IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) OR (2) NON-U.S. PERSONS (AS DEFINED BELOW) LOCATED OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus following this page and you are therefore advised to read this page 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), Barclays Bank PLC, HSBC Bank plc or The Royal Bank of Scotland plc as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS.

THE ATTACHED PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED IN THE ATTACHED PROSPECTUS.

Confirmation of your representation: In order to be eligible to view the attached Prospectus or make an investment decision with respect to the securities being offered, prospective investors must be either (1) Qualified Institutional Buyers ("**QIBs**") (within the meaning of Rule 144A ("**Rule 144A**") under the Securities Act) or (2) non-U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) located outside the United States. This Prospectus is being sent to you at your request, and by accessing this Prospectus you shall be deemed to have represented to the Issuer, the Guarantors, Barclays Bank PLC, HSBC Bank plc and The Royal Bank of Scotland plc that (1) either (a) you and any customers you represent are QIBs or (b) you and any customers you represent are non-U.S. Persons located outside of the United States and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories and possessions, any State of the United States or the District of Columbia and (2) you consent to delivery of such Prospectus by electronic transmission.

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

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

The attached Prospectus may only be distributed to, and is directed at Persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on the attached Prospectus or any of its contents.

The attached Prospectus has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Guarantors, Barclays Bank PLC, HSBC Bank plc or The Royal Bank of Scotland plc nor any person who controls them or any director, officer, employee or agent of them or 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 Barclays Bank PLC, HSBC Bank plc or The Royal Bank of Scotland plc.

KAZAKHSTAN TEMIR ZHOLY FINANCE B.V.

(a limited liability company incorporated in The Netherlands)

U.S.$700,000,000 6.375 per cent. Notes due 2020
Guaranteed by

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

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

JSC KAZTEMIRTRANS

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

JSC LOCOMOTIVE

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

Issue Price of the Notes: 100 per cent.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for the U.S.$700,000,000 6.375 per cent. Notes due 2020 (the "**Notes**") of Kazakhstan Temir Zholy Finance B.V. (the "**Issuer**") to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**" for such Notes to be admitted to trading on the London Stock Exchange's regulated market (the "**Market**"). References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC.

Each of JSC National Company Kazakhstan Temir Zholy (the "**Company**"), JSC Kaztemirtrans (formerly JSC Kazzheldortrans) ("**Kaztemirtrans**") and JSC Locomotive ("**Locomotive**") (the Company, Kaztemirtrans and Locomotive, each a "**Guarantor**" and, together, the "**Guarantors**") have jointly and severally, unconditionally and irrevocably guaranteed the due and punctual payment of all amounts at any time becoming due and payable in respect of the Notes under a guarantee (the "**Guarantee**") contained in the Trust Deed (as defined below). Interest on the Notes is payable semi-annually in arrear on 6 April and 6 October in each year, except that the first payment will be made on 6 April 2011. Payments on the Notes (including payments by a Guarantor under the Guarantee or otherwise under the Trust Deed) will be made without deduction for or on account of taxes of The Netherlands or Kazakhstan, unless such withholding or deduction is required by law. In such event, the Issuer or (as the case may be) the relevant Guarantor will, subject to certain exceptions and limitations set forth below, pay additional amounts ("**Additional Amounts**") to the holder of any Note to the extent described under "*Terms and Conditions of the Notes – Taxation*". The Notes mature on 6 October 2020 but may be redeemed before then at the option of the Issuer following a Relevant Event (as defined below) at 101 per cent. of their principal amount together with accrued interest. The Issuer may redeem the Notes in whole, but not in part, if a withholding is required in The Netherlands (or following the Intended Substitution (defined below), if this occurs, in Kazakhstan) or in the event that the Guarantors are required to increase the amount that any of them are required to pay as Additional Amounts after the date hereof as set out in Condition 11 (*Taxation*). See *"Terms and Conditions of the Notes – Redemption, Purchase and Cancellation"*.

Prior to the first interest payment date with respect to the Notes, the Company intends to, upon satisfaction of certain conditions, be substituted for the Issuer as issuer of the Notes, whereupon it will assume all of the obligations of the Issuer under the Notes (the "**Intended Substitution**") and references to the "Issuer" herein will, where appropriate, refer to the Company. Immediately following such Intended Substitution, application may be made by the Company for a dual listing of the Notes on the Kazakhstan Stock Exchange Inc. (the "**KASE**"). Pursuant to the terms of the Trust Deed, the Intended Substitution can occur without the consent of the holders of the Notes, and the Trustee (as defined below) is not required to make any determination as to whether the Intended Substitution is materially prejudicial to such holders.

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

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

The Notes are expected to be rated BB+ by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies Inc. ("**S&P**"), Baa3 by Moody's Investors Service, Inc. ("**Moody's**") and BBB- by Fitch Ratings Ltd. ("**Fitch**"). The Company's current long-term debt rating by S&P, Moody's and Fitch is BB+ (outlook positive), Baa3 (outlook stable) and BBB- (outlook stable), respectively. 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.

Investing in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 13.

Joint Lead Managers

Barclays Capital **HSBC** **The Royal Bank of Scotland**

This Prospectus is dated 4 October 2010

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

None of Barclays Bank PLC, HSBC Bank plc or The Royal Bank of Scotland plc (together, the "**Joint Lead Managers**") or any of their directors, affiliates, advisers or agents has made an independent verification of the information contained in this Prospectus in connection with the issue or offering of the Notes and no representation or warranty, express or implied, is made by the Joint Lead Managers or any of their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Prospectus is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by the Joint Lead Managers or any of their respective directors, affiliates, advisers or agents in any respect. The contents of this Prospectus are not, are not to be construed as, and should not be relied on as, legal, financial, business or tax advice and each prospective investor should consult its own legal and other advisers for any such advice relevant to it.

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

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

The Notes are being offered and sold only to qualified institutional buyers in reliance on Rule 144A and to certain non-U.S. persons in transactions outside the United States in reliance on Regulation S in transactions that are not subject to the registration requirements of the Securities Act. Certain information or financial data included in or omitted from this Prospectus may not comply with Regulation S-K or Regulation S-X of the Securities Act and the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), or other applicable rules or regulations of the United States Securities and Exchange Commission. In particular, Regulation S-X Rule 3-10 would have required that supplemental disclosures be included in the consolidated financial statements for the years ended 31 December 2009 and 2008 as well as in the unaudited condensed consolidated financial statements for the six months ended 30 June 2010 and 2009 included elsewhere in this Prospectus. Such disclosures would include, but not be limited to, a footnote presenting the condensed consolidated financial information for each of Kaztemirtrans and Locomotive, as subsidiary guarantors, for the periods presented in the financial statements included in this Prospectus. The Issuer has not included such financial information in this Prospectus. As a result, a prospective purchaser of Notes may be unable to fully assess the financial position of the Guarantors of the Notes.

In connection with the issue of the Notes, The Royal Bank of Scotland plc (the "**Stabilising Manager**") (or any person acting on behalf of any Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or person(s) acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

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

None of the Issuer, the Guarantors, the Joint Lead Managers nor the Trustee is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser.

The 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 derivative transactions with, the Issuer, the Guarantors or any of their respective affiliates (including the shareholder of the Company).

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

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

FORWARD-LOOKING STATEMENTS

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

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

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

- the ability of the Group to adapt to past, present and future industry and corporate restructuring initiatives;
- the approved form and timing for implementing the Development Strategy (as hereinafter defined);
- changes in tariff and tax requirements (including tax rate changes, new tax laws and revised tax law interpretations);
- changes in freight and passenger rail traffic volumes;
- the ability of the Group to effect anticipated operating cost reductions and revenue enhancements;
- developments in marketing priorities and practices;
- 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 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*'' and ''*Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group*'' contain a more complete discussion of the factors that could affect the Group's future performance and the industry in which it operates.

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

AVAILABLE INFORMATION

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

ENFORCEMENT OF FOREIGN JUDGMENTS

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

The Notes and the Trust Deed are governed by the laws of England and the Issuer and the Guarantors have agreed in the Notes and the Trust Deed that disputes arising thereunder are subject to arbitration in London, England or, at the election of the Trustee or, in certain circumstances, a Noteholder, to the jurisdiction of the English courts. See "*Terms and Conditions of the Notes – Governing Law and Jurisdiction*" and "*Terms and Conditions of the Notes – Governing Law and Jurisdiction – Arbitration*". Kazakhstan's courts will not enforce any judgment obtained in a court established in a country other than Kazakhstan unless there is a treaty in effect between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and England or the United States. However, Kazakhstan, England and the United States are parties to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the "**Convention**"), and, accordingly, such an arbitral award under the Convention should generally be recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention are met.

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

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

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

INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

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

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Financial Information

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

The unaudited condensed consolidated statement of financial position as at 30 June 2010 and unaudited condensed consolidated statements of comprehensive income, cash flows and changes in equity for the six months ended 30 June 2010 and 2009 (the "**Interim Financial Statements**") have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and were reviewed by the Group's independent auditors, whose report is included elsewhere in this Prospectus. The consolidated statements of financial position and consolidated statements of comprehensive income, cash flows and changes in equity as at and for the years ended 31 December 2009 and 2008 (the "**Annual Financial Statements**" and, together with the Interim Financial Statements, the "**Financial Statements**") have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and were audited by the Group's independent auditors, whose report is included elsewhere in this Prospectus.

In this Prospectus, the Group uses EBITDA in the analysis of its business, financial position and results of operations. The Group defines EBITDA as profit (loss) for the period before income tax, finance costs and depreciation and amortisation. 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. In addition, EBITDA has important limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of the Group's results as reported under IFRS. The Group's calculation of EBITDA may be different from the calculation used by other companies and therefore comparability may be limited.

The Group uses EBITDA and the ratios based on this measure in assessing its performance. In addition, the Group believes that EBITDA and the ratios based on this measure provide useful information to investors because they are indicators of the strength and performance of the Group's ongoing business operations, its ability to fund discretionary spending such as capital expenditures, and its ability to incur and service debt. In addition, EBITDA is a key measure in assessing compliance with its debt covenants, however, this measure of EBITDA deviates from the measure used throughout this Prospectus as it is computed based on the specific debt agreement.

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

Third-Party Information

Market data and certain industry forecasts used throughout this Prospectus have been obtained from market research, certain publicly available information and industry publications. Generally, such data and forecasts regarding Kazakhstan and the Kazakhstan transportation market included in this Prospectus have been obtained from the National Bank of Kazakhstan (the "**NBK**"), the Agency of the Republic of Kazakhstan for Statistics (the "**NSA**"), and other third party sources that are believed to be reliable. No assurance can be given as to the accuracy and completeness of any such data, which has not been independently verified and the 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 members of the Group cannot ensure the accuracy of official statistics and other data in this Prospectus published by Kazakhstan authorities*".

The information described above has been accurately reproduced and, as far as the Issuer and the Guarantors are aware and are able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, neither the Issuer nor the Guarantors accept responsibility for the accuracy or completeness of such information. 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. The Issuer and the Guarantors believe these estimates to be accurate in all material respects as at the dates indicated. However, this information may prove to be inaccurate because of the method by which the Issuer or the Guarantors obtained some of the data for these estimates or because this information cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other inherent limitations and uncertainties.

Certain Definitions and Terminology

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

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

References to "**Kazakhstan**" are to the Republic of Kazakhstan, references to the "**Government**" are to the government of the Republic of Kazakhstan and references to the "**CIS**" are to the Commonwealth of Independent States.

Currency and Exchange Rate Information

In this Prospectus, references to "**Tenge**" or "**KZT**" are to Kazakhstan Tenge, the official currency of Kazakhstan, references to "**U.S. Dollars**" or "**U.S.$**" are to United States Dollars and references to "**€**" 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.

Solely for the convenience of the reader, 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), calculated in accordance with the NBK exchange rates for U.S. Dollars. No representation is made that the Tenge or U.S. Dollar amounts in this Prospectus could have been converted into U.S. Dollars or Tenge, as the case may be, at any particular rate or at all.

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

	KZT per U.S.$1.00	
	Period-end	**Average**
For the year ended 31 December 2008	120.77	120.30
For the year ended 31 December 2009	148.36	147.50
For the six month period ended 30 June 2009	150.41	144.69
For the six month period ended 30 June 2010	147.46	147.05
17 September 2010	147.28	—

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.

On 4 February 2009, the NBK devalued the Tenge by 18% to KZT 143.98 per U.S.$1.00. See "*Risk Factors – Risk Factors Relating to the Republic of Kazakhstan – Currency exchange rate policy could have an adverse impact on the Group and Kazakhstan's public finances and economy*".

Rounding Adjustments

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

TABLE OF CONTENTS

GENERAL DESCRIPTION OF THE GROUP AND THE OFFERING

This overview must be read as an introduction to this Prospectus, and any decision to invest in the Notes should be based on a consideration of the Prospectus as a whole.

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

General Description of the Group

The Company is the national railway company of Kazakhstan and, directly or through other members of the Group, owns and operates all of Kazakhstan's railway system and related infrastructure. As Kazakhstan's national railway company, the Company has a monopoly over Kazakhstan's mainline railway networks with respect to freight transportation. As at 31 December 2009, Kazakhstan's railway system had an operational length of approximately 14,202 km. The Company is vested with the power to grant or deny, in its sole discretion, access to Kazakhstan's mainline railway networks by third parties. As a monopoly the Company is regulated by the Agency for Regulation of Natural Monopolies ("**Anti-Monopoly Agency**") under the Law of the Republic of Kazakhstan on Natural Monopolies and Regulated Markets dated 9 July 1998, as amended (the "**Law on Natural Monopolies**"). 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 networks.

In addition to providing access to Kazakhstan's mainline railway networks and other logistic and infrastructure services to third parties, the Group provides its own freight and passenger transportation services. Freight transportation plays a key role in the Group's business operations. Kazakhstan's economy is significantly dependent on the export of raw materials and the import of finished goods. Consequently, the Group's services are particularly important to the economic growth and wellbeing of Kazakhstan, which has limited access to navigable water routes and an underdeveloped road infrastructure. Overall freight turnover for the Group was 101.2 billion tonne-kilometres and 89.1 billion tonne-kilometres for the six months ended 30 June 2010 and 2009, respectively, and 197.3 billion tonne-kilometres and 214.9 billion tonne-kilometres for the years ended 31 December 2009 and 2008, respectively. According to the NSA and the Group's internal data, the Group's freight turnover for 2009, which includes freight transported in third party wagons hauled by the Group, accounted for 58.5% of all freight turnover in Kazakhstan by all modes of transportation for that period. Freight transportation revenue was KZT 239.4 billion, or 85.6% of total revenue, and KZT 188.5 billion, or 84.6%, of total revenue for the six months ended 30 June 2010 and 2009, respectively. Freight transportation revenue was KZT 407.4 billion, or 84.7% of total revenue, and KZT 416.5 billion, or 86.1% of total revenue, for the years ended 31 December 2009 and 2008, respectively.

The Group had total revenue of KZT 279.5 billion and KZT 222.7 billion for the six months ended 30 June 2010 and 2009, respectively, and profit of KZT 40.9 billion and a loss of KZT 1.5 billion for the six months ended 30 June 2010 and 2009, respectively. The Group had total revenue of KZT 481.0 billion and KZT 483.8 billion for the years ended 31 December 2009 and 2008, respectively, and profit of KZT 19.5 billion and KZT 63.9 billion for the years ended 31 December 2009 and 2008, respectively. As at 30 June 2010, the Group had total assets of KZT 1,066.0 billion and total liabilities of KZT 353.3 billion. The Group's ratio of current assets to current liabilities was 0.83 as at 30 June 2010. As at 31 December 2009, the Group had total assets of KZT 994.8 billion and total liabilities of KZT 333.8 billion. As at 31 December 2008, the Group had total assets of KZT 927.0 billion and total liabilities of KZT 283.1 billion.

