group renamed its subsidiary JSC National Centre on Development of Transport Logistics, dealing with formation of transport and logistics, into JSC KTZ Express with a change in activities to multimodal transportation.

In June 2013 the Group acquired controlling interest in JSC Kazakh Academy of Transport and Communications named after M.Tynyshpaev and obtained control over it (Note 32).

In November 2013 the Shareholder transferred 100% ownership interest in JSC National Company Aktau International Sea Commercial Port to the Group's trust management (Note 3). JSC National Company Aktau International Sea Commercial Port is recognized as a subsidiary of the Group, although the Group does not legally own its shares. As discussed in Note 3, these financial statements have been retrospectively restated to reflect the inclusion of JSC National Company Aktau International Sea Commercial Port effective January 1, 2012.

(in thousands of tenge unless otherwise stated)

In May 2013 the Group sold its controlling interest in the subsidiary JSC Locomotive Kurastyru Zauyty (Note 17).

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Repair Corporation Kamkor LLP	Kazakhstan	42.28%	41.59%	2,860,094	1,215,750	10,169,696	7,716,764
Individually immaterial subsidiaries with non-controlling interests				(52,099)	(125,133)	3,895,680	(194,185)
				2,807,995	1,090,617	14,065,376	7,522,579

The Group's subsidiary, Repair Corporation Kamkor LLP, owns subsidiaries with substantial non-controlling interests.

(in thousands of tenge unless otherwise stated)

Summarised financial information in respect of Repair Corporation Kamkor LLP is set out below.

	December 31, 2013	December 31, 2012
Current assets	45,332,092	42,088,084
Non-current assets	54,573,303	35,815,469
Current liabilities	34,805,600	44,760,357
Non-current liabilities	41,048,765	14,586,978
Equity attributable to owners of the Company	13,881,334	10,839,454
Non-controlling interests	10,169,696	7,716,764

	2013	2012
Revenue	145,382,958	94,463,328
Expenses	(140,820,898)	(96,178,894)
Profit for the year	5,887,048	1,648,724
Profit attributable to owners of the Company	3,026,954	432,974
Profit attributable to the non-controlling interests	2,860,094	1,215,750
Other comprehensive income attributable to owners of the Company	10,848	61,344
Other comprehensive income attributable to the non-controlling interests	-	-
Other comprehensive income for the year	10,848	61,344
Total comprehensive income attributable to owners of the Company	3,037,802	494,318
Total comprehensive income attributable to the non-controlling interests	2,860,094	1,215,750
Total comprehensive income for the year	5,897,896	1,710,068
Net cash inflow from operating activities	30,649,561	5,896,494
Net cash (outflow) from investing activities	(22,383,990)	(11,660,783)
Net cash (outflow) / inflow from financing activities	(2,600,643)	7,485,528
Net cash inflow	5,664,928	1,721,239
Dividends paid attributable to the non-controlling interests	(407,162)	(725,469)

36. RELATED PARTY 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 do not have a financial interest in the transaction may vote to approve the transaction. If all members of the Board of Directors are have a financial interest, 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, 2013 and 2012 that are not outlined elsewhere in these notes are detailed below.

Amounts due to and due from profit-oriented state-owned entities (entities under common control), recorded within trade accounts payable, other current liabilities, trade accounts receivable, other current and non-current assets as well as the transactions with commercial organizations, fully controlled by the government (entities under common control) as at December 31, 2013 and 2012 were as follows:

	Due from related party		Due to related party	
Company name	**December 31, 2013**	**December 31, 2012 (restated)**	**December 31, 2013**	**December 31, 2012 (restated)**
JSC National Company KazMunaiGas	141,732	38,189	1,478,802	786,427
JSC Kazpost	148,352	107,401	7,885	5,809
JSC Kazakhtelecom	15,702	14,209	638,668	69,663
JSC National Nuclear Company Kazatomprom	39,726	3,314	62,572	74,972
JSC KEGOC	1,983	448	52,280	12,397
JSC National Company Kazakhstan Engineering	59,563	19,827	671,959	679,231
JSC Samruk-Energo	20,671	12,593	22,859	29,961
JSC Air Astana	43	431	1,246	1,132
LLP Samruk-Kazyna Contract	2,424	1,376	25,916	21,893
JSC KOREM	-	-	2,997	2,014
LLP JV Betpak Dala	-	-	2,346	1,679
LLP JV Katco	-	-	1,969	2,951
JSC International Airport Atyrau	-	-	304	1,243
JSC Alliance Bank	-	-	-	50
JSC Development Bank of Kazakhstan	-	-	87	1
JSC BTA Bank	4	311	102,979	3,171
JSC Temir Bank	36	37	98	129
JSC Astana Finance	-	96	-	-
JSC Ekibastuz GRES-2	82,992	87,597	11,380	11,559
JSC Ekibastuz GRES-1			468,846	92,964
LLP Bogatyr Komir	22,234	289,124	477,731	138
JSC KazZinc	37,982	-	44,124	-
Other	96	18	2,794	2,955
	573,540	574,971	4,077,842	1,800,339