The Group has undergone and continues to undergo a number of restructuring initiatives seeking to optimise its core business operations. Pending the completion of ongoing reorganisation efforts, most of the operations of the Group are performed by the Company and most of the revenue of the Group is generated by the Company. However, the other Guarantors, Kaztemirtrans and Locomotive, are also important members of the Group. Kaztemirtrans owns the Group's freight railcar fleet, which is primarily subcontracted to the Company, and provides freight railcars and logistics services. Locomotive owns the Group's locomotives, provides locomotive haulage services to the Company and conducts shunting operations, which involves sorting rolling stock into trains. Kaztemirtrans and Locomotive are dominant providers of railcars and locomotive haulage services, respectively. As dominant entities under the Law on Competition #112-IV dated 25 December 2008, as amended (the "**Law on Competition**"), which are defined as entities controlling 35% or more of the market share in respect of a service, Kaztemirtrans and Locomotive are subject to Government oversight. See "*Business of the Group*".

General Description of the Issuer

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

Sole Shareholder and Relationship with the State

The Government indirectly wholly owns the Company through JSC Sovereign Wealth Fund Samruk-Kazyna ("**Samruk-Kazyna**"). See "*Share Capital and Principal Shareholders – The Company – Samruk-Kazyna*". The Government has strong influence 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 Group believes that it benefits from the following key strengths:

- Status as the national railway company of Kazakhstan and monopoly position over Kazakhstan's mainline railway networks with respect to freight transportation;
- Proximity to China, which provides freight transit opportunities;
- A nationwide system of railway service infrastructure, which allows the Group to take advantage of evolving regional economic centres and grow and evolve simultaneously with the development of the Kazakhstan economy; and
- Owner of a broad range of assets, which enables the Group to efficiently provide a range of railway transportation services.

See "*Business of the Group*".

Ongoing Restructuring

The Government has been actively reforming the railway industry since 1997. In May 2010, the Board of Directors of the Company adopted the 2020 Development Strategy (the "**Development Strategy**"). The Development Strategy 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. The Development Strategy envisages restructuring the Company into a holding company with four principal business lines (comprised of (i) freight transportation, (ii) passenger transportation, (iii) mainline railway infrastructure and (iv) locomotive and rolling stock assembly and repair), eliminating indirect subsidisation of passenger transportation services and divesting non-core assets of the Group. The Government will supervise the restructuring through the Ministry of Transportation and Communication of the Republic of Kazakhstan (the "**Ministry of Transportation**"). The plan to implement the Development Strategy has received all requisite corporate approvals and is pending approval by the Government, which is expected to occur in late 2010. See "*Business of the Group – Ongoing Restructuring*".

Credit Ratings

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

The Notes are expected to be assigned credit ratings of Baa3 by Moody's, BB+ by S&P and BBB- by Fitch. 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. See "*Risk Factors – Risk Factors Relating to the Notes and the Guarantees – Credit ratings do not reflect all risks*".

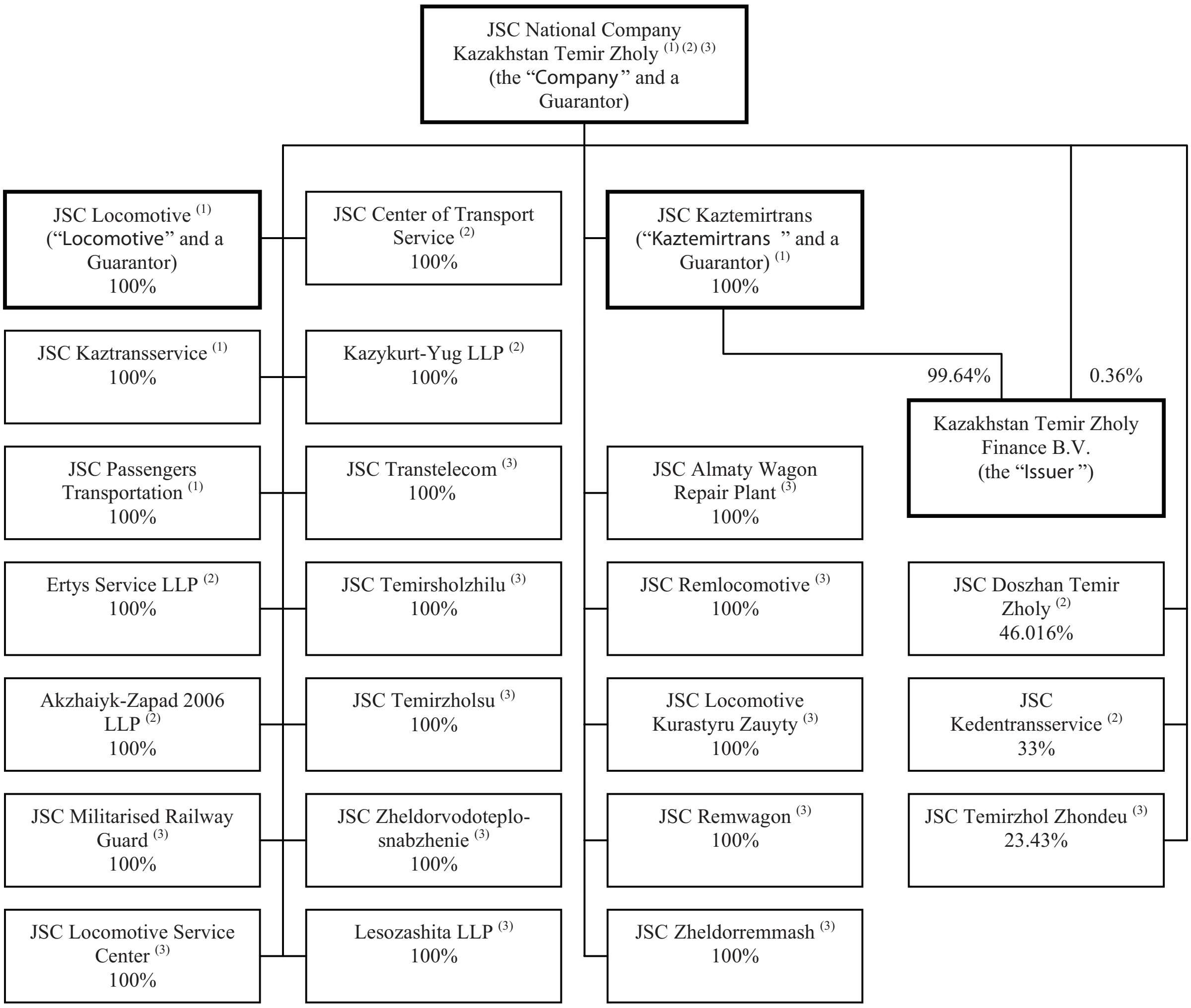
Risk Factors

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

Corporate Organisation

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

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



Line of business:

(1) Transport Services.
(2) Infrastructure Services.
(3) Supporting Services.

Summary Consolidated Financial Information of the Company

The following summary consolidated historical financial information as at and for the years ended 31 December 2009 and 2008 has been derived from the Annual Financial Statements, which are included elsewhere in this Prospectus. The unaudited summary consolidated historical interim financial information as at 30 June 2010 and for the six months ended 30 June 2010 and 2009 has been derived from the Interim Financial Statements, which are included elsewhere in this Prospectus. The unaudited summary consolidated historical interim financial information has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", and in the opinion of the Company's management, includes all adjustments, consisting of normal recurring adjustments necessary for a true and fair presentation of interim results. Investors should not rely on interim results as being indicative of results the Company may expect for the full year.

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

Income Data

	For the six months ended 30 June 2010(1)	For the six months ended 30 June		For the year ended 31 December	
		2010	2009	2009	2008
	(Unaudited)	*(Unaudited)*	*(Unaudited)*		
	(U.S.$ in thousands)	*(KZT in thousands)*			
Revenue					
Freight transportation	1,623,435	239,391,690	188,518,249	407,411,457	416,517,032
Passenger transportation	154,332	22,757,781	21,134,984	46,647,095	42,523,391
Government grants	53,708	7,919,777	5,090,636	10,058,412	7,300,236
Other revenue	64,022	9,440,734	8,002,671	16,876,206	17,422,701
Total revenue	1,895,497	279,509,982	222,746,540	480,993,170	483,763,360
Cost of sales	(1,310,115)	(193,189,616)	(171,384,583)	(368,960,223)	(377,182,960)
Gross profit	585,382	86,320,366	51,361,957	112,032,947	106,580,400
General and administrative expenses	(183,225)	(27,018,312)	(23,073,541)	(49,822,762)	(58,989,733)
(Loss)/recovery of loss from impairment of property, plant and equipment	48	7,096	8,148	(1,409,623)	644,755
Other income and expenses	1,758	259,185	150,113	555,331	1,481,305
Finance income	9,123	1,345,273	1,672,130	2,661,506	7,181,578
Finance costs	(35,957)	(5,302,272)	(5,200,719)	(9,673,490)	(8,885,933)
Foreign exchange loss	(1,027)	(151,498)	(24,546,205)	(21,881,928)	(1,555,529)
Share of (loss)/profit of associates	427	62,923	113,322	(90,039)	862,880
Profit before taxation	376,528	55,522,761	485,205	32,371,942	47,319,723
Income tax (expense)/benefit	(98,851)	(14,576,580)	(2,014,710)	(12,883,155)	16,562,026
Profit/(loss) for the period	277,677	40,946,181	(1,529,505)	19,488,787	63,881,749

(1) The Group's functional currency is the Tenge. For convenience, these figures have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 30 June 2010, KZT 147.46 per U.S.$1.00. Such conversion should not be construed as a representation that the KZT amounts have been or could be converted into U.S.$ at this rate or any other rate.

Statement of Financial Position Data

	As at 30 June 2010(1)	As at 30 June 2010	As at 31 December 2009	As at 31 December 2008
	(Unaudited)	*(Unaudited)*		
	(U.S.$ in thousands)	*(KZT in thousands)*		
Property, plant and equipment	5,897,247	869,608,040	833,599,921	779,165,048
Total non-current assets	6,121,048	902,609,806	850,497,688	791,370,557
Other financial assets	193,137	28,479,922	17,706,980	15,521,590
Cash and cash equivalents	392,526	57,881,922	52,442,441	49,164,450
Total current assets	1,108,190	163,413,653	144,315,786	135,630,960
Total assets	7,229,238	1,066,023,459	994,813,474	927,001,517
Total equity	4,833,493	712,746,851	661,003,193	643,853,246
Non-current borrowings(2)(3)	576,638	85,031,033	154,815,655	127,394,821
Total non-current liabilities	1,055,667	155,668,722	213,171,640	176,639,834
Current borrowings(4)	613,981	90,573,673	17,768,303	4,772,944
Total current liabilities	1,340,078	197,607,886	120,638,641	106,508,437
Total liabilities	2,395,745	353,276,608	333,810,281	283,148,271

(1) The Group's functional currency is the Tenge. For convenience, these figures have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 30 June 2010, KZT 147.46 per U.S.$1.00. Such conversion should not be construed as a representation that the KZT amounts have been or could be converted into U.S.$ at this rate or any other rate.

(2) Represents the aggregation of borrowings, debt securities issued and financial lease liabilities.

(3) As at the date of this Prospectus, the Group had U.S.$68.3 million and U.S.$10.0 million outstanding under the European Bank of Reconstruction and Development (the "**EBRD**") (two loans) and SB JSC HSBC Bank Kazakhstan loans, respectively, that are not reflected on the Group's consolidated statement of financial position as at 30 June 2010.

(4) Represents the aggregation of short-term borrowings, current portion of borrowings, current portion of debt securities issued and current portion of finance lease liabilities.

Statement of Cash Flows Data

	For the six months ended 30 June 2010(1)	For the six months ended 30 June		For the year ended 31 December	
		2010	**2009**	**2009**	**2008**
	(Unaudited) *(U.S.$ in thousands)*	*(Unaudited)*	*(Unaudited)*		
		(KZT in thousands)			
Net cash flows from operating activities................................	529,936	78,144,385	25,338,032	96,835,186	90,043,769
Net cash flows used in investing activities................................	(610,442)	(90,015,850)	(29,551,959)	(102,130,844)	(68,250,873)
Net cash flows from financing activities................................	118,089	17,413,405	5,961,753	8,696,703	952,109
Net (decrease)/increase in cash and cash equivalents.............	37,583	5,541,940	1,747,826	3,401,045	22,745,005
Cash and cash equivalents at the beginning of the period	355,638	52,442,441	49,164,450	49,164,450	26,369,694
Effect of foreign exchange rates on cash and cash equivalents	(695)	(102,459)	127,434	(123,054)	49,751
Cash and cash equivalents at the end of the period	392,526	57,881,922	51,039,710	52,442,441	49,164,450

(1) The Group's functional currency is the Tenge. For convenience, these figures have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 30 June 2010, KZT 147.46 per U.S.$1.00. Such conversion should not be construed as a representation that the KZT amounts have been or could be converted into U.S.$ at this rate or any other rate.

Financial Ratios

	As at and for the six months ended 30 June		As at and for the year ended 31 December	
	2010	2009	2009	2008
		(Unaudited)		
EBITDA[(1)]	85,555,427	30,179,023	89,895,731	104,351,916
Current ratio[(2)]	0.83	1.48	1.20	1.27
Coverage ratio[(3)]	11.47	1.09	4.35	6.33
Net debt to net capitalisation ratio[(4)]	0.14	0.15	0.15	0.11
Total debt to EBITDA[(5)]	1.45		1.92	1.27

(1) The Group defines EBITDA as profit(loss) for the period before income tax, finance costs, depreciation and amortisation. 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 this measure. EBITDA is computed as follows:

	For the six month period ended 30 June		For the year ended 31 December	
	2010	2009	2009	2008
		(KZT in thousands)		
Profit before taxation	55,522,761	485,205	32,371,942	47,319,723
Finance cost	5,302,272	5,200,719	9,673,490	8,885,933
Depreciation and amortization[(i)]	24,730,394	24,493,099	47,850,299	48,146,260
EBITDA	85,555,427	30,179,023	89,895,731	104,351,916

(i) Includes all depreciation and amortisation recorded under both cost of sales and general and administrative expenses.

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

(3) The Group defines its coverage ratio as interest expense divided by profit before taxation and interest expense. Interest expense includes interest on debt securities and on loans, which is included in total finance costs.

(4) This ratio is computed as net debt divided net capitalisation. Net debt is defined as total debt, which represents the aggregate of total borrowings, total debt securities issued, and total finance lease liabilities, less cash and cash equivalents. Net capitalisation is defined as net debt plus total equity.

(5) This ratio is computed as total debt divided by EBITDA. The ratio for 30 June 2010 is computed based on EBITDA for the twelve months ended 30 June 2010.

Overview of the Offering

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

Issuer:	Kazakhstan Temir Zholy Finance B.V.
Guarantors:	JSC National Company Kazakhstan Temir Zholy JSC Kaztemirtrans JSC Locomotive
Trustee:	BNY Corporate Trustee Services Limited
Principal Paying and Transfer Agent:	The Bank of New York Mellon
Registrar:	The Bank of New York Mellon (Luxembourg) S.A.
The Issue:	U.S.$700,000,000 6.375% Notes due 2020
Issue Price:	100% of the principal amount of the Notes.
Issue Date:	6 October 2010
Maturity Date:	6 October 2020
Interest Rate:	The Notes will bear interest at the rate of 6.375% per annum from and including 6 October 2010 to but excluding the Maturity Date.
Yield:	6.375%
Interest Payment Dates:	Interest will be payable semi-annually in arrear on 6 April and 6 October in each year, commencing on 6 April 2011.
Withholding Taxes:	All payments by the Issuer under the Notes will be made without the imposition of any Dutch withholding taxes. See "*Taxation – The Netherlands Taxation*". Prior to the Intended Substitution, payments of interest from the Guarantors to the Issuer to fund the Issuer's obligations to make payments under the Notes will be subject to Kazakhstan withholding tax under the Kazakhstan-Netherlands Tax Treaty at a rate of 10%. Payments under the Guarantee in relation to interest on the Notes will be subject to Kazakhstan withholding tax at a rate of 15% unless reduced by an applicable double taxation treaty. See "*Taxation – Kazakhstan Taxation – Prior to the Intended Substitution*". Following the Intended Substitution, payments of interest from the Company, as the substituted issuer, to Non-Kazakhstan Holders (as hereinafter defined) will be subject to withholding tax at a rate of 15% unless reduced by an applicable double taxation treaty. The withholding tax on interest would not apply if the Notes are, as at the date of accrual of interest, on the official list of a stock exchange operating in the territory of Kazakhstan (such as, the KASE). See "*Taxation – Kazakhstan Taxation – Following the Intended Substitution*". In the event that any taxes, duties, assessments or governmental charges are imposed, levied, collected, withheld or assessed by The Netherlands or Kazakhstan or any political subdivision or any authority thereof or therein having the power to tax on payments of principal and interest in respect of the Notes (including payments by the Guarantors under the Guarantee), the Issuer or (as the case may be) the Guarantors will, subject to certain exceptions and limitations, pay such Additional Amounts to the holder of any Note as will result in receipt by the Noteholders of such amounts as

	would have been received by them had no such withholding or deduction on account of any such taxes been required. See "*Terms and Conditions of the Notes – Taxation*".
Ranking:	The Notes constitute direct, unconditional, unsubordinated and (subject to "*Terms and Conditions of the Notes – Negative Pledge*") unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves and (subject to "*Terms and Conditions of the Notes – Negative Pledge*") at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding, save only for such obligations as may be preferred by mandatory provisions of applicable law. The obligations of each Guarantor under the Guarantee constitute joint and several, direct, general, unconditional, unsubordinated and (subject to "*Terms and Conditions of the Notes – Negative Pledge*") unsecured obligations of each Guarantor, which rank and will rank at least *pari passu* in right of payment with all other present and future unsubordinated and (subject to "*Terms and Conditions of the Notes – Negative Pledge*") unsecured obligations of each Guarantor from time to time outstanding, save only for such obligations as may be preferred by mandatory provisions of applicable law.
The Guarantee:	Pursuant to the Guarantee, each Guarantor has unconditionally and irrevocably guaranteed (or, in the case of a Person becoming a Guarantor pursuant to the provisions of "*Terms and Conditions of the Notes – Limitations on Changes in Business and Disposals of Assets*"), will unconditionally and irrevocably guarantee) on a joint and several basis, the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes and the Trust Deed. Each Guarantor has undertaken (or, in the case of such a Person becoming a Guarantor, will undertake) in the Trust Deed that, so long as any of the Notes remain outstanding (as defined in the Trust Deed), it will not take any action for the liquidation or winding-up of the Issuer and will ensure that sufficient funds are at all times made available to the Issuer to enable it to meet its liabilities as and when they fall due.
Negative Pledge:	The Issuer and the Guarantors will each agree not to create, incur, assume or suffer to exist any Security Interest upon their assets or revenues or those of Material Subsidiaries (other than Permitted Security Interests). See "*Terms and Conditions of the Notes – Negative Pledge*".
Covenants:	Each Guarantor will agree to certain covenants, including, without limitation, covenants with respect to "*Terms and Conditions of the Notes – Limitations on Changes in Business and Disposals of Assets*" and "*Terms and Conditions of the Notes – Limitations on Merger or Consolidation*".
Optional Redemption:	Following the occurrence of a Relevant Event, the Issuer, failing which the Company, will, give notice in accordance with "*Terms and Conditions of the Notes – Notices*" within 30 days of such Relevant Event, with a copy to the Trustee, and at the option of the holder of any Note, redeem such Note on the Put Settlement Date (with a copy to the Trustee) at 101% of its principal amount together with interest accrued to the Put Settlement Date. See "*Terms and Conditions of the Notes – Redemption, Purchase and Cancellation – Redemption at the option of the Noteholders*".

Tax Redemption:	The Notes may be redeemed at the option of the Issuer in whole, at their principal amount, together with interest accrued to the date fixed for redemption, in the event of certain changes in taxation in The Netherlands or Kazakhstan. See "*Terms and Conditions of the Notes – Redemption, Purchase and Cancelation – Redemption for Tax Reasons*".
Intended Substitution:	Prior to the first interest payment date with respect to the Notes, the Company intends to, pursuant to Clause 13.2 (Substitution) of the Trust Deed, be substituted for the Issuer as issuer of the Notes, whereupon it will assume all of the obligations of the Issuer under the Notes and references to the "Issuer" herein will refer to the Company. However, as at the date of this Prospectus, there is no certainty when the Intended Substitution or the KASE Listing referred to below will occur or whether either of them will occur at all. The provisions in this Prospectus concerning the Intended Substitution and the KASE Listing are included solely to describe the changes which would occur should the Company, in its discretion, elect to substitute itself for the Issuer as the issuer of the Notes at some point in the future. Pursuant to the terms of the Trust Deed, the Intended Substitution, if it takes place before the second interest payment date, can occur without the consent of the holders of the Notes and the Trustee is not required to make any determination as to whether the Intended Substitution is materially prejudicial to such holders. A substitution taking place thereafter will be treated as an "Other Substitution" referred to below. Immediately following the Intended Substitution, application may be made by the Company for a dual listing of the notes on the KASE (the "**KASE Listing**") along with the London Stock Exchange. See "*Terms and Conditions of the Notes – Meetings of Noteholders, Amendment, Modification and Waiver – Substitution*".
Other Substitutions:	Clause 13.2 (*Substitution*) of the Trust Deed also permits the Trustee to agree, without the consent of the Noteholders, to the substitution of certain other entities in place of the Issuer, including the Company as the substituted issuer in the Intended Substitution, as principal obligor under the Trust Deed and the Notes. See "*Terms and Conditions of the Notes – Meetings of Noteholders, Amendment, Modification and Waiver – Substitution*".
Use of Proceeds:	The net proceeds from the issue of the Notes is expected to amount to approximately U.S.$697,000,000 after deduction of fees and expenses related to the offering and will be lent by the Issuer to members of the Group, which will use those net proceeds for working capital and other general corporate purposes. Additionally, Kaztemirtrans intends to use approximately U.S.$210 million of the net proceeds to acquire rolling stock.
Form of the Notes:	Notes which are offered and sold in reliance on Regulation S will be represented by beneficial interests in the Unrestricted Global Note in registered form, without interest coupons attached, which will be registered in the name of a nominee for, and shall be deposited on or about the Closing Date with a common depository for and in respect of interests held through Euroclear and Clearstream, Luxembourg. Notes which are offered and sold in reliance on Rule 144A will be represented by beneficial interests in the Restricted Global Note in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with The Bank of New York Mellon, as custodian for, and registered in the name of Cede & Co. as nominee for DTC. Notes sold (i) in offshore transactions in reliance on Regulation S under the Securities Act will be issued in denominations of

	U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof and (ii) to qualified institutional buyers in reliance on Rule 144A will be issued in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. See "*Terms and Conditions of the Notes – Form, Denomination and Title*". Interests in the Global Note will be subject to certain restrictions on transfer. See "*Form of the Notes and Transfer Restrictions*". Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.
Listing and Clearing:	Application has been made to list the Notes on the Official List and to trading on the Market. The Notes have been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg with the following ISIN, Common Code and CUSIP: ISIN Code (Unrestricted Notes): XS0546214007 ISIN Code (Restricted Notes): US48667DAC83 Common Code (Unrestricted Notes): 054621400 Common Code (Restricted Notes): 054713479 Restricted Notes CUSIP number: 48667DAC8
Governing Law:	The Notes and the Trust Deed (including the Guarantee) are governed by, and will be construed in accordance with, English law.
Selling Restrictions:	The offering and sale of Notes is subject to applicable laws and regulations including, without limitation, those of the United States, the United Kingdom, The Netherlands and Kazakhstan. See "*Subscription and Sale*".
Ratings:	The Notes are expected to be rated BB+ by S&P, Baa3 by Moody's and BBB- by Fitch. The Company's current long-term debt rating by S&P, Moody's and Fitch is BB+ (outlook positive), Baa3 (outlook stable) and BBB- (outlook stable), respectively. ***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.***
Risk Factors:	Investing in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 13.

RISK FACTORS

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

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

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

The order in which these risk factors are presented does not necessarily reflect the likelihood of their occurrence or the magnitude of their potential impact on the Issuer's and Guarantors' business, prospects, financial condition, cash flows or results of operations.

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

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

Risk Factors Relating to the Group

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

Prior to adoption of the Development Strategy, the Group had been engaged in significant restructuring that commenced in 1997. Reforms of the railway industry in Kazakhstan, together with implementation of the Development Strategy, will require further significant changes to the structure of the Group and may change the competitive environment in which the Group operates.

These changes to the structure of the Group are expected to involve the development of a comprehensive process for effectively transferring operations to and among members of the Group, consolidation and combination of the functions of various members of the Group, the movement of assets among members of the Group in furtherance of the reorganisation of operations and functional responsibilities, potential privatisation of certain business lines or operations, the development of appropriate management and reporting structures within the Group and the reassignment of executive and operational personnel to and among members of the Group. In addition, it is possible that the Group may find it necessary to adopt changes to its service offerings in response to the significant changes in Kazakhstan's railway industry.

Although the Development Strategy has been approved, the timing of the plan to implement the Development Strategy remains subject to factors beyond the control of the Group, including actions taken by or approval of the Government and consent of certain of the Group's creditors. No assurance can be given that the Development Strategy in relation to the Group will be successfully implemented, that it will not have unintended consequences, or that it will not be changed to reflect future circumstances. If the Group is unable to efficiently implement the restructuring in the intended manner, it may result in disruptions, difficulties and discrepancies between management and operations, and if any of these occur, it could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Further, a key component of the Government's reform of the railway industry has been fostering competition in the industry. If the Government continues to foster competition and the Group is unable to compete effectively, it could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group has experienced liquidity problems and had a working capital deficit as at 30 June 2010

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 revenues from freight and passenger transportation and Government grants. In 2009, primarily as a result of deteriorating financial economic conditions, the Group experienced liquidity problems and curtailed capital expenditures and discontinued or delayed certain development projects. As at 30 June 2010, the Group's consolidated current liabilities were KZT 197.6 billion and its consolidated current assets were KZT 163.4 billion, resulting in a working capital deficit of KZT 34.2 billion. This deficit was largely the result of the transfer of KZT 67.3 billion from long-term liabilities to current liabilities to reflect the approach of the maturity date (and planned repayment) of the Issuer's 6.50% notes due 11 May 2011. Of the Group's current assets as at 30 June 2010, KZT 86.4 billion were cash and cash equivalents and other financial assets. The Group believes, based on current expectations, that cash and other liquid assets, operating cash flows, access to debt and equity capital markets, other available financing resources and short-term deposits, which it intends to use to repay a portion of the Issuer's 6.50% notes due 11 May 2011 on their maturity, will be sufficient to fund anticipated operating, capital and debt service requirements and other commitments. Further, until its liquidity position improves the Group intends to fund its capital expenditure programme out of capital contributions from its sole shareholder or through long-term borrowings. However, if the Group is unable to meet its working capital requirements, it could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

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

The financial markets, both globally and in Kazakhstan, have experienced significant volatility and market participants have faced significant liquidity constraints since the onset of the global financial crisis, which began to unfold in the autumn of 2007 and worsened after August 2008. The global financial turmoil has significantly affected Kazakhstan's economy, causing a decrease of Kazakhstan's GDP, a collapse in the real estate market, failures and restructurings of banks, significant declines in debt and equity prices and a substantial outflow of capital. A side effect of those events has been an increased concern about the stability of the financial markets generally and the strength of counterparties, and many lenders and institutional investors reduced funding to borrowers, which significantly reduced the liquidity in the global financial system.

In response to the crisis, the governments of many countries, including Kazakhstan, took unprecedented actions to restore investor confidence, provide liquidity and support medium-term growth. Many countries, including Kazakhstan, have recently reported improvement of the situation in the financial markets. However, recent economic results worldwide have been less robust than expected, raising concern about the strength of the worldwide recovery. A further economic downturn could still occur and additional state support measures might be required. Adverse changes arising from systemic risks in global financial systems could slow or disrupt the Kazakhstan economy, adversely affect the Group's access to capital and, more generally, its business, prospects, financial condition, cash flows or results of operations.

The Group's results of operations and financial condition have been and could continue to be adversely affected by a decline in railway freight transportation volumes resulting from deterioration in economic conditions

The Group's results of operations are significantly influenced by the general economic conditions in Kazakhstan, which, in turn, are significantly influenced by global economic conditions. Specifically, railway freight transportation volumes in Kazakhstan are strongly correlated with Kazakhstan's GDP, industrial production and trade. Prior to mid-2008, Kazakhstan's GDP had experienced strong growth, increasing from U.S.$16.8 billion in 1999 to U.S.$132.2 billion in 2008, according to the NSA, which also caused railway freight transportation volumes to increase significantly during that same period. However, beginning from the fourth quarter of 2008, Kazakhstan experienced a sharp decline in GDP (down to U.S.$107.0 billion in 2009, according to the NSA), industrial production and trade. As the largest provider of railway transportation services in Kazakhstan, the Group has been significantly affected by these declines, which has impacted the Group's customers and caused a decline in demand for railway freight transportation services.

Railway freight transportation volumes began to recover in July of 2009, as evidenced by 101.2 billion tonne-kilometres of freight turnover for the six months ended 30 June 2010 as compared to 89.1 billion tonne-kilometres for the same period in 2009. However, there can be no assurance that the Group's railway freight transportation volumes will return to prior levels. If economic uncertainty and depressed demand for railway freight transportation services continue, the Group's revenues will continue to be adversely affected, which could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group's railway infrastructure requires significant investment in its maintenance and modernisation and there can be no assurance that the Group will receive the funding necessary to make such investments

The Group's railway infrastructure and related assets have generally not been sufficiently developed, maintained or modernised since the break up of the Soviet Union in the early 1990s. For example, the average age of the Group's locomotives and rolling stock is 23 and 18 years old, respectively, the Group lacks adequate storage capacities at cargo terminals and warehouses at certain key rail cities in Kazakhstan, and the Group has insufficient capacity to efficiently transfer the high volume of freight crossing into and from China at the Dostyk station, where freight must be transferred between railcars equipped to travel on Kazakhstan's railroads and railcars equipped to travel on China's railroads, which are not the same gauge, or width, as railroads in Kazakhstan. Additionally, the Group recently experienced delays in transporting coal to Russia as a result of having too few freight wagons available and had to transfer freight wagons from other parts of Kazakhstan. Provided the Group receives the necessary funding from its sole shareholder or through long-term borrowings, the Group intends to invest a significant amount over the next several years to maintain, develop and modernise its railway infrastructure. However, no assurance can be given that the Group will be able to obtain such funding. Implementation of the necessary maintenance and modernisation projects involves many potential risks and uncertainties, including interruptions resulting from unavailability of locomotives, rolling stock and parts, inclement weather, unforeseen engineering difficulties, environmental and geological problems and unanticipated cost increases and claims, any of which could give rise to delays or cost overruns.