(in thousands of tenge unless otherwise stated)

Transactions for services with profit oriented state-owned entities (entities under common control) related to the Group's operating activities were as follows for the years ended December 31:

	Sales of services		Purchases of services	
Company name	**2013**	**2012 (restated)**	**2013**	**2012 (restated)**
JSC National Company KazMunaiGas	10,977,937	6,010,913	622,037	520,772
JSC Kazpost	788,977	712,552	213,660	204,134
JSC Kazakhtelecom	136,013	151,826	676,676	524,277
JSC National Nuclear Company Kazatomprom	1,214,256	1,148,171	62,450	12,444
JSC KEGOC	20,616	7,734	4,141,066	3,576,300
JSC National Company Kazakhstan Engineering	348,165	405,284	1,052,172	2,424,367
JSC Samruk-Energo	116,298	154,848	276,044	329,502
JSC Air Astana	105,039	93,697	123	60
LLP JV Betpak Dala	2,976	5,503	-	-
LLP JV Katco	14,078	15,551	-	-
JSC Kazyna Capital Management	-	5	-	-
JSC International Airport Atyrau	3,197	6,781	-	-
JSC KOREM	-	-	-	8,826
LLP Samruk-Kazyna Contract	-	-	189,193	91,315
JSC Alliance Bank	2,135	1,639	72	2
JSC Development Bank of Kazakhstan	-	14,437	1,318	27,785
JSC BTA Bank	4,830	3,637	118,889	64,495
JSC Temir Bank	1,616	1,244	1,202	1,725
JSC Astana Finance	-	1,309	-	-
JSC Ekibastuz GRES-2	23,786	54,832	15,430,203	11,987,603
JSC Ekibastuz GRES-1	14,162	19,790	4,425,788	8,287,106
LLP Bogatyr Komir	17,999,119	32,445,467	49,770	3,077
JSC KazZinc	597,012	-	10,137	
Other	5,764	16,174	83	123
	32,375,976	41,271,394	27,270,883	28,063,913

The services provided to profit oriented state-owned entities include mainly cargo transportation services.

In addition, in the year ended December 31, 2013 the Group acquired inventories of 9,577,205 thousand tenge (2012: 13,100,542 thousand tenge), and non-current assets in the amount of 85,939 thousand tenge (2012: 9,368 thousand tenge) profit oriented state-owned entities.

(in thousands of tenge unless otherwise stated)

In addition to services related to operating activities, the Group has various balances and transactions with profit oriented state-owned entities related to its investments and financing including the following:

(a) as at December 31, 2013 and 2012 the Group's borrowings of 2,726,627 thousand tenge and 3,010,146 thousand tenge, respectively, were guaranteed by the Government of the Republic of Kazakhstan (Note 19);
(b) as at December 31, 2013 and 2012 the Group has loans of 21,538,619 thousand tenge, and 11,704,300 thousand tenge, respectively, from JSC Development Bank of Kazakhstan, an entity under common control (Note 19);
(c) as at December 31, 2013 and 2012 the Group's finance lease liabilities to JSC Development Bank of Kazakhstan, an entity under common control, amounted to 370,057 thousand tenge and 1,187,941 thousand tenge, respectively;
(d) as at December 31, 2013 the Group has loans of 155,797,126 thousand tenge (December 31, 2012: 136,063,458 thousand tenge) from the Shareholder. The loans received in 2013 were recognized at amortized cost and reflect a discount of 185,274,909 thousand tenge, less a deferred tax effect of 37,054,982 thousand tenge, due to such loans being issued to the Company at less than fair value (2012: discount of 33,601,679 thousand tenge, less a deferred tax effect of 6,720,336 thousand tenge) (Note 19);
(e) as at December 31, 2013 certain loans of joint ventures were guaranteed by the Group (Note 34);
(f) as at December 31, 2013 the Group has loans of 4,000,000 thousand tenge given to Tulpar-Talgo LLP, a joint venture (Note 14);
(g) for the years ended December 31, 2013 and 2012 the Group recognized finance cost on above mentioned loans of 8,250,933 thousand tenge and 7,770,642 thousand tenge, respectively (Note 31); and,
(h) as at December 31, 2013 and 2012 the Group deposited cash on current and deposit accounts with several banks under common control, including JSC BTA Bank, JSC Alliance Bank, JSC Temir Bank and JSC Development Bank of Kazakhstan. The Group recognized finance income from these bank current accounts and deposits in the amount of 1,899 thousand tenge and 47,121 thousand tenge during the years ended December 31, 2013 and 2012, respectively (Note 30). The deposits and current accounts with these banks at December 31, 2013 and 2012 consist of the following:

	December 31, 2013	December 31, 2012 (restated)
JSC BTA Bank		
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 16)	121,337	62,261
JSC Alliance Bank		
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 16)	16,350	311,589
Deposits with maturity period of 3 to 12 months (Note 12)	101,757	-
JSC Temir Bank		
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 16)	34,965	21,013
JSC Development Bank of Kazakhstan		
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 16)	794	17,401
Restricted cash	715,142	223,531

(in thousands of tenge unless otherwise stated)

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, 2013 and 2012 and transactions with associates and joint ventures for the years then ended are as follows:

	December 31, 2013	December 31, 2012 (restated)
Due		
From associates and joint ventures	46,218,374	33,063,113
To associates and joint ventures	2,698,047	790,176

	2013	2012 (restated)
Transactions with associates and joint ventures		
Sales	18,752,456	7,741,172
Purchases of services	3,307,009	3,097,790
Contribution to charter capital (Note 7)	-	9,384,984
Purchases of assets	64,973,125	7,054,614

The transactions entered into with associates and joint ventures primarily relate to purchases of property, plant and equipment and other services and are entered into at terms consistent with that of third parties.

As at December 31, 2013 amounts due to and from associates and joint ventures include advances paid to Tulpar-Talgo LLP for acquisition of passenger wagons of 21,824,138 thousand tenge (2012: 17,951,544 thousand tenge), advances paid to Electrovoz Kurastyru Zauyty LLP for acquisition of locomotives of 14,840,659 thousand tenge (2012: 14,903,951 thousand tenge) and advances paid to Locomotive Kurastyru Zauyty LLP for acquisition of locomotives of 9,308,579 thousand tenge (2012: nil).

Outstanding balances at year-end are unsecured and interest free; settlement of balances is made in cash. There have been no guarantees provided or received for any related party receivables or payables, other than guarantees disclosed in the Note 34. In the year ended December 31, 2013 the Group recovered receivables due from related parties on which an allowance for doubtful debts had been recognized of 13,647 thousand tenge (2012: recovered receivables of 54,397 thousand tenge). The requirement to recognize an allowance against related party receivables is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

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 28 persons as at December 31, 2013 (December 31, 2012: 24 persons). Compensation to key management personnel for the years ended December 31 was as follows:

	2013	2012
Salaries	258,812	249,745
Social tax	57,667	55,914
Income tax	55,045	52,335
Pension deductions	25,740	27,743
Bonuses	245,586	233,506
Social deductions	2,207	2,123
Total	645,057	621,366

37. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments consist of borrowings, debt securities issued (Eurobonds), finance lease liabilities, cash and cash equivalents, and short-term deposits as well as trade accounts receivable and trade 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 its capital to ensure that entities in the Group will be able to continue as a going concern while maximumizing the return to the Shareholder by optimizing the balance of debt and equity. The Group's overall strategy remains unchanged from 2012.

The Group's capital structure includes net debt (which is comprised of borrowings, debt securities and finance lease liabilities as disclosed in Notes 19, 20 and 21, respectively, after deducing cash and bank balances) and equity of the Group (which is comprised of share capital, additional paid-in capital and unissued share capital, foreign currency translation reserve, retained earnings and non-controlling interests).