In addition, modernisation and expansion projects are capital-intensive and may be possible only in favourable market conditions and/or with the support of the Government. As a result of the economic downturn, the Group substantially reduced its capital expenditures in 2009, which it could no longer fully fund from operating cash flow or other sources, and implemented other cost reduction measures. There can be no assurance that the market conditions will be favourable or that the Group will be able to obtain, from the Government or other sources, financial support sufficient to continue its maintenance and modernisation projects. If the Group is unable to obtain such financial support and conduct the necessary maintenance, development and modernisation of the railway system and related infrastructure, its operations may be adversely affected by equipment failures and accidents attributable to poor conditions of the railway system and related infrastructure. Moreover, such accidents may significantly increase expenditures relating to upkeep and repair of railway system and related infrastructure. Further deterioration of the railway system and related infrastructure may materially adversely affect the performance of the Group and may cause revenues to decrease and the Group to incur unexpected expenditures or disruption of business operations, all of which could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

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

A significant part of the Group's locomotives and rolling stock are approaching the end of their useful life and require replacement. The Group intends to use approximately U.S.$210 million of the proceeds from the offering of the Notes to purchase rolling stock and expects that a large portion of its capital expenditures over the next several years will be to replace old or obsolete locomotives and rolling stock. There is a relatively limited number of quality locomotive and rolling stock manufacturers in Kazakhstan and the CIS, and their output is limited. In addition, the adaptability of these manufacturers' production facilities from one type of locomotive or railcar to another is limited. The Company plans to create 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 creating joint ventures to, among other things, address supply shortfalls. If the Group is unable to procure the requisite amount of new locomotives or rolling stock on commercially acceptable terms, whether from third party manufacturers or its anticipated joint ventures, or experiences delays or failures in delivery of locomotives or rolling stock, it could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group has historically received and continues to rely on support from and is indirectly controlled by the Government

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. The Government 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. In addition, the Group may be forced by the Government to engage in activities outside its core businesses and/or acquire assets other than on an arm's length basis. The Government may also impose on the Group other social duties, such as construction of social and recreational infrastructure, engagement in charitable activities and implementation of community development programmes. Further, the Government imposes covenants and restrictions on the Group that may limit its operations and is in a position to appoint and remove, or cause or influence the appointment and removal of, the members of management of the Group. Government interference in the operations of the Group could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group has historically received and continues to rely on capital contributions from Samruk-Kazyna to finance its operations and fund capital expenditures. For example, the Group received a KZT 20.8 billion contribution as recently as July 2010 for the purpose of constructing a railway line between Uzen and the Turkmenistan state border and a railway line between Khorgas and Zhetygen. The Group also receives Government grants as compensation for certain passenger transportation tariffs that are set at levels that are low or not profitable. No assurance can be given that the Group will continue to receive the level of Government capital or grant support that it has historically received. The Government has no obligation to provide financial support to the Group whether in the form of capital contributions, loans or other forms of support. If the Government reduces or discontinues its direct support, whether through a reduction or discontinuation of capital contributions or Government grants, it could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

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

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

As Kazakhstan's national railway company, the Company has a monopoly over Kazakhstan's mainline railway networks with respect to freight transportation and as such is regulated by the Anti-Monopoly Agency. The Anti-Monopoly Agency regulates activities of the Group by establishing tariffs for domestic, import and export freight transportation on the mainline railway network and tariffs for interregional, intercity and suburban passenger transportation. In determining tariffs, the Anti-Monopoly Agency considers a number of factors including the financial health and investment needs of the Group. However, the Government, through the Anti-Monopoly Agency, can use tariff setting as a means of supporting public policy initiatives in other sectors of the economy or otherwise to further Government policy without regard to its impact on the Group. For example, the provision of passenger rail services in Kazakhstan is considered a social responsibility of the rail operator and, accordingly, tariffs are kept artificially low to ensure affordable passenger rail services to all members of the community. 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 and some freight transportation services has historically been insufficient to meet related operational costs. If the Anti-Monopoly Agency establishes tariffs on one or more of the Group's services that are insufficient to cover the costs of the Group's provision of such services, or if tariff rates established by the Anti-Monopoly Agency are at levels which do not meet or exceed the Group's budget, the Group could experience a reduction in liquidity and, as a result, may be unable to implement its Development Strategy. Moreover, the Group may be required to discontinue the unprofitable service or, if the Group is not permitted by the Government to discontinue the service, continue providing the service at a loss to the Group, which could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

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

Railway transportation may be subject to increasing competition from other modes of 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. As at 31 December 2009, total freight turnover in Kazakhstan by type of transportation comprised 197.3 billion tonne-kilometres (58.5%) by railway, 71.7 billion tonne-kilometres (21.3%) by pipeline and 66.3 billion tonne-kilometres (19.7%) by road, 1.46 billion tonne-kilometres (0.4%) by water and less than 7 million tonne-kilometres by air according to the NSA.

The Group faces its greatest competition in the transport of oil and gas products from the development of pipelines in Kazakhstan and contiguous countries, as pipeline transportation is more cost efficient than rail transportation. The Government is also developing Kazakhstan's highway infrastructure to foster short- and medium-distance truck transportation. While most of these initiatives are long-term projects, should they succeed, the level of competition in the transportation industry could significantly increase. Additionally, although private companies must pay the Group for access to Kazakhstan's mainline railway network, these private companies are able to compete with the Group by contracting their railcars and containers for freight transportation. Many of these private companies are affiliated with the Group's existing customers and could, over time, reduce such customer's 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 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 and other aspects of its railway operations as well as accounting, ticket sales for passenger trains, tracking freight deliveries and numerous other functions. Like the Group's railway infrastructure, the Group's telecommunications network and computer systems also require development and modernisation. The hardware and software that is used by the Group may be damaged by human error, natural disasters, power loss, sabotage, computer viruses and other events. The Group's operations may also be vulnerable to system failures of other companies with whom such operations are closely linked, such as utility providers, telecommunication service providers and financial institutions. Problems that may occur as a result of system failures include, but are not limited to:

- incorrect recognition of train schedule or route control data, which could disable 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.

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

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

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

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

The cost of fuel and lubricants, particularly fuel consumed by Locomotive, constituted a significant portion (21.9%) of the Group's cost of sales (after excluding personnel costs, including short-term provisions) for the year ended 31 December 2009. Diesel fuel prices are subject to dramatic fluctuations, and significant price increases could have a material adverse effect on the Group's transportation and locomotive haulage services. The Group includes the cost of fuel in the tariff calculations it submits to the Anti-Monopoly Agency for approval. However, the Group may only increase or otherwise change the tariffs once a year, subject to regulatory approval, while the cost of fuel may change more frequently during the year. Because the prices that the Group may charge for its transportation services are set, in most cases, by the Anti-Monopoly Agency, the Group is generally unable to pass along the increased fuel costs to its customers. International, political, and economic circumstances and a number of other circumstances affect fuel prices and supplies. If a fuel supply shortage were to arise, higher fuel prices could result.

The Group is also exposed to currency risk on selected receivables, payables and borrowings that are denominated in currencies other than the Tenge. The currencies in which these transactions are denominated are primarily the U.S. Dollar, Japanese Yen and Swiss Franc. The Group's principal exchange rate risk involves changes in the value of the U.S. Dollar and Swiss Franc relative to the Tenge and to a lesser extent relative to other currencies. Because most of the Group's consolidated total borrowings are denominated in U.S. Dollars and most of the Group's international passenger transportation revenue is denominated in Swiss Francs, the devaluation of the Tenge has a net negative impact on the Group's financial condition and results of operations. 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. However, these reserves may be insufficient to fully offset foreign currency loss. The Group is also exposed to currency risk on the deposits that it sets aside with the intended purpose of paying a portion of the Issuer's 6.50% notes due 11 May 2011 on their maturity.

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 currency exchange rate risk. Even if the Group wished to enter into such hedging arrangements, the Group may be required to first obtain the approval of the Anti-Monopoly Agency and/or Samruk-Kazyna. If fuel prices increase or the Tenge continues to devalue relative to the U.S. Dollar, it could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

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

As a result of the Group's transportation activities, which include importing into, exporting from and transiting through Kazakhstan petroleum and petroleum products, construction materials and other freight, the Group may be subject to certain laws and regulations of the United States, the member states of the EU and the United Nations imposing economic sanctions or export controls, including the United States Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, which amended the United States Iran Sanctions Act ("**Iranian Sanctions**"). Kazakhstan law, international treaties to which Kazakhstan is a party and the nature of the Group's business may prohibit or limit the Group's ability to refrain from transacting business with sanctioned countries, including Iran. Violations of the Iranian Sanctions include knowingly selling, leasing, or providing to Iran any goods, services, technology, information, or support that would allow Iran to enhance its ability to import or produce refined petroleum products, where the fair market value of such a transaction exceeds U.S.$1 million or where a number of such transactions exceeds 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. Although not a significant part of its operations, the Group does transport and expects to continue transporting freight that is destined for or that originates in Iran. The Group does not believe its operations violate the Iranian Sanctions or similar sanctions imposed by others; however, the relevant authorities in a particular jurisdiction may conclude otherwise. If, for example, the Group were to be found to have violated the Iranian Sanctions, the President of the United States is required to impose on the Group three or more of nine enumerated sanctions, which could include prohibition on any credit or payments between the Group and any U.S. financial institution and denial of U.S. bank loans exceeding U.S.$10 million in one year to the Group. If any penalties were to be imposed on the Group for violation of the Iranian Sanctions or similar sanctions, it could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

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

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

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

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

The Group is obliged to comply with various covenants and restrictions contained in its financing arrangements. These covenants and restrictions may limit the Group's operations. Additionally, it may become impossible or difficult for the Group to comply with the covenants in its financing arrangements, which could require the Group to restructure its indebtedness, obtain waivers of non-compliance or refinance its existing debt, which could be costly, and could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

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

The Group's ability to maintain its competitive position and to implement its business strategy, including the Development Strategy, is dependent on the services of its personnel, including key engineering, managerial, financial, commercial, marketing and processing personnel, and the maintenance of good labour relations. Competition for qualified personnel, especially for managerial positions and engineering positions to oversee increasingly automated processes, is intense due to the small pool of qualified individuals and strong demand for such individuals. In addition, in 2009 the Company entered into collective bargaining agreements for 2009-2011 with the Public Association Trade Union of Railway Employees (the "**Trade Union**"). The majority of the Group's employees are members of the Trade Union. The collective bargaining agreements with the Trade Union provide the Trade Union with a range of methods by which it could seek to influence the activity of the Group, including the implementation of the Development Strategy. These methods include, among others, notification or coordination procedures or Trade Union approval in respect of certain employee terminations, notification or coordination procedures in respect of employee wage matters, notification of the Group's intention to eliminate structural subdivisions of the Group, including eliminations that may be necessary to implement the Development Strategy, institution of employee strikes or commencement of judicial proceedings. The loss or diminution in the services of key personnel, an inability to attract and retain additional qualified personnel or an inability to reduce or restructure its workforce (whether in connection with the Development Strategy or otherwise) without violating the terms of the collective bargaining agreements with the Trade Union could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Risk Factors Relating to the Republic of Kazakhstan

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

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

The disruptions recently experienced in international and Kazakhstan capital markets have led to reduced liquidity and increased credit risk for certain market participants and have resulted in a reduction of available financing. Companies located in emerging markets such as Kazakhstan may be particularly susceptible to these disruptions, which could result in financial difficulties. In addition, the availability of credit to entities operating within the emerging markets is 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 underdeveloped nature including, in some cases, significant legal, economic and political risks. Investors should also note that emerging markets, such as Kazakhstan, are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly.

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

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

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

Kazakhstan became an independent sovereign state in 1991 as a result of the dissolution of the former Soviet Union. Since then, Kazakhstan 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.

Since 1992, Kazakhstan has actively pursued a programme of economic reform designed to establish a free market economy through privatisation of government-owned enterprises and deregulation and is more advanced in this respect than some other countries of the former Soviet Union. However, as with any transition economy, there can be no assurance that such reforms and other reforms described elsewhere in this Prospectus will continue or that such reforms will achieve all or any of their intended aims.

Kazakhstan 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. Thus, Kazakhstan is dependent upon good relations with its neighbours to ensure its ability to export. Should access to these export routes be materially impaired, this could adversely impact the economy of Kazakhstan. Moreover, adverse economic factors in regional markets may adversely impact Kazakhstan's economy.

Since the dissolution of the Soviet Union, a number of former Soviet Republics, most recently the Kyrgyz Republic, have experienced periods of political instability, civil unrest, military action and popular changes in governments or incidents of violence. Changes to the Kazakhstan Constitution in May 2007 introduced the concept of the "first president" and established that the first president (*i.e.*, the current president) enjoys a number of privileges and is not subject to limitation as to the number of consecutive terms that the "first president" may stand for re-election. Under President Nazarbayev, who became the first president of Kazakhstan after independence in 1991, having previously been the chairman of the Supreme Soviet since 1990, Kazakhstan has enjoyed greater stability and prosperity than many of the other former Soviet Republics. However, there can be no assurance that such results will be maintained under the current administration or that a new administration will be able to achieve similar or better results. Further, if the current administration changes its political outlook or a future administration has a different political outlook, the business regimes in Kazakhstan could change. Changes to Kazakhstan's business regimes, including property, tax or regulatory regimes or other changes could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Factors outside of Kazakhstan have also had an impact on Kazakhstan's economy, specifically the finance and banking sector. For example, in February 2009, S&P downgraded the credit ratings of five of Kazakhstan's largest commercial banks, while Moody's downgraded the bank financial strength ratings of six banks. The rating agencies have stated that these downgrades are the consequence of the increasingly negative impact of the global economic crisis on the Kazakhstan economy and its financial institutions and specifically mounting asset quality and liquidity problems and the inability of Kazakhstan banks to refinance their large foreign wholesale debt in large part because of the devaluation of the Tenge in February 2009. Several commercial banks in Kazakhstan have experienced difficulty in refinancing maturing international debt and, as a result, have sought short-term funding from the NBK and substantially curtailed the provision of new loans. Pursuant to the terms of financial stability legislation adopted in early 2009 and their respective restructuring plans, two of Kazakhstan's largest banks, BTA Bank and Alliance Bank, are now controlled by the Government, through Samruk-Kazyna, and the process of restructuring their financial indebtedness has now been successfully accomplished. It is not clear what impact this will have on the prospects of Kazakhstan's banks and its customers. The housing and construction industries and small- and medium-sized enterprises have been particularly affected while larger companies, subsoil use companies and State owned companies have continued to have access to offshore funding albeit on a more limited basis and on less favourable terms. A downgrade of Kazakhstan's sovereign credit rating and liquidity problems in Kazakhstan's economy could adversely affect its economic development, which could in turn, materially and adversely affect the Group's business, prospects, financial condition, cash flows or results of operations.

Kazakhstan has recently enacted a new currency control law that may affect the Group's foreign currency dealings

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

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

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

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

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

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

Kazakhstan's legislative, judicial, tax and regulatory framework is underdeveloped 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 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. For example, there have been instances of improper payments being made to public officials. Therefore, court decisions can be difficult to predict and administrative decisions have on occasion been inconsistent. Kazakhstan is a civil law based jurisdiction and, as such, judicial decisions in individual cases have no precedential effect in subsequent cases.

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

In particular, it is expected that tax legislation in Kazakhstan will continue to evolve, which may result in the imposition of additional taxes. Any substantial increase in its tax liability could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

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

Despite the changes in the political, legal and economic situation occurring in Kazakhstan since it became an independent country in 1991, instances of private and governmental corruption have been reported in the international media. International press reports have also contained allegations that Government officials have engaged in selective investigations and prosecutions of businesses and their management, board of directors and shareholders in order to further the interests of the Government, individual Government officials or other business groups. According to the Corruption Perceptions Index published by Transparency International, which measures the perceived level of public corruption in 180 countries, during 2009 Kazakhstan was ranked number 120, indicating that a perception of corruption in the country remains widespread. The Group is committed to doing business in accordance with all applicable laws and has recently established a partnership with the EBRD pursuant to which the EBRD is providing the Group with financing for external consultancy services to the Group to assist the Group with corporate governance and anti-corruption measures.

Currency exchange rate policy could have an adverse impact on the Group and Kazakhstan's public finances and economy

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

As at 31 December 2007 and 2008, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 120.55 per U.S.$1.00 and KZT 120.77 per U.S.$1.00, respectively. On 4 February 2009, the NBK devalued the Tenge by 18% to KZT 143.98 per U.S.$1.00. This devaluation was due in part to recent pressure on the balance of payments of Kazakhstan as a result of a decline in commodity prices (in particular oil and gas) in the international markets. Devaluation of the Tenge was also intended to enhance export competitiveness of Kazakhstan goods. As at 30 June 2010, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 147.46 per U.S.$1.00. Since 31 December 2009, the Tenge has depreciated against the U.S. Dollar by approximately 0.6%.

Because a significant majority of the Group's revenues are denominated in Tenge and a significant majority of the Group's borrowings are denominated in U.S. Dollars, the Group's accounts are sensitive to currency exchange rate fluctuations, and the devaluation of the Tenge against the U.S. Dollar has an overall adverse effect on the Group.

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

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

An organised securities market was established in Kazakhstan only 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. In addition, 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. The above-mentioned factors may impair foreign investment in Kazakhstan, which may hinder the development of Kazakhstan's economy.

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

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

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

Risk Factors Relating to the Notes and the Guarantees

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

Following the Intended Substitution, unless the Company as at the date of accrual of interest is listed on KASE or on another official list of a stock exchange operating in the territory of Kazakhstan, payments of such interest from the Company, as the substituted issuer, to Non-Kazakhstan Holders would be subject to withholding tax at a rate of 15% unless reduced by an applicable double taxation treaty. Although the Company intends to effect the Intended Substitution before the first interest payment date with respect to the Notes and KASE Listing immediately thereafter, no assurance can be given that the Company will be able to effect the Intended Substitution within this timeframe or be accepted to listing on KASE, or a similar exchange operating in Kazakhstan, or, if listed, the Company will be able to maintain its listing at each interest payment date of the Notes.

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

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

Additionally, the Guarantors' right to receive any assets of any of the Guarantors' subsidiaries or associates upon their liquidation or reorganisation, and therefore the right of the holders of the Guarantees to participate in those assets, will be effectively subordinated to the claims of the creditors of that subsidiary or associate, including trade creditors. In addition, even if a Guarantor were a creditor of any of its subsidiaries or associates, the Guarantor's rights as a creditor would be subordinate to any security interest in the assets of the Guarantor's subsidiaries or associates and any indebtedness of those entities senior to that held by the Guarantor. As at 31 December 2009, the Guarantors had approximately KZT 286.1 billion of total liabilities (excluding intercompany liabilities). Although almost all of the Guarantors' assets are held by the Company as at the date of this Prospectus, the structural subordination risk will become more significant as the Group effectuates the restructuring pursuant to the Development Strategy, which contemplates a transfer of the assets and operations of the Company to its subsidiaries.

The Notes may be redeemed prior to maturity for tax reasons

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

The Notes are subject to modification, waivers and substitution

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

The Terms and Conditions of the Notes also provide that the Trustee may agree, without the consent of the Noteholders, (i) to any modification of any provision of the Trust Deed (including the

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

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

Trading in the clearing systems is subject to minimum denomination requirements

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

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

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

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

The EU has adopted a Directive (2003/48/EC) regarding the taxation of savings income pursuant to which EU Member States are required to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person to an individual in another Member State. 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 (the ending of such transitional period being dependent on the conclusion of certain other agreements relating to information exchange with certain other countries).

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, none of the Issuer, the Guarantors or any Paying and Transfer Agent nor any other person would be obliged to pay Additional Amounts with respect to any Note as a result of the imposition of such withholding tax.

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 it is intended that application will be made for listing of the Notes on the KASE in connection with the Intended Substitution. There can be no assurance that any such listings will be obtained or, if such listings are obtained, that an active trading market will develop or be sustained. In addition, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. Accordingly, there can be no assurance as to the development or liquidity of any market for the Notes.

Noteholders may be subject to exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in U.S. Dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. Dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. Dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to U.S. Dollars would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The Notes are subject to interest rate risks

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

Credit ratings do not reflect all risks

The Company's credit ratings are an assessment by the relevant rating agencies of the Company's ability to pay its debts when due. Consequently, real or anticipated changes in its credit ratings will generally affect the market value of the Notes. 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.

Legal investment laws may prohibit certain investors from purchasing the Notes

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

TERMS AND CONDITIONS OF THE NOTES

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

This Note is one of a duly authorised issue of U.S.$700,000,000 6.375 per cent. Notes due 2020 (the "Notes", which expression shall, unless the context otherwise so requires, be deemed to include a reference to any further notes issued pursuant to Condition 18 (*Further Issues*) and forming a single series therewith), issued by Kazakhstan Temir Zholy Finance B.V. (the "Issuer") and guaranteed by JSC National Company Kazakhstan Temir Zholy ("KTZ"), JSC Kaztemirtrans and JSC Locomotive (each a "Guarantor" and together, the "Guarantors", which term shall also include any Person becoming a Guarantor pursuant to Condition 5 (*Limitations on Changes in Business and Disposals of Assets*)) pursuant to a guarantee (the "Guarantee") contained in the Trust Deed referred to below. The Notes are constituted by a Trust Deed dated 6 October 2010 (the "Trust Deed") between the Issuer, each Guarantor and BNY 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 6 October 2010 with the Trustee, The Bank of New York Mellon (Luxembourg) S.A. as registrar (the "Registrar"), The Bank of New York Mellon, as principal paying agent (the "Principal Paying Agent"), the other paying agents named therein (together with the Principal Paying Agent, the "Paying Agents") and the transfer agents (the "Transfer Agents") named therein. The Registrar, Paying Agents and Transfer Agents are together referred to herein as the "Agents", which expression and each of which definitions encompassed thereby include any successor agents appointed in these capacities from time to time in connection with the Notes.

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

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

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

1. Form, Denomination and Title

(a) Form and Denomination

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

(b) Title

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

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

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

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

(c) Third party rights

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

2. Transfer of Notes and Issue of Notes

(a) Transfer

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

(b) Delivery

Each new Note Certificate to be issued upon a transfer of any Notes will, within five Business Days of due surrender of the Note Certificate in accordance with Condition 2(a), be delivered at the specified office of the Registrar or, as the case may be, any Transfer

Agent or (at the request and the risk of such transferee) mailed free of charge to the transferee by uninsured post to such address as the transferee entitled to the Notes represented by such Note Certificate may have specified. In this Condition 2(b), "Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign currencies) in the city in which the Registrar or the relevant Transfer Agent has its specified office.

(c) *No Charge*

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

(d) *Closed Periods*

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

(e) *Regulations concerning Transfer and Registration*

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

3. Status

(a) *Status of the Notes*

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

(b) *Status of the Guarantee*

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

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

4. Negative Pledge

(a) *Negative Pledge of the Issuer*

Prior to the Initial Substitution, if any, so long as any Note remains outstanding, the Issuer shall not create, incur, assume or permit to arise or subsist any Security Interest upon the whole or any part of its undertaking, assets or revenues, present or future, to secure any Financial Indebtedness of the Issuer or any other Person, or any Indebtedness

Guarantee in respect thereof, unless, at the same time or prior thereto, the Issuer's obligations under the Notes and the Trust Deed are secured, to the satisfaction of the Trustee, equally and rateably therewith or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders or as the Trustee in its discretion shall deem to be not materially less beneficial to the Noteholders.

(b) *Negative Pledge of each Guarantor*

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

(c) *Certain Definitions*

For the purposes of these Conditions:

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

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

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

"IFRS" means International Financial Reporting Standards for the time being;

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

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

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

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

"Permitted Security Interest" means any Security Interest (i) granted in favour of a Guarantor by any Material Subsidiary to secure Financial Indebtedness owed by such Subsidiary to such Guarantor, (ii) 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 a Guarantor or any Material Subsidiary held by financial institutions, (iii) 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, (iv) on or relating to any property or assets hereafter acquired by a 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), (v) 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, (vi) granted upon or with regard to any property or assets of a 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 per cent. of Consolidated EBITDA in the most recent financial year for which KTZ has audited consolidated financial statements prepared in accordance with IFRS, (vii) 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 Guarantor or any Material Subsidiary against fluctuations in interest or foreign currency rates, (viii) not covered by any of clauses (i) through (vii), 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 per cent. of Consolidated EBITDA in the most recent financial year for which KTZ has audited financial statements prepared in accordance with IFRS (or the equivalent in other currencies), or (ix) 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 any 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 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 per cent. of the capital, voting stock or other right of ownership and "Control", as used in these Conditions, means the power to direct the management and the policies of the relevant Person, whether through the ownership of share capital, by contract or otherwise, "Controlled" being construed accordingly.

5. Limitations on Changes in Business and Disposals of Assets

(a) Limitation on Changes in Business

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

(b) Limitations on Disposals by the Issuer

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

(c) Limitations on Disposals by each Guarantor

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

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

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

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

(iv) disposals of other Core Assets provided that the aggregate value of all such other Core Assets disposed of since 31 December 2009 does not exceed at any time 15 per cent. of the value of property, plant and equipment as shown in KTZ's then most recent audited consolidated financial statements prepared in accordance with IFRS.

(d) Defined Terms

For the purposes of these Conditions:

"Core Assets" means (i) the infrastructure of Kazakhstan's national railway network, being the track and related signalling, communications and control systems, (ii) the locomotives and cargo wagons now owned or hereafter acquired by Locomotive 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;

"network services" means any activity which consists of, or is comprised in, the provision or operation of a railway network (or of any of the track or other installations comprised in a railway network) and includes the construction, maintenance, re-alignment, reconfiguration or renewal of track, the installation, operation, maintenance or renewal of a railway signalling system or of any other railway communication equipment, the construction, control, ownership, maintenance or renewal of electrical conductor rails or overhead lines, of any supports for such rails or lines, and of any electrical substations or power connections used or to be used in connection therewith, and the provision of electrical power by means thereof, and the exercise of day-to-day control over train movements over or along any track comprised in the relevant network;

"track" means any land or other property comprising the permanent way of any railway, taken 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, and any reference to track includes a reference to any level 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;

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

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

6. Limitations on Merger or Consolidation

(a) Limitations on the Issuer and each Guarantor

Neither the Issuer (except in respect of the Initial Substitution, if any) nor 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 each Guarantor, as the case may be, is merged (the "Successor Company") agrees in writing to assume the obligation to make due and punctual payment of all amounts payable under the Notes and the Guarantee (as the case may be) and all other obligations of the Issuer or the relevant Guarantor (as the case may be) under the Notes and the Trust Deed (including the Guarantee);

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

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

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

(b) Effect of Consolidation or Merger

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

7. Additional Guarantors

The Issuer and each Guarantor shall ensure that on the Issue Date and as at the end of each of KTZ's fiscal years beginning with the fiscal year ending December 31, 2010 (each, a ''Fiscal Year''), the aggregate combined total assets and total revenue of the Issuer and the Guarantors (determined separately and calculated on a stand-alone non-consolidated basis for each entity and without double counting (for the avoidance of doubt, all intra-group items and investments in Subsidiaries by the Issuer or a Guarantor, as the case may be, or any of their Subsidiaries shall be excluded) (such calculation, a ''Combined Unconsolidated Basis'')) for the most recently ended Fiscal Year shall equal or exceed (the ''Guarantor Threshold Test'') 85.0% of the aggregate combined total assets and total revenue respectively, of KTZ and its Subsidiaries (determined on a consolidated basis), by causing one or more of its Subsidiaries that are not Guarantors to become Guarantors in accordance with the terms of these Conditions to the extent necessary to ensure the foregoing thresholds are met. Such Guarantor Threshold Test shall be tested following each annual audit of KTZ in accordance with IFRS.

The Issuer and each Guarantor shall procure that any Subsidiary, Transferee Subsidiary or Eligible Transferee that needs to become an Additional Guarantor pursuant to these Conditions shall execute a supplemental trust deed and a supplemental paying agency agreement in a form specified by the Trustee, subject to the Trustee having been provided with such information as it may require in relation to any proposed Additional Guarantor prior to any supplemental trust deed or supplemental paying agency agreement being executed (the ''Additional Guarantee Agreements''). The Issuer and each Guarantor shall give not less than 30 days' notice to the Trustee and the Noteholders in accordance with Condition 17 (*Notices*) of the addition of each Additional Guarantor and, so long as the Notes are listed on the London Stock Exchange and/

or any other stock exchange on which the Notes may be listed or quoted from time to time, shall comply with applicable rules of the London Stock Exchange and/or such other exchange (including preparation of a supplemental prospectus). The accession of the Additional Guarantors pursuant to this Condition 7 shall be conditional upon receipt by the Trustee of a legal opinion, in form and substance satisfactory to the Trustee, of independent legal counsel of recognised standing as to the enforceability of the guarantee under the Additional Guarantee Agreements from such Additional Guarantor. The Trustee shall be entitled to accept the legal opinion referred to above without further enquiry or liability to any Person as sufficient evidence of the matters contained therein.

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

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

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

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

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

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

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

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

8. Provision of Certain Information

For so long as any Notes are outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the United States Securities Act of 1933, as amended (the "Securities Act"), each of the Issuer and each Guarantor will furnish upon the request of a holder of Notes or a beneficial owner of an interest therein to such holder or beneficial owner or to a prospective purchaser of Notes designated by such holder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) under the Securities Act, and will otherwise comply with the requirements of Rule 144A under the Securities Act, if, at the time of such request, the Issuer or the relevant Guarantor is not a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended, or exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

9. Interest

(a) Interest Payment Dates

The Notes bear interest from (and including), 6 October 2010 (the "Issue Date") to (but excluding) the Final Redemption Date (as defined in Condition 10 (*Redemption, Purchase and Cancellation*) at the rate of 6.375% per annum, payable semi-annually in arrear on 6 April and 6 October in each year commencing on 6 April 2011 (each, an "Interest Payment Date"), subject as provided in Condition 11 (*Payments*). Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an "Interest Period".

(b) *Cessation of Interest*

Each Note will cease to bear interest from the Final Redemption Date unless, after presentation of the relevant Note Certificate, payment of principal is improperly withheld or refused. In such event, it will continue to bear interest at such rate (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder and (ii) the day which is seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of the Notes up to that seventh day (except to the extent that there is any subsequent default in payment).

(c) *Day-Count Fraction*

Where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period, the day-count fraction applied to calculate the amount of interest payable in respect of each Note shall be the number of days in the relevant period from (and including) the date from which interest begins to accrue to (but excluding) the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).

10. Redemption, Purchase and Cancellation

(a) *Final Redemption*

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 6 October 2020 (the "Final Redemption Date"), subject as provided in Condition 11 (*Payments*).

(b) *Redemption for Tax Reasons*

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption and any Additional Amounts then payable, if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay Additional Amounts as provided or referred to in Condition 12 (*Taxation*) as a result of any change in, or amendment of, the laws, treaties or regulations of The Netherlands or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws, treaties or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 6 October 2010, and such obligation cannot be avoided by the Issuer taking reasonable measures available to it or (ii) KTZ satisfies the Trustee immediately prior to the giving of such notice by the Issuer that a Guarantor has or (if a demand was made under the Guarantee) would become obliged to pay Additional Amounts as provided or referred to in Condition 12 (*Taxation*) or the Guarantee, as the case may be, or KTZ has or will become obliged to make any such withholding or deduction as is referred to in Condition 12 (*Taxation*) or the Guarantee, as the case may be, from any amount paid by it to the Issuer in order to enable the Issuer to make a payment of principal or interest in respect of the Notes, in either case to any greater extent than would have been required had such a payment been required to be made on 6 October 2010, 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 6 October 2010, and such obligation cannot be avoided by the relevant Guarantor or KTZ, as the case may be, taking reasonable measures available to it; provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer, such Guarantor or KTZ, as the case may be, would be obliged to pay such Additional Amounts or make such withholding or deduction. Prior to the publication of any notice of redemption pursuant to this Condition 10(b), the Issuer shall deliver or procure that there is delivered to the Trustee a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and an opinion of independent legal advisers of recognised standing in form and substance satisfactory to the Trustee to the effect that the Issuer or (as the case may be) has or will become obliged to pay such Additional Amounts or (as the case may be) or KTZ has or will become obliged to make such withholding or deduction as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above in which event such certificate and opinion shall be conclusive and binding on the Noteholders. Upon the expiry of any such notice as is referred to in this Condition 10(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 10(b).

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

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

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

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

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

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

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

(e) No other redemption

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

(f) Purchase

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

(g) Cancellation

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

11. Payments

(a) Payment Currency

The Notes will be denominated in, and payments in respect thereof will be payable in, U.S. dollars.

(b) Principal

Payment of principal (whenever due) and interest due on redemption will be made by transfer to the account of the Noteholder appearing in the Register or if it does not have such an account, by U.S. dollar cheque drawn on a bank in New York City mailed to the registered address of the Noteholder by uninsured mail at the risk of the Noteholder. Such payment will only be made upon presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificate at the specified office of the Registrar or any Paying Agent.

(c) Interest

Subject to the paragraph directly following below and Condition 11(d), payment of interest (other than interest due on redemption) in respect of each Note will be made by U.S. dollar cheque drawn on a bank in New York City and mailed to the relevant Noteholder at the address appearing in the Register as provided below. For the purposes of Condition 11(a) or 11(b), the Noteholder will be deemed to be the Person shown as the holder (or the first-named of joint holders) on the Register on the fifteenth day before the due date for such payment.