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.

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 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 the Group's investments and/or increasing cash outflow on its borrowings and debt securities issued. The Group limits its interest rate risk by monitoring changes in interest rates in the currencies in which its financial instruments are held, and by maintaining a balance between its loans with fixed and floating interest rates.

(in thousands of tenge unless otherwise stated)

The Group's exposure to interest risk relates primarily to the Group's long-term and short-term debt (borrowings and debt securities issued), on which weighted average effective interest rates were as follows as at December 31, 2013 and 2012:

	December 31, 2013 (% per annum)	December 31, 2012 (% per annum)
Short-term borrowings:		
Tenge	8.26	9.63
US Dollars	-	3.31
Long-term borrowings:		
Tenge	7.25	7.04
US Dollars	6.19	6.27
Japanese Yen	3.73	3.83
Euro	7.52	6.48

Interest rate sensitivity analysis

The following table shows the allocation of changes in the finance income and finance costs between changes in the volume of the related financial instrument, and changes in the rate. The volume fluctuation is calculated based on the movement in the average balances and the interest rate fluctuation is calculated based on changes in interest rates on average, interest bearing assets and average interest bearing liabilities.

	2013/2012 Change due to increase/(decrease)		Total change	Change in interest rate, %	2012/2010 Change due to increase/(decrease)		Total change	Change in interest rate, %
	Volume	Rate			Volume	Rate		
Finance income:								
Short-term deposits	1,899,314	-	1,899,314	-	418,665	-	418,665	-
Other financial assets	(549,508)	-	(549,508)	-	(943,303)	-	(943,303)	-
Finance costs:								
Bank loans	622,771	(426,149)	196,622	(0.90%)	5,740,767	495,544	6,236,311	0.81%
Finance lease	64,305	-	64,305		(99,122)	-	(99,122)	-
Debt securities	7,526,254	-	7,526,254		4,297,983	-	4,297,983	-

The following table reflects the Group's sensitivity to a 1% increase and decrease in the interest rates (a 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates). The sensitivity analysis is based on an assumption that the amount of the borrowing that was 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 the event interst rates increase, there would be an equal and opposite effect on profits.

	2013	2012
Borrowings	455,621	641,715

(in thousands of tenge unless otherwise stated)

Foreign currency risk

The Group undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise.

A significant portion of the Group's short-term and long-term foreign currency debt is denominated in US Dollars. A change in the tenge value against the US Dollar, or any other foreign currency in which debt is denominated will result in a foreign exchange gain or loss. The Group maintains a portion of its cash and cash equivalents and other financial assets in US dollars in order to partially offset any foreign currency gain or loss on the borrowings.

The Group limits foreign currency risk by monitoring changes in exchange rates in the currencies in which its financial instruments are denominated.

Foreign currency sensitivity analysis

The following table reflects the Group's sensitivity to a 20% increase and decrease in the value of tenge with respect to relevant foreign currencies in 2013 (2012: 10%). 20% (2012: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis 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 20% with respect to the relevant currency in 2013 (2012: 10%).

The positive figure indicates the increase in profits for the reporting period and negative indicates the decrease in profits. In the event the tenge weakens by 20% (2012: 10%) with respect to the relevant currency, there would be an equal and opposite effect on profits.

	Effect of change in the exchange rate as at December 31, 2013						
	US Dollars	**Euro**	**Swiss Francs**	**Russian Rubles**	**Great Britain Pounds**	**Japanese Yen**	**Total effect**
Financial assets:							
Cash and cash equivalents	(2,588,676)	(281,234)	-	(107,852)	(724)	-	(2,978,486)
Restricted cash	(234,075)	-	-	-	-		(234,075)
Other financial assets	(6,840,415)	-	-	-	-	-	(6,840,415)
Trade accounts receivable	(71,094)	-	(98,356)	(21,084)	-	-	(190,534)
							(10,243,510)
Financial liabilities:							
Trade accounts payable	675,669	145,988	87,623	163,857	-	-	1,073,137
Loans and accrued interest	21,768,164	3,745,239	-	-	-	792,357	26,305,760
Debt securities	67,985,959	-	-	-	-	-	67,985,959
							95,364,856
Net effect							85,121,346

(in thousands of tenge unless otherwise stated)

	Effect of change in the exchange rate as at December 31, 2012 (restated)					
	US Dollars	**Euro**	**Swiss Francs**	**Russian Rubles**	**Japanese Yen**	**Total effect**
Financial assets:						
Cash and cash equivalents	(917,537)	(64,152)	(8,878)	(11,405)	-	(1,001,972)
Restricted cash	(117,813)	-	-	-	-	(117,813)
Other financial assets	(1,312,347)	-	-	-	-	(1,312,347)
Trade accounts receivable	(38,184)	-	(198,756)	(4,523)	-	(241,463)
						(2,673,595)
Financial liabilities:						
Trade accounts payable	518,787	11,753	41,318	63,153	-	635,011
Loans and accrued interest	6,791,940	24,616	-	-	542,710	7,359,266
Debt securities	33,927,651	-	-	-	-	33,927,651
						41,921,928
Net effect						39,248,333

The carrying value of financial assets and financial liabilities, denominated in foreign currencies as at December 31, 2013 and 2012 is as follows:

	December 31, 2013	**December 31, 2012 (restated)**
Financial assets:		
Cash and cash equivalents	14,892,434	10,019,717
Restricted cash	1,170,375	1,178,134
Other financial assets	34,202,074	13,123,468
Trade accounts receivable	952,676	2,414,622
	51,217,559	26,735,941
Financial liabilities:		
Trade accounts payable	5,365,687	6,350,109
Loans and accrued interest	131,528,797	73,592,661
Debt securities	339,929,797	339,276,508
	476,824,281	419,219,278

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.

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.

(in thousands of tenge unless otherwise stated)

The maximum exposure to credit risk with regard to trade accounts receivable domestically, and for foreign receivables were as following as at the reporting date:

	December 31, 2013	December 31, 2012 (restated)
Within the country	7,154,473	5,369,491
Outside the country	952,676	2,414,622

Procedures are in place 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.

As at December 31, 2013 and 2012 the allocation of trade accounts receivable by the aging was as following:

	December 31, 2013	December 31, 2012 (restated)
Not overdue	8,096,773	7,780,918
3-6 months overdue	3,386	2,260
6-12 months overdue	6,990	935
	8,107,149	7,784,113

As at December 31, 2013 and 2012 the allocation of impaired trade accounts receivable by the aging was as following:

	December 31, 2013	December 31, 2012 (restated)
3-6 months overdue	-	287,272
6-12 months overdue	240,073	1,258,976
Over 12 months overdue	4,418,581	3,898,998
	4,658,654	5,445,246