Upon application by a Noteholder to the specified office of the Registrar not later than the fifteenth day before the due date for the payment of any interest (other than interest due on redemption) in respect of such Note, such payment will be made by transfer to a U.S. dollar account maintained by the payee with a bank in New York City. Any such application or transfer to a U.S. dollar account shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Notes which become payable to the Noteholder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such Noteholder.

(d) 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 this Condition 11. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(e) Payment on Business Days

Where payment is to be made by transfer to the account of a Noteholder appearing in the Register, payment instructions (for value the due date or, if that is not a Business Day (as such term is defined below), for value the first following day which is a Business Day) will be initiated (i) on the due date for payment or, if later, the day on which the relevant Note Certificate is surrendered at the specified office of any of the Paying Agents (in the case of principal and interest due on redemption) and (ii) on the due date for payment (in the case of interest due other than on redemption).

Where payment is to be made by cheque, the cheque will be mailed on the Business Day immediately preceding the due date for payment or, if later, the day on which the relevant Note Certificate is surrendered at the specified office of any of the Paying Agents (or if such day is not a Business Day, the immediately following Business Day) (in the case of principal and interest due on redemption) or on the Business Day immediately preceding the due date for payment (in the case of interest due other than on redemption).

Unless the context otherwise requires, in these Conditions, "Business Day" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in London and New York City and, in the case of the surrender of a Note Certificate, in the place where the Note Certificate is surrendered.

(f) Payment Delays

Noteholders will not be entitled to payment of any interest or other amounts for any delay after the due date in receiving any amount due in respect of any Note as a result of the due date not being a Business Day, the Noteholder being late in surrendering its Note Certificate (if required to do so) or a cheque mailed in accordance with this Condition 11 arriving after the due date for the payment or being lost in the mail.

(g) Partial Payments

If at any time a partial payment of principal and/or interest is made in respect of any Note, the Registrar shall endorse the Register with a statement indicating the amount and date of such payment.

(h) Agents

The names of the initial Agents and their initial specified offices are set forth below. Any of the Agents may resign in accordance with the provisions of the Agency Agreement and each of the Issuer and each Guarantor reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of any Agent and appoint additional or other Agents provided that it will at all times maintain a Registrar, having a specified office in New York and a Paying Agent and a Transfer Agent having a specified office in Europe, which will be in London, so long as the Notes are admitted to trading on the Stock Exchange and the rules of the Stock Exchange so require. Notice of any such termination or appointment and of any change in the specified offices of the Agents will be published in accordance with Condition 17 (*Notices*).

12. Taxation

All payments of principal and interest in respect of the Notes (including payments by a Guarantor under the Guarantee or otherwise under the Trust Deed) shall be made free and clear of, and without deduction or withholding for, any taxes, duties, assessments, or governmental charges imposed, levied, collected, withheld or assessed by The Netherlands or the Republic of Kazakhstan or any political subdivision or any authority thereof or therein having the power to tax (collectively "Taxes"), unless such withholding or deduction is required by law. In such event, the Issuer or (as the case may be) the relevant Guarantor will, subject to certain exceptions and limitations set forth below, pay such additional amounts ("Additional Amounts") to the holder of any Note as may be necessary in order that every net payment of the principal of and interest on such Note, after withholding for or on account of such Taxes upon or as a result of such payment will not be less than the amount provided for in such Note to be then due and payable. Notwithstanding the foregoing, neither the Issuer nor any Guarantor will be required to make any payment of Additional Amounts (a) to any such holder for or on account of any such Taxes which would not have been so imposed but for (i) the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of such holder) and The Netherlands, in case of Taxes imposed by the Netherlands, or in Kazakhstan, in case of Taxes imposed by the Republic of Kazakhstan, (including but not limited to, citizenship, nationality residence, domicile, or existence of a business, a permanent establishment, a dependent agent, a place of business or a place of management present or deemed to be present within that jurisdiction) other than the mere holding of the Note or (ii) the presentation by the holder of the relevant Note for payment on a date more than 30 days after the date (the "Relevant Date") which is the later of the date on which such payment became due and payable and the date on which payment thereof is duly provided for, except to the extent that the holder would have been entitled to Additional Amounts on presenting the same for payment on the last day of such 30-day period; (b) where the withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings or any law implementing or complying with, or introduced in order to conform to, such Directive and the holder of the relevant Note could have avoided such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union; or (c) with respect to any payment on a Note or under the Trust Deed to a holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to such Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of the Note.

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

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

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

13. Events of Default

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

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

(b) *Breach of other obligations:* the Issuer or any Guarantor is in default in the performance, or is otherwise in breach, of any covenant, obligation, undertaking or other agreement under the Notes, the Trust Deed (including, in the case of each Guarantor, under the Guarantee) or the Agency Agreement (other than a default or breach elsewhere specifically

dealt with in this Condition 13) and such default or breach (which is, in the opinion of the Trustee, capable of remedy) is not remedied within 40 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer by the Trustee and is, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders; or

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

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

(e) *Insolvency or Bankruptcy:* (i) a proceeding shall have been instituted or a decree or order shall have been entered for the appointment of a receiver, administrator, liquidator or other similar officer in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities or similar arrangements involving the Issuer or any Guarantor or Material Subsidiary or all or, in the opinion of the Trustee, substantially all of any of their respective properties and such proceeding, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 60 days or (ii) the Issuer or any Guarantor or Material Subsidiary shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be adjudicated a bankrupt or shall consent to the filing of a bankruptcy, insolvency or similar proceeding against it or shall file a petition or answer or consent seeking reorganisation under any such law or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver, administrator or liquidator or trustee or assignee in bankruptcy or liquidation of it or in respect of its property or shall make an assignment for the benefit of its creditors or shall otherwise be unable or admit its inability to pay its debts generally as they become due or is (or could be deemed by law or a court to be) insolvent or bankrupt or commences proceedings with a view to the general adjustment of its Indebtedness; or

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

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

(h) *Judgments:* a final judgment or judgments for the payment of money have been entered by a court or courts of competent jurisdiction against the Issuer or any Guarantor or Material Subsidiary and remain undischarged for a period of at least 60 days without stay of execution of the relevant judgment or judgments during the period and the aggregate amount of all such judgments at any time outstanding (to the extent not paid or to be

paid by insurance) exceeds U.S.$35,000,000 or the equivalent in any other currency (for this purpose, any deductibles, self-insurance or retention shall not be treated as covered by insurance); or

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

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

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

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

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

14. Prescription

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

15. Replacement of Note Certificates

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

16. Meetings of Noteholders, Amendment, Modification and Waiver

(a) Meetings of Noteholders

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

(b) Modification and Waiver

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

(c) Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition 16), the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer or any Guarantor, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

(d) Substitution

The Trust Deed provides that at KTZ's written request, prior to the second interest payment date on the Notes, the Trustee shall, subject to such amendment of the Trust Deed and such other conditions as set forth in the Trust Deed, without the consent of the

Noteholders, agree to the substitution of KTZ or its successor in business in place of the Issuer as the principal debtor under the Trust Deed and the Notes. The Trustee is not required to make any determination as to whether the Initial Substitution is materially prejudicial to the Noteholders. The Trust Deed also contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require but without the consent of the Noteholders to the substitution of any other entity in place of a Guarantor, or of any previous substituted company.

17. Notices

(a) To Noteholders

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

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

(b) To the Issuer and any Guarantor

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

(c) To the Trustee and Registrar

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

18. Further Issues

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

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

19. Enforcement

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

20. The Trustee

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

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

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

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

21. Indemnification of the Trustee

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

22. Currency Indemnity

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

23. Rights of Third Parties

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

24. Governing Law and Jurisdiction

(a) Governing Law

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

(b) Arbitration

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

(c) Trustee's Option

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

(d) Jurisdiction

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

(e) Appropriate Forum

For the purposes of Condition 24(d) (*Jurisdiction*), the Issuer and each Guarantor irrevocably waive 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 and 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 Bracewell & Giuliani (UK) LLP at 15 Old Bailey, London EC4M 7EF or, if different, its registered office for the time being or at any address of the Issuer or the relevant Guarantor, as the case may be, in Great Britain at which process may be served on it in accordance with Part 34 of the Companies Act 2006. If such person is not or ceases to be effectively appointed so to accept service of process on behalf of the Issuer or the relevant Guarantor, as the case may be, the Issuer or the relevant Guarantor, as the case may be, shall notify the Trustee and appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Trustee shall be entitled to appoint such a person by written notice to the Issuer in accordance with Condition 17 (*Notices*) and the relevant Guarantor. Nothing in this paragraph shall affect the right of the Trustee to serve process in any other manner permitted by law.

(g) *Consent to enforcement, etc.*

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

(h) *Waiver of immunity*

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

USE OF PROCEEDS

The net proceeds from the issue of the Notes is expected to amount to approximately U.S.$697,000,000 after deduction of fees and expenses related to the offering and will be lent by the Issuer to members of the Group, which will use those net proceeds for working capital and other general corporate purposes. Additionally, Kaztemirtrans intends to use approximately U.S.$210 million of the net proceeds to acquire rolling stock.

THE ISSUER

General

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

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

Capitalisation

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

Business

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

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

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

Management

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

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

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

There are no potential conflicts of interest between any duties of the Managing Directors as a member of the board of directors of the Issuer towards the Issuer and their private interests and/or other duties.

Financial Statements

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

CONSOLIDATED CAPITALISATION OF THE COMPANY

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

	As at 30 June 2010
	(KZT in thousands) *(Unaudited)*
Current indebtedness	
Short-term borrowings	4,423,800
Current portion of long-term borrowings	18,250,183
Current portion of debt securities issued(1)	67,331,065
Current portion of finance lease liabilities	532,625
Total	90,537,673
Long-term indebtedness	
Borrowings	28,879,211
Debt securities issued(1)	50,890,556
Finance lease liabilities	5,261,266
Total	85,031,033
Equity	
Share capital	491,100,457
Additional paid-in capital	26,156,432
Foreign currency translation reserve	(68,069)
Retained earnings	195,558,031
Total equity	712,746,851
Total capitalization	888,315,557

(1) Reflects the transfer of KZT 67.3 billion of debt securities issued to current debt as a result of the approaching maturity date of the Issuer's 6.50% notes due 11 May 2011.

As at the date of this Prospectus, except as discussed below, there has been no material change in the Company's capitalisation since 30 June 2010.

After 30 June 2010, Kaztemirtrans borrowed funds under its 29 March 2010 credit agreement with the EBRD. The credit agreement has a term of 10 years and amounts borrowed under the agreement bear interest at LIBOR + 5%. As at the date of this Prospectus, U.S.$43.7 million had been drawn under the agreement. Also after 30 June 2010, the Company borrowed funds under its 9 June 2010 loan agreement with SB JSC HSBC Bank Kazakhstan. The loan bears interest at a rate of 7.25% for draws in U.S. Dollars and 9.5% for draws in Tenge. Interest on the loan is repaid quarterly until its full settlement on 9 June 2011. As at the date of this Prospectus, U.S.$10.0 million had been drawn under the agreement. After 30 June 2010, the Group borrowed an aggregate of U.S.$24.6 million under its 15 September 2008 credit agreement with the EBRD at a rate of LIBOR + 3.25%. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group – Liquidity and Capital Resources – Borrowings*".

In July 2010, Samruk-Kazyna made an additional contribution to the charter capital of the Company totalling KZT 20.8 billion for the purpose of constructing a railway line between Uzen and the Turkmenistan state border and a railway line between Khorgas and Zhetygen. In August 2010, Samruk-Kazyna applied to the Government for the allocation of state budget funds for the purpose of making additional capital contributions to the Company of up to KZT 17.6 billion. The Company anticipates that the Government will approve Samruk-Kazyna's budget application and, accordingly the Company anticipates Samruk-Kazyna will make this additional capital contribution by the end of

2010. However, there can be no assurance that such funds will be approved in the amount and in accordance with the timeline that the Company currently anticipates. See "*Risk Factors – Risk Factors Relating to the Group – The Group has historically received and continues to rely on support from and is indirectly controlled by the Government*".

SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION OF THE COMPANY

The following selected consolidated historical financial information as at and for the years ended 31 December 2009 and 2008 has been derived from the Annual Financial Statements, which are included elsewhere in this Prospectus. The unaudited selected consolidated historical interim financial information as at 30 June 2010 and for the six months ended 30 June 2010 and 2009 has been derived from the Interim Financial Statements, which are included elsewhere in this Prospectus. The unaudited selected consolidated historical interim financial information has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", and in the opinion of the Company's management, includes all adjustments, consisting of normal recurring adjustments necessary for a true and fair presentation of interim results. Investors should not rely on interim results as being indicative of results the Company may expect for the full year.

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

Income Data

	For the six months ended 30 June 2010(1)	For the six months ended 30 June		For the year ended 31 December	
		2010	2009	2009	2008
	(Unaudited)	*(Unaudited)*	*(Unaudited)*		
	(U.S.$ in thousands)	*(KZT in thousands)*			
Revenue					
Freight transportation	1,623,435	239,391,690	188,518,249	407,411,457	416,517,032
Passenger transportation	154,332	22,757,781	21,134,984	46,647,095	42,523,391
Government grants	53,708	7,919,777	5,090,636	10,058,412	7,300,236
Other revenue	64,022	9,440,734	8,002,671	16,876,206	17,422,701
Total revenue	1,895,497	279,509,982	222,746,540	480,993,170	483,763,360
Cost of sales	(1,310,115)	(193,189,616)	(171,384,583)	(368,960,223)	(377,182,960)
Gross profit	585,382	86,320,366	51,361,957	112,032,947	106,580,400
General and administrative expenses	(183,225)	(27,018,312)	(23,073,541)	(49,822,762)	(58,989,733)
(Loss)/recovery of loss from impairment of property, plant and equipment	48	7,096	8,148	(1,409,623)	644,755
Other income and expenses	1,758	259,185	150,113	555,331	1,481,305
Finance income	9,123	1,345,273	1,672,130	2,661,506	7,181,578
Finance costs	(35,957)	(5,302,272)	(5,200,719)	(9,673,490)	(8,885,933)
Foreign exchange loss	(1,027)	(151,498)	(24,546,205)	(21,881,928)	(1,555,529)
Share of (loss)/profit of associates	427	62,923	113,322	(90,039)	862,880
Profit before taxation	376,528	55,522,761	485,205	32,371,942	47,319,723
Income tax (expense)/benefit	(98,851)	(14,576,580)	(2,014,710)	(12,883,155)	16,562,026
Profit/(loss) for the period	277,677	40,946,181	(1,529,505)	19,488,787	63,881,749

(1) The Group's functional currency is the Tenge. For convenience, these figures have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 30 June 2010, KZT 147.46 per U.S.$1.00. Such conversion should not be construed as a representation that the KZT amounts have been or could be converted into U.S.$ at this rate or any other rate.

Statement of Financial Position Data

	As at 30 June 2010(1)	As at 30 June 2010	As at 31 December 2009	As at 31 December 2008
	(Unaudited)	*(Unaudited)*		
	(U.S.$ in thousands)	*(KZT in thousands)*		
Property, plant and equipment	5,897,247	869,608,040	833,599,921	779,165,048
Total non-current assets	6,121,048	902,609,806	850,497,688	791,370,557
Other financial assets	193,137	28,479,922	17,706,980	15,521,590
Cash and cash equivalents	392,526	57,881,922	52,442,441	49,164,450
Total current assets	1,108,190	163,413,653	144,315,786	135,630,960
Total assets	7,229,238	1,066,023,459	994,813,474	927,001,517
Total equity	4,833,493	712,746,851	661,003,193	643,853,246
Non-current borrowings(2)(3)	576,638	85,031,033	154,815,655	127,394,821
Total non-current liabilities	1,055,667	155,668,722	213,171,640	176,639,834
Current borrowings(4)	613,981	90,537,673	17,768,303	4,772,944
Total current liabilities	1,340,078	197,607,886	120,638,641	106,508,437
Total liabilities	2,395,745	353,276,608	333,810,281	283,148,271

(1) The Group's functional currency is the Tenge. For convenience, these figures have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 30 June 2010, KZT 147.46 per U.S.$1.00. Such conversion should not be construed as a representation that the KZT amounts have been or could be converted into U.S.$ at this rate or any other rate.