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
2013							
Non-interest bearing:							
Trade accounts payable	-	40,540,988	15,390,591	21,444,040	-	-	77,375,619
Accrued salary	-	14,617,858	-	-	-	-	14,617,858
Other current liabilities	-	3,657,412	-	3,668,787	-	-	7,326,199
Interest bearing:							
ABN Amro Bank N.V.	3-month LIBOR + 0.07%	-	211,505	82,224	-	-	293,729
Japan Bank for International Cooperation ("JBIC")	3.00%	-	-	679,952	2,550,401	1,173,349	4,403,702
Instituto de Credito Oficial ("ICO")	2.50%	-	-	398,572	1,509,071	873,771	2,781,414
JSC Development Bank of Kazakhstan (Loan 2)	8.00%	-	182,436	176,254	169,607	-	528,297
JSC Development Bank of Kazakhstan (Loan 3)	1.15 * 6-month LIBOR + 1.28%	165,688	-	164,453	1,271,183	1,335,638	2,936,962
JSC Development Bank of Kazakhstan (Loan 4)	8.078%	-	-	1,303,558	4,597,289	3,610,180	9,511,027
JSC Development Bank of Kazakhstan (Loan 5)	7.60%	-	1,536,872	1,494,552	10,434,083	-	13,465,507
EBRD (Loan 2)	6-month LIBOR + 3.25%	-	-	1,253,492	4,640,752	1,586,007	7,480,251
EBRD (Loan 3)	3-month LIBOR + 2.95%	-	201,380	5,498,961	21,204,771	-	26,905,112
Eurasian Development Bank	7.70%	76,347	-	118,657	2,677,328	1,393,818	4,266,150
JSC NWF Samruk-Kazyna (Loan 1)	2.00%	300,000	-	300,000	2,400,000	33,300,000	36,300,000
JSC NWF Samruk-Kazyna (Loan 2)	0.75%	-	-	30,000	687,143	3,672,861	4,390,004
JSC NWF Samruk-Kazyna (Loan 3)	0.75%	-	-	112,500	2,577,679	13,781,696	16,471,875
JSC NWF Samruk-Kazyna (Loan 4)	7.20%	-	270,000	810,000	17,970,000	-	19,050,000
JSC NWF Samruk-Kazyna (Loan 5)	7.20%	-	1,080,000	3,240,000	71,880,000	-	76,200,000
JSC NWF Samruk-Kazyna (Loan 6)	2.00%	607,550	-	607,550	4,860,400	89,917,400	95,992,900
JSC NWF Samruk-Kazyna (Loan 7)	0.75%	-	-	16,164	269,020	2,095,307	2,380,491
JSC NWF Samruk-Kazyna (Loan 8)	0.10%	59,173	-	59,173	473,384	123,595,960	124,187,690
JSC NWF Samruk-Kazyna (Loan 9)	0.75%	-	153,147	-	1,915,124	25,348,957	27,417,228
JSC NWF Samruk-Kazyna (Loan 10)	0.10%	23,065	-	25,649	205,192	53,573,779	53,827,685
JSC NWF Samruk-Kazyna (Loan 11)	0.10%	-	-	8,053	32,664	8,524,760	8,565,477
JSC ATF Bank (Loan 2)	8.48%	-	40,575	250,927	766,423	-	1,057,925
JSC ATF Bank (Loan 3)	8.84%	-	-	506,273	1,325,060	-	1,831,333
Notes payable	5.48%	-	-	83,367	117,334	-	200,701
JSC Halyk Bank of Kazakhstan (Loan 2)	8.00-12.00%	298,899	591,372	3,747,972	4,158,980	-	8,797,223
JSC Halyk Bank of Kazakhstan (Loan 3)	10%	143,662	285,191	1,248,154	4,850,377	-	6,527,384
JSC Citibank Kazakhstan	3.31%						
HSBC plc	6-month LIBOR + 3%	-	-	1,084,963	6,812,364	5,333,042	13,230,369
HSBC Bank France	4.80%	-	480,832	2,442,868	17,565,673	3,792,315	24,281,688
Export-Import Bank	1.7-2.25%	-	2,090,292	6,213,080	31,687,098	24,854,149	64,844,619
JSC Sberbank (Loan 2)	9.00-10.5%	39,616	680,972	290,894	891,693	-	1,903,175
JSC Sberbank (Loan 3)	9.70%	44,860	104,361	3,599,773	3,511,802	-	7,260,796
JSC Alfa bank	9.00%	68,847	264,240	2,344,968	687,544	-	3,365,599
Other loans	8.50%	4,133	7,867	815,067	-	-	827,067
Debt securities	6.38-7.00%	-	-	16,471,253	133,849,486	571,999,443	722,320,182
Finance lease	8.50-18.25%	-	-	1,057,642	4,123,390	987,324	6,168,356
		60,648,098	23,571,633	81,649,792	362,672,315	970,749,756	1,499,291,594

(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
2012 (restated)							
Non-interest bearing:							
Trade accounts payable	-	60,914,088	1,990,183	35,599,150	-	-	98,503,421
Accrued salary	-	13,017,616	-	-	-	-	13,017,616
Other current liabilities	-	3,125,827	-	18,712,196	-	-	21,838,023
Interest bearing:							
ABN Amro Bank N.V.	3-month LIBOR + 0.07%	-	575,244	1,141,240	288,300	-	2,004,784
Japan Bank for International Cooperation ("JBIC")	3.00%	-	-	861,605	3,209,525	2,157,882	6,229,012
Instituto de Credito Oficial ("ICO")	2.50%	-	-	399,501	1,514,377	1,215,070	3,128,948
JSC Development Bank of Kazakhstan (Loan 1)	9.80%	-	-	198,719	-	-	198,719
JSC Development Bank of Kazakhstan (Loan 2)	8.00%	-	229,230	223,636	623,544	-	1,076,410
JSC Development Bank of Kazakhstan (Loan 3)	1.15 * 6-month LIBOR + 1.28%	170,575	-	169,099	1,299,647	1,632,747	3,272,068
JSC Development Bank of Kazakhstan (Loan 4)	8.078%	-	-	1,339,744	4,753,561	4,579,765	10,673,070
EBRD (Loan 1)	6-month LIBOR + 3.25%	-	1,355,930	1,336,641	9,887,815	2,251,336	14,831,722
EBRD (Loan 2)	6-month LIBOR for USD denominated deposits + 3.25%	-	-	1,285,213	4,747,119	2,648,920	8,681,252
EBRD (Loan 3)	3-month LIBOR + 2.95% for US Dollar tranche and all-in cost + 2.95% for tenge tranche	-	416,292	4,797,477	22,898,679	5,010,889	33,123,337
JSC NWF Samruk-Kazyna (Loan 1)	2.00%	300,000	-	300,000	2,400,000	33,900,000	36,900,000
JSC NWF Samruk-Kazyna (Loan 2)	0.75%	-	-	30,000	499,524	3,890,480	4,420,004
JSC NWF Samruk-Kazyna (Loan 3)	0.75%	-	-	112,500	1,873,661	14,598,214	16,584,375
JSC NWF Samruk-Kazyna (Loan 4)	7.20%	-	267,000	813,000	19,053,000	-	20,133,000
JSC NWF Samruk-Kazyna (Loan 5)	7.20%	-	1,080,000	3,300,000	76,440,000	-	80,820,000
JSC NWF Samruk-Kazyna (Loan 6)	2.00%	488,503	-	607,550	4,860,400	91,132,500	97,088,953
JSC NWF Samruk-Kazyna (Loan 7)	0.75%	-	-	13,425	167,223	2,213,268	2,393,916
JSC ATF Bank (Loan 1)	9.93-15.00%	148,397	293,333	356,667	-	-	798,397
JSC ATF Bank (Loan 2)	8.48%	-	50,715	260,088	1,057,925	-	1,368,728
JSC ATF Bank (Loan 3)	8.84%	-	-	500,959	1,729,474	-	2,230,433
Notes payable	5.48%	-	-	82,534	189,344	-	271,878
JSC Halyk Bank of Kazakhstan (Loan 1)	11,00 %	24,697	4,482	87,036	213,639	-	329,854
JSC Halyk Bank of Kazakhstan (Loan 2)	8.00-12.00%	442,143	849,963	3,071,856	8,894,024	272,816	13,530,802
JSC Citibank Kazakhstan	3.31%	-	4,540,079	-	-	-	4,540,079
JSC SB HSBC Bank Kazakhstan	6-month LIBOR + 3%	-	-	379,399	5,866,906	6,461,376	12,707,681
JSC Sberbank (Loan 2)	9.00-10.5%	18,187	51,016	229,574	3,436,249	-	3,735,026
JSC Sberbank (Loan 3)	9.70%	765,810	1,376,690	312,458	1,406,799	-	3,861,757
JSC Alfa bank	9.00%	507,413	1,091,228	1,167,999	1,435,350	-	4,201,990
Other loans	8.50%	1,318	2,508	938,125	-	-	941,951
Debt securities	6.38-7.00%	5,473,935	-	16,184,487	135,621,882	588,172,211	745,452,515
Finance lease	8.50-18.25%	-	-	1,351,102	5,168,999	1,868,529	8,388,630
		85,398,509	14,173,893	96,162,980	319,536,966	762,006,003	1,277,278,351