(2) Represents the aggregation of borrowings, debt securities issued and financial lease liabilities.

(3) As at the date of this Prospectus, the Group had U.S.$68.3 million and U.S.$10.0 million outstanding under the EBRD (two loans) and SB JSC HSBC Bank Kazakhstan loans, respectively, that are not reflected on the Group's consolidated statement of financial position as at 30 June 2010.

(4) Represents the aggregation of short-term borrowings, current portion of borrowings, current portion of debt securities issued and current portion of finance lease liabilities.

Statement of Cash Flows Data

	For the six months ended 30 June 2010[(1)]	For the six months ended 30 June		For the year ended 31 December	
		2010	2009	2009	2008
	(Unaudited) *(U.S.$ in thousands)*	*(Unaudited)*	*(Unaudited)* *(KZT in thousands)*		
Net cash flows from operating activities	529,936	78,144,385	25,338,032	96,835,186	90,043,769
Net cash flows used in investing activities	(610,442)	(90,015,850)	(29,551,959)	(102,130,844)	(68,250,873)
Net cash flows from financing activities	118,089	17,413,405	5,961,753	8,696,703	952,109
Net (decrease)/increase in cash and cash equivalents	37,583	5,541,940	1,747,826	3,401,045	22,745,005
Cash and cash equivalents at the beginning of the period	355,638	52,442,441	49,164,450	49,164,450	26,369,694
Effect of foreign exchange rates on cash and cash equivalents	(695)	(102,459)	127,434	(123,054)	49,751
Cash and cash equivalents at the end of the period	392,526	57,881,922	51,039,710	52,442,441	49,164,450

(1) The Group's functional currency is the Tenge. For convenience, these figures have been converted into U.S.$ at the KZT/U.S.$ exchange rate as at 30 June 2010, KZT 147.46 per U.S.$1.00. Such conversion should not be construed as a representation that the KZT amounts have been or could be converted into U.S.$ at this rate or any other rate.

Financial Ratios

	As at and for the six months ended 30 June		As at and for the year ended 31 December	
	2010	2009	2009	2008
		(Unaudited)		
EBITDA[1]	85,555,427	30,179,023	89,895,731	104,351,916
Current ratio[2]	0.83	1.48	1.20	1.27
Coverage ratio[3]	11.47	1.09	4.35	6.33
Net debt to net capitalisation ratio[4]	0.14	0.15	0.15	0.11
Total debt to EBITDA[5]	1.45		1.92	1.27

(1) The Group defines EBITDA as profit(loss) for the period before income tax, finance costs, depreciation and amortisation. 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 this measure. EBITDA is computed as follows:

	For the six month period ended 30 June		For the year ended 31 December	
	2010	2009	2009	2008
		(KZT in thousands)		
Profit before taxation	55,522,761	485,205	32,371,942	47,319,723
Finance cost	5,302,272	5,200,719	9,673,490	8,885,933
Depreciation and amortization[(i)]	24,730,394	24,493,099	47,850,299	48,146,260
EBITDA	85,555,427	30,179,023	89,895,731	104,351,916

(i) Includes all depreciation and amortisation recorded under both cost of sales and general and administrative expenses.

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

(3) The Group defines its coverage ratio as interest expense divided by profit before taxation and interest expense. Interest expense includes interest on debt securities and on loans, which is included in total finance costs.

(4) This ratio is computed as net debt divided net capitalisation. Net debt is defined as total debt, which represents the aggregate of total borrowings, total debt securities issued, and total finance lease liabilities, less cash and cash equivalents. Net capitalisation is defined as net debt plus total equity.

(5) This ratio is computed as total debt divided by EBITDA. The ratio for 30 June 2010 is computed based on EBITDA for the twelve months ended 30 June 2010.

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

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

Recent Developments

Since 30 June 2010, the Group has borrowed funds under credit agreements with EBRD and SB JSC HSBC Bank Kazakhstan and received a capital contribution from Samruk-Kazyna. See "*Consolidated Capitalisation of the Company*".

Critical Accounting Judgments and Estimates

Certain of the Group's significant accounting policies that require the Group's management to make judgments and use estimates and assumptions are described below. Although these estimates are based on historical experience and other factors that are considered to be relevant, events or actions may mean that actual results ultimately differ from those estimates. The following discussion is qualified in its entirety by reference to the discussion of the Group's significant accounting policies contained in Note 2 of the Notes to the Interim Financial Statements and Note 2 of the Notes to the Annual Financial Statements that is included elsewhere in this Prospectus.

Impairment of Property, Plant and Equipment

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment 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 expectations of growth in the railway industry, estimates of future cash flows, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate any impairment exists.

If any such indication exists, the recoverable amount of the asset is estimated and compared to the carrying amount of the asset. If the carrying amount exceeds the recoverable amount, an impairment is recorded. The recoverable amount is the greater of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate (14.30% for 2009 and 12.19% for 2008) that management believes reflects current market assessments of the time value of money and the risks specific to the assets. A change in the estimated recoverable amount could result in an impairment, or reversal of an impairment, in future periods.

During the periods presented, the Group implemented cost-saving measures in response to the economic crisis and made the decision to abandon certain construction projects, which resulted in an impairment of these assets. Subsequent to the impairment, the Group changed its decision to abandon these projects and continued the original construction, which resulted in an impairment reversal.

Post-Employment Benefits

The Group operates a defined benefit pension scheme which has been accounted for in accordance with IAS 19 – "Employee Benefits". See *"Management and Employees – Employee Retirement Benefits"*. Application of IAS 19 requires the exercise of judgement in relation to various assumptions including future annual minimum pay raises, employer and pensioner demographics and discount rates that approximate rates on state bonds. The Group bases the estimates on historical experience and on discussions with its actuaries. A change in these estimates could have a significant impact on the Group's profits in future periods. Additional information regarding the Group's employee benefit obligations is contained in Note 17 of the Notes to the Annual Financial Statements.

Inventory Valuation

The Group establishes an allowance against inventory to reduce it to the lower of cost or net realisable value. In determining the net realisable value, the Group considers inventory movements based on physical inventory observation. The Group records an allowance against all identified obsolete and slow-moving inventory in profit and loss at the time of identification. The actual loss experienced on this inventory could differ materially from the Group's estimates.

Recoverability of VAT

At each reporting date, the Group assesses the recoverability of value added tax ("**VAT**") arising on sales to customers outside of Kazakhstan. The Group cannot charge VAT onwards to these customers. The Group can only receive these amounts through an offset against future VAT liability or collection from the tax authorities. In assessing the recoverability of the VAT receivable, the Group considers information from its internal tax department regarding projected VAT liability, correspondence with Government tax authorities, and historical recovery experience. The actual amount of VAT recovery could differ materially from the Group's estimates.

Depreciation of Property, Plant and Equipment

Depreciation of the Group's property, plant and equipment is computed using the straight-line method over estimated useful lives. The Group establishes the useful lives of its assets including components of major property items, such as locomotives. The estimates of useful lives, residual values and methods of depreciation are reviewed at each financial year end and adjusted if appropriate. Any changes are accounted for prospectively as a change in accounting estimates. Estimates of the useful lives and residual values of these assets are based on the expected economic use, the application of repair and maintenance programmes, the amount of future expenditures that may be necessary to maintain the property, the volume of activity, technological advancements and other business conditions. 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. The amounts of penalties and interest applied are significant in case of additional taxes being imposed by the tax authorities. Penalties generally include 50% of the taxes additionally accrued with interest assessed at 22.5% of the amount of taxes not timely settled. As a result, penalties and interest can exceed the amount of additionally accrued taxes.

Because of the uncertainties involved in applying Kazakhstan's tax regime, the ultimate amount of taxes penalties and interest, if any, may be in excess of the amount the Group has expensed. The Group is required to make a number of estimates in determining whether to record a liability for any potential tax exposures. The Group bases these estimates on the degree of probability that the Group will be successful in challenging claims by the tax authority and the amount of probable settlement.

Adoption of New and Revised Standards

The Group adopted a number of new standards and interpretations during the year ended 31 December 2009 and the six months ended 30 June 2010. The adoption of these standards did not have a significant impact on the Group's results of operations or financial position. See Note 2 of the Notes to the Interim Financial Statements and Note 2 of the Notes to the Annual Financial Statements.

Major Factors Affecting Results of Operations

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

The Kazakhstan Economy

The growth in the Group's revenue in recent years, prior to the worldwide financial crisis, has been positively impacted by strong growth in the Kazakhstan economy as, historically, volumes of freight transportation have been correlated with changes in GDP and industrial output in Kazakhstan. The correlation of rail freight turnover with both Kazakhstan's growth in GDP and industrial production is relatively high largely due to the volumes of commodities transported. However, with the onset of the financial crisis in Kazakhstan, most notably in the second half of 2008 and into the first half 2009, both freight and passenger transportation volumes declined, broadly reflecting the effect the crisis had on the Kazakhstan economy during that period. As a result, the Group substantially reduced its capital expenditures in 2009, which it could no longer fully fund from operating cash flow or other sources, and implemented other cost reduction measures. In the second half of 2009, freight transportation volumes began to recover. In 2009, the volume of freight transported totalled 247.7 million tonnes and total freight turnover was 197.3 billion tonne-kilometres, as compared to 268.9 million tonnes and 214.9 billion tonne-kilometres, respectively, in 2008. The volume of passenger transportation in 2009 totalled 18.8 million passengers and passenger turnover was 14.9 billion passenger-kilometres, as compared to 16.6 million passengers and 14.4 billion passenger-kilometres, respectively, in 2008. See "*Kazakhstan's Economy and the Railway Industry in Kazakhstan*".

Tariffs and Government Grants

In the periods presented in this section, the overwhelming majority of the Group's revenue was derived from freight and passenger transportation which was subject to regulated rail transportation tariffs. These tariffs are based on detailed price lists approved by the Anti-Monopoly Agency, which specify prices for freight and passenger transportation based on weight, freight class or class of travel, direction, distance and destination, and are subject to an annual, and occasionally, supplemental, indexation process. See "*Business of the Group – Government Regulation and Tariffs*". In addition, because freight tariffs differ according to the distance and class of freight, changes in average transportation distances and changes in the mix of freight transported can lead to higher or lower revenues, operating profits and margins for the Group. Further, the Government, through the Anti-Monopoly Agency, may consider wider economic and political factors in setting tariffs, such as the low tariff for domestic transportation of coal used for power generation and heating. For example, the provision of passenger rail services in Kazakhstan is considered a social responsibility of the rail operator and, accordingly, tariffs are kept artificially low to ensure affordable passenger rail services to all members of the community.

As a result, the Group's revenues, profit for the year and margins are sensitive to annual changes in transportation tariffs (particularly freight tariffs). Freight tariffs increased by 15% in 2008, but did not increase in 2009, and increased by 17.6% in 2010. Further, the Group's net income is also affected by the amount of grants it receives from the Government. See "*Risk Factors – The position of the Company as a monopoly and the other Guarantors as dominant entities may result in adverse regulatory interference in the Group's operations*".

The Group receives grants from the Government as compensation for certain passenger transportation tariffs being set at low or unprofitable levels. These are shown in the Group's consolidated statement of comprehensive income in "Government grants". In each period presented in this section, the Group received grants for passenger transportation, with the level of grants changing periodically. For the six months ended 30 June 2010, the Group received KZT 7.9 billion in grants, which represented an increase of 54.9% from KZT 5.1 billion in grants received during the same period in 2009. For the year ended 31 December 2009, the Group received KZT 10.1 billion in grants, which represented an increase of 38.4% from KZT 7.3 billion in grants received in 2008. 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 and is indirectly controlled by the Government*".

Cost of Fuel

For the year ended 31 December 2009, fuel and lubricants accounted for 21.9% of the Group's costs of sales (after excluding personnel costs, including short-term provisions). The Group purchases diesel fuel for its locomotives from TEK-KAZAKHSTAN LLP, a supplier that holds the dominant market position in Kazakhstan. Because TEK-KAZAKHSTAN LLP holds a dominant market position, its prices are regulated by the anti-trust laws of Kazakhstan and, consequently, are not prone to frequent change.

The Group purchases other types of fuel and lubricants primarily through open tenders held in accordance with state procurement procedures. To manage the pricing risks, the Group usually holds procurement tenders in the beginning of a calendar year on fixed price terms with the flexibility to decrease the initially fixed price it must pay if the market prices for the subject commodity or service decrease. See "– *Quantitative and Qualitative Disclosures about Market Risk – Inflation and Commodities Prices*" 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*".

Impact of Changes in Exchange Rates

The Tenge/U.S. Dollar exchange rate in Kazakhstan affects the Group's results of operations principally because most of the Group's borrowings are denominated in U.S. Dollars. As at 31 December 2009, 84.9% of the Group's borrowings were denominated in U.S. Dollars. Accordingly, fluctuations in the Tenge/U.S. Dollar exchange rate may significantly affect the Group's consolidated results of operations. See "– *Quantitative and Qualitative Disclosures about Market Risk – Foreign Currency Exchange Rate Risk*" and "*Risk Factors – Risk Factors Relating to the Group – The Group is subject to commodity price risk and foreign currency exchange rate risk, each of which the Group has a limited ability to manage*".

Though the Tenge appreciated significantly against the U.S. Dollar in the first half of 2008, the Tenge began to depreciate against the U.S. Dollar in the second half of 2008. On 4 February 2009, the NBK devalued the Tenge by 18% against the U.S. Dollar, due in part to recent pressure on the balance of payments of Kazakhstan as a result of a decline in commodity prices (in particular oil and gas) and to enhance the competitiveness of Kazakhstan exports. From 31 December 2008 to 30 June 2010, the Tenge has depreciated against the U.S. Dollar by 22.1%.

Because most of the Group's consolidated total borrowings are denominated in U.S. Dollars, the 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.

Movements in Interest Rates

Movements in interest rates affect the Group's results of operations principally because a majority of the Group's borrowings have a variable interest rate. As at 30 June 2010 and 30 June 2009, 23.5% and 18.3%, respectively, of the Group's total borrowings and debt securities issued were borrowings and debt securities issued with variable interest rates. Interest rates in the United States fell significantly beginning in the third quarter of 2007 and continue to remain at historically low levels. As and when interest rates in the United States begin to increase, the Group's expense under its variable interest rate borrowings will increase and its results of operations could be adversely affected. See "– *Quantitative and Qualitative Disclosures about Market Risk – Interest Rate Risk*".

International trade volumes of countries that border Kazakhstan

According to the NSA, the foreign trade turnover of Kazakhstan in 2009 was U.S.$71.6 billion, which represents a decline from 2008 of 34.4%. From 2008 to 2009, Kazakhstan's exports declined U.S.$43.2 billion, or 39.3%, and imports declined U.S.$28.4 billion, or 25.0%. Russia and China are significant contributors to Kazakhstan's freight turnover. Russia and China accounted for 31.3% and 12.6%, respectively, of Kazakhstan's exports in 2009 and 8.2% and 13.6%, respectively, of Kazakhstan's imports in 2009, according to the NSA. Russia and China accounted for 8.7% and 10.7%, respectively, of Kazakhstan's exports in 2008 and 36.3% and 17.3%, respectively, of Kazakhstan's imports in 2008, according to the NSA.

Reforms of the Kazakhstan railway industry and CIS railway network system and implementation of corporate restructuring

As at the date of this Prospectus, Kazakhstan, Russia and Ukraine, being members of or participants in the CIS, were at different stages of reforming their respective national railway systems. 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.

Notwithstanding the government reform actions taken in Kazakhstan, Kazakhstan has not created a fully competitive market for freight and passenger transportation by rail. Consequently, Kazakhstan is considering further reforms including changes in regulations for freight and passenger transportation and formation of a competitive market of operators with equal access to the mainline railway network.