(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	Greater than 1 year	Indefinite settlement term	Total
2013							
Interest bearing:							
Short-term deposits	9.19%	36,589,147	2,574,623	-	-	-	39,163,770
Interest on short-term deposits	9.19%	95,510	16,137	-	-	-	111,647
Other financial assets	4.55%	-	3,675,149	32,839,623	1,920,024	-	38,434,796
Interest on other financial assets	4.55%	-	27,086	1,044,300	151,060	-	1,222,446
Cash and cash equivalents	0.2-7%	41,135,147	-	-	-	-	41,135,147
Non-interest bearing:							
Cash and cash equivalents	-	5,493,817	-	-	-	-	5,493,817
Restricted cash	-	-	-	1,170,375	-	-	1,170,375
Trade accounts receivable	-	7,632,390	105,905	368,854	-	4,658,654	12,765,803
Loans given		-	-	4,000,000	-	-	4,000,000
		90,946,011	6,398,900	39,423,152	2,071,084	4,658,654	143,497,801
2012 (restated)							
Interest bearing:							
Short-term deposits	0.20%	1,091,018	-	-	-	-	1,091,018
Interest on short-term deposits	0.20%	48	-	-	-	-	48
Other financial assets	4.51%	2,000,000	2,303,729	43,970,969	1,874,213	-	50,148,911
Interest on other financial assets	4.51%	33,222	20,709	1,300,788	99489	-	1,454,208
Cash and cash equivalents	0.5-5.5%	52,285,742	-	-	-	-	52,285,742
Non-interest bearing:							
Cash and cash equivalents	-	16,329,669	-	-	-	-	16,329,669
Restricted cash	-	-	-	1,178,134	-	-	1,178,134
Trade accounts receivable	-	4,991,920	177,282	2,614,911	-	5,445,246	13,229,359
		76,731,619	2,501,720	49,064,802	1,973,702	5,445,246	135,717,089

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)

Financial assets and liabilities

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, 2013 and 2012:

	December 31, 2013 (% per annum)	December 31, 2012 (% per annum)
Tenge		
with maturity from 1 to 5 years	8.5	10.00
with maturity over 5 years	11.3	9.00
Foreign currencies		
with maturity from 1 to 5 years	9.3	10.01
with maturity over 5 years	7.4	8.10

Borrowings

The estimated fair value for loans from banks was made by discounting the scheduled future cash flows of individual loans through the 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 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 debt securities issued (Eurobonds) has been determined based on market prices at the reporting date.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

As at December 31, 2013 and 2012 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 and debt securities issued (Eurobonds) as at December 31 is presented as follows:

	December 31, 2013		December 31, 2012 (restated)	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Borrowings	330,238,182	331,899,338	249,294,940	251,306,266
Debt securities (Eurobonds)	339,929,797	361,915,812	339,276,508	411,822,260

(in thousands of tenge unless otherwise stated)

	Fair value hierarchy as at December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets	-	-	-	-
Loans and receivables:	-	-	-	-
- loans given to related parties	-	3,639,298	-	3,639,298
Other financial assets	-	38,712,644	-	38,712,644
Total	-	42,351,942	-	42,351,942
Financial liabilities				
Financial liabilities held at amortised cost:				
- debt securities issued	361,915,812	-	-	361,915,812
- bank loans	-	147,868,428	6,688,412	154,556,840
- loans from related parties	-	177,342,498	-	177,342,498
Financial lease payables	-	3,864,059	-	3,864,059
Total	361,915,812	329,074,985	6,688,412	697,679,209

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

For trade accounts receivable and payable, the fair value approximates its carrying value.

38. EVENTS AFTER THE REPORTING DATE

Government programs

On February 11, 2014, the National Bank of the Republic of Kazakhstan took the decision to reduce its intervention in setting the KZT exchange rate. As a result, the official exchange rate of KZT to US dollar fell to KZT 184.5 as at February 13, 2014, i.e. by 19%. To prevent the destabilization of the financial market and economy as a whole, the National Bank plans to set an exchange corridor for the KZT against the US dollar at KZT 182-188 per US dollar. The management of the Group believes that it has taken all necessary measures to maintain the economic stability of the Group under these conditions.

Contributions to the share capital

On January 15, 2014 the Group registered the shares of 30,000,000 thousand tenge relating to contributions received from the Shareholder in December 2013 (Note18). Consequently, in the consolidated statement of changes in equity, the contribution was transferred from additional paid in capital to share capital.

Social facilities of Mangistau oblast for the benefit of the ultimate Shareholder

In February 2014 the Group donated part of the social facilities to the Municipality of Zhanaozen city, built pursuant to a decree of the ultimate Shareholder in the amount of 282,094 thousand tenge (Notes 13, 18 and 26).

Loans

Within the loan agreement dated November 26, 2012 concluded with Export-Import Bank of United States of America, on February 24, 2014 the Group's subsidiary JSC Locomotive entered into locomotives pledge agreement with an agent The Royal Bank of Scotland Plc. The total quantity of the pledged locomotives equals to 22 units with a carrying value of 12,472,236 thousand tenge as at December 31, 2013.

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