In accordance with the Development Strategy, the Group intends to form four separate business lines: infrastructure, freight transportation, passenger transportation and locomotive and rolling stock assembly and repair. Finalisation and approval by the Board of Directors of the Company of the Group's plan for implementing the Development Strategy is pending. The Group expects to finalise and approve the plan for implementing the Development Strategy at the end of 2010 after the Government has adopted some or all of the industry-wide reforms discussed above. The Group's results of operations have been impacted by the industry-wide reforms in Kazakhstan and the Group's response thereto and is expected to be impacted by how effectively, if at all, the Group is able to implement the Development Strategy and separate its business lines. See "*Business of the Group – Ongoing Restructuring*".

Taxation

Before the enactment of the 2009 Tax Code, which became effective on 1 January 2009, the statutory corporate income tax rate in Kazakhstan, where most of the Group's operations are located, was 30%. Under the 2009 Tax Code, the corporate income tax rate was reduced to 20% in 2009 and is scheduled to be reduced further to 17.5% in 2013 and 15% in 2014 and subsequent years.

Prior to the 2009 Tax Code, taxpayers were required to get the consent of the Ministry of Industry to apply investment tax preferences. The 2009 Tax Code no longer requires taxpayers to obtain the Ministry of Industry's consent. The 2009 Tax Code also provides for the right to deduct the initial value of buildings, cars and equipment over three years in equal installments or through a one-time deduction from the date such buildings, cars or equipment are first used. Expenses on the construction, manufacture and installation of preferential objects prior to the first use thereof may also be deducted, which allows for an increased amount of deductions through the use of investment tax preferences. Further, the 2009 Tax Code allows for expenses incurred in connection with the 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. As a result, a majority of the tax losses carried forward by the Group as at 31 December 2009 expire for tax purposes in 2010 or 2011.

The 2009 Tax Code changed the calculation of VAT accrued for the provision of wagons for use by foreign railway administrations. The prior tax code provided that revenue realisation with respect to the leasing of wagons and containers should be determined by where the services were rendered (*i.e.*, Kazakhstan). The 2009 Tax Code provides that revenue realisation with respect to the leasing of wagons and containers is determined by the origin of the purchaser, which exempts from internal VAT the revenues from leasing services received from parties domiciled outside of Kazakhstan. The 2009 Tax Code also provides for the return of excess amounts of VAT taken as an offset over the amount of accrued tax, regardless of the absence or presence of turnover ratable at 0%.

Prior to 2009, due to uncertainty and gaps in legislation and international agreements, the Company paid out of its own funds the VAT accrued due to the Group's provision of wagon fleets to foreign railway entities for their use. Although the Group was required to include the VAT amount in the cost of its services rendered to its customers, the Group's agreements with these customers provided for a fixed fee for the Group's services on a VAT exclusive basis. Being unable to pass the VAT expense to its customers, the Company incurred losses in the amount of such VAT prior to 2009. Due to the enactment of the 2009 Tax Code, the Company does not expect to incur further losses on this basis.

Cost-saving measures

In response to the economic crisis, the Group implemented several cost-saving measures during the year ended 31 December 2009 including, among others, a reduction in expenses relating to non-core activities of the Group and a decrease in employee, administrative, training and entertainment expenses.

The Group also substantially reduced its capital expenditures in 2009, which it could no longer fully fund from operating cash flow or other sources. In these instances, the Group had to defer, among other things, necessary maintenance and modernisation projects. *See ''– Consolidated Results of Operations for the Years Ended 31 December 2009 and 2008 – General and Administrative Expenses''* and *''Risk Factors – Risk Factors Relating to the Group – The Group's railway infrastructure requires significant investment in its maintenance and modernisation and there can be no assurance that the Group will receive the funding necessary to make such investments''*.

Operating Segments

Cargo (or freight) transportation and passenger transportation are the two operating segments of the Group. For the year ended 31 December 2009, the cargo (or freight) transportation and passenger transportation segments accounted for 85.1% and 11.9%, respectively, of the Group's revenue and 79.6% and 17.7%, respectively, of the Group's cost of sales. 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 community. As a result, the revenue generated from passenger operations has historically been insufficient to meet related operational costs. For the year ended 31 December 2009, the cargo (or freight) transportation segment had profit for the year of KZT 34.5 billion while the passenger transportation segment had a loss for the year of KZT 17.7 billion. See Note 3 of the Notes to the Annual Financial Statements that are included elsewhere in this Prospectus.

Consolidated Results of Operations for the Six Months Ended 30 June 2010 and 2009

Revenue

The Group's revenue for the six months ended 30 June 2010 increased KZT 56.8 billion, or 25.5%, compared to the six months ended 30 June 2009, reflecting increases in freight transportation revenue, passenger transportation revenue and Government grants.

Freight Transportation

Revenue from freight transportation increased KZT 50.9 billion, or 26.9%, to KZT 239.4 billion for the six months ended 30 June 2010 from KZT 188.5 billion for the six months ended 30 June 2009. The increase was principally the result of increased freight turnover volume and freight transportation tariffs. Freight turnover for the six months ended 30 June 2010 was 101.2 billion tonne-kilometres, which represented a 13.6% increase from the same period in 2009. Additionally, beginning 1 January 2010, freight transportation tariffs increased 17.6%.

Most of the Group's freight transportation activity involves domestic and export transportation. To a lesser degree, the Group's freight transportation activity also involves import and transit transportation.

Passenger Transportation

Revenue from passenger transportation increased KZT 1.7 billion, or 7.7%, to KZT 22.8 billion for the six months ended 30 June 2010 from KZT 21.1 billion for the six months ended 30 June 2009. The increase was principally the result of an increase in passenger turnover in part due to an increase in the number of passenger routes operated by the Group. Further, in 2010, passenger tariffs increased 10% over 2009. See *''Business of the Group – Government Regulation and Tariffs – Passenger Tariff Regulation and Pricing''*.

Government Grants

For the six months ended 30 June 2010, revenue from Government grants was KZT 7.9 billion, which represented a KZT 2.8 billion, or 54.9%, increase as compared to the KZT 5.1 billion in revenue from Government grants for the six months ended 30 June 2009. The increase was mainly attributable to an increase in the number of passenger routes operated by the Group due to the increase in the number of routes awarded to the Group through the open tender system.

Other Revenue

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

Other revenue increased KZT 1.4 billion, or 17.9%, to KZT 9.4 billion for the six months ended 30 June 2010 from KZT 8.0 billion for the six months ended 30 June 2009. The increase was mainly because of an increase in realisation of commodity and goods revenue and revenues received from penalties imposed on counterparties.

Cost of Sales

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

	For the six months ended 30 June		% change between the six month ended 30 June 2010 and 2009
	2010	**2009**	
	(Unaudited)	*(Unaudited)*	
	(KZT in thousands)		
Personnel costs, including short-term provisions	69,247,164	61,904,662	11.9
Fuels and lubricants	30,250,456	25,591,134	18.2
Services(1)	27,624,293	26,597,069	3.9
Depreciation and amortization	23,832,521	23,695,172	0.6
Materials and supplies	20,687,972	15,480,013	33.6
Electricity	10,315,242	6,931,892	48.8
Wagon usage fee(2)	7,015,054	6,149,945	14.1
Operating lease expenses	1,467,798	1,334,812	10.0
Business trip expenses	840,590	653,976	28.5
Professional services	832,933	1,136,666	(26.7)
Employee benefit expenses	773,576	1,097,978	(29.5)
Personnel training	229,643	170,770	34.5
Other	72,374	640,494	(88.7)
Total	193,189,616	171,384,583	12.7

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

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

Cost of sales increased KZT 21.8 billion, or 12.7%, for the six months ended 30 June 2010 as compared to the six months ended 30 June 2009. The increase was primarily the result of a 14.6% increase in cost of sales attributable to the cargo (or freight) transportation operating segment from KZT 129.7 billion in the six months ended 30 June 2009 to KZT 148.5 billion for the six months ended 30 June 2010. The increase in cost of sales for the freight transportation operating segment was mainly due to an increase in the volume of freight transportation as the Kazakhstan economy gradually improved. Moreover, the price of fuel was higher in 2010 as compared to 2009. Cost of sales for the passenger transportation operating segment increased due to increased passenger turnover and an increase in the number of passenger routes operated by the Group.

General and Administrative Expenses

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

	For the six months ended 30 June		% change between the six month ended 30 June 2010 and 2009
	2010	2009	
	(Unaudited)	*(Unaudited)*	
	(KZT in thousands)		
Personnel costs, including short-term provisions	10,786,021	10,525,835	2.5
Property tax and other taxes	6,008,606	4,877,705	23.2
Allowance for impairment of value added tax recoverable	3,268,428	—	—
Charities and sponsorship	3,195,476	2,191,241	45.8
Depreciation and amortization	897,873	797,927	12.5
Professional services	703,927	325,209	116.5
Business trip expenses and representative expenses	552,534	467,681	18.1
Consulting, audit and legal services	383,904	287,461	33.5
Allowance for doubtful debts	(345,573)	996,672	(134.7)
Bank services	337,285	326,421	3.3
Materials	316,188	274,882	15.0
Services	218,726	81,364	168.8
Advertising expenses	205,140	226,892	(9.6)
Other expenses	177,988	826,894	(78.5)
Operating lease expenses	159,128	604,592	(73.7)
Employee benefit expenses	112,435	175,631	(36.0)
Social activities	40,226	87,134	(53.8)
Total	27,018,312	23,073,541	17.1

General and administrative expenses increased KZT 3.9 billion, or 17.1%, to KZT 27.0 billion for the six months ended 30 June 2010 from KZT 23.1 billion for the six months ended 30 June 2009. The increase was principally the result of an increase of expenses for charities and sponsorship and an increase in expenditures relating to the creation of reserves.

Property tax and other taxes increased KZT 1.1 billion, or 23.2% to KZT 6.0 billion for the six months ended 30 June 2010 from KZT 4.9 billion for the six months ended 30 June 2009 mostly as a result of an increase in property taxes associated with the commissioning of a new administrative building, and an increase in other taxes as a result of VAT not taken as an offset based on additional submissions for 2008 to 2009.

An estimate for allowance for doubtful debts is made when collection of the full amount is no longer probable. The allowance for doubtful debts is accrued by the Group when accounts receivable is not collected within contractual terms. The allowance for doubtful debts decreased during the six month period ended 30 June 2010 as compared to the same period in 2009 primarily as a result of write-offs. The 2009 Tax Code, which became effective on 1 January 2009, changed the calculation of VAT applicable to revenue from non-residents. As a result of the 2009 Tax Code, provisions accrued against such receivables during 2008 were written off in 2009.

Allowance for impairment of VAT recoverable increased from nil for the six months ended 30 June 2009 to KZT 3.3 billion for the same period in 2010 primarily due to the application of a new VAT recoverable calculation methodology pursuant to which the Group accrued an allowance for unrecoverable amounts. Amendments to legislation changed the definition of the amount of VAT recoverable, which had the effect of decreasing the amount of VAT recoverable by the Company as compared to prior years. Therefore, the Company accrued an allowance for the difference between the amount of VAT recoverable that it originally anticipated it would receive and the amount of VAT recoverable that the Company is eligible to receive under the new methodology.

Charities and sponsorships increased KZT 1.0 billion, or 45.8%, to KZT 3.2 billion for the six months ended 30 June 2010 from KZT 2.2 billion for the six months ended 30 June 2009 mostly as a result of an increase in sponsorship support of football club "Locomotive" and social projects within an approved expense plan, including the creation of a portable advisory diagnostic train, capital repairs of employee homes damaged by a flood and establishment of a museum.

Other Income and Expenses

The Group's other income and expenses consist primarily of income and expenses on disposal of fixed assets. For the six months ended 30 June 2010, other income was KZT 0.3 billion, which represented a KZT 0.1 billion, or 72.6%, increase as compared to the KZT 0.2 billion in other income for the six months ended 30 June 2009. The increase of other income in the first six months of 2010 as compared to the same period in 2009 was mainly attributable to the disposal of long-term assets subject to realisation and liquidation, such as disposal of wagons excluded from inventory rolling stock for scrap metal.

Finance Income

The Group's finance income consists primarily of interest income on short-term investments and bank deposits. Finance income decreased KZT 0.4 billion, or 19.5%, to KZT 1.3 billion for the six months ended 30 June 2010 from KZT 1.7 billion for the six months ended 30 June 2009. The decrease was principally the result of an overall decrease in interest rates on bank deposits consistent with general market trends, a decrease in duration of bank deposits and a decrease in cash available for deposit at commercial banks.

Finance Costs

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

	For the six months ended 30 June		**% change between the six month ended 30 June 2010 and 2009**
	2010	**2009**	
	(Unaudited)	*(Unaudited)*	
	(KZT in thousands)		
Interest expenses on debt securities issued	3,897,567	3,857,116	1.0
Interest expenses on loans	777,460	683,211	13.8
Finance lease charge	505,560	548,717	(7.9)
Amortization of discount on debt securities issued	121,685	111,675	9.0
Total	5,302,272	5,200,719	2.0

Finance costs increased KZT 0.1 billion, or 2.0%, to KZT 5.3 billion for the six months ended 30 June 2010 from KZT 5.2 billion for the six months ended 30 June 2009. The increase was primarily the result of a KZT 0.09 billion, or 13.8%, increase in interest expenses on loans, partially offset by a KZT 0.04 billion, or 7.9%, decrease in finance lease charges.

Interest expenses on loans increased for the six months period ended 30 June 2010 as compared to the same period in 2009 mainly due to a short-term loan to Locomotive by Citi Bank totalling KZT 4.4 billion, a loan to JSC Transtelecom by EBRD in the amount of KZT 5.9 billion for construction of a fibre-optic communication line and a loan to JSC Kaztransservice by HSBC in the amount of KZT 56.2 million for the acquisition of fitting platforms.

Finance lease charges decreased for the six months period ended 30 June 2010 as compared to the same period in 2009 primarily due to a decrease in the amount of interest payments due as result of a reduction in the aggregate principal amount in respect of the lease.

Foreign Exchange Loss

For the six months ended 30 June 2010, foreign exchange losses were KZT 0.2 billion, which represented a KZT 24.3 billion, or 99.4%, decrease as compared to the KZT 24.5 billion in foreign exchange losses for the six months ended 30 June 2009. The reduction in losses was mainly attributable to devaluation of the Tenge in 2009, in particular the NBK's devaluation of the Tenge on 4 February 2009. See "– *Major Factors Affecting Results of Operations – Impact of Changes in Exchange Rates*" and "– *Quantitative and Qualitative Disclosures about Market Risk – Foreign Currency Exchange Rate Risk*".

Share of Profit of Associates

The Group's share of profit of associates decreased to KZT 62.9 million in the six months ended 30 June 2010, as compared to KZT 113.3 million in the same period during the prior year. This 44.5% decline was primarily attributable to a decrease in revenue from JSC Kedentransservice due to the sale of an interest in certain of its subsidiaries.

Income Tax Expense

Income tax expense comprises current income tax expense and deferred income tax expense or benefit. For the six months ended 30 June 2010, the Group had an income tax expense of KZT 14.6 billion as compared to an income tax expense of KZT 2.0 billion for the six months ended 30 June 2009. The difference between the periods is primarily the result of a change in the Group's estimate of its ability to carry forward losses prior to their expiration.

The Group's effective tax rate was 26.3% and 23.9%, respectively, for the six month periods ended 30 June 2010 and 2009.

Profit/(Loss) for the Period

Profit for the six months ended 30 June 2010 was KZT 40.9 billion, as compared to a loss of KZT 1.5 billion for the six months ended 30 June 2009. The improvement in the first six months of 2010 as compared to the first six months of 2009 was largely attributable to an increase in freight transportation revenue and turnover and an increase in passenger transportation revenue and turnover.

The Group's passenger transportation business is not profitable. The provision of passenger rail services in Kazakhstan is considered a social responsibility of the rail operator. Although revenue from passenger transportation increased in the first six months of 2010, the cost of sales associated with the provision of such services during that period increased KZT 3.1 billion over the cost of sales from the same period in 2009, resulting in a loss for the six months ended 30 June 2010 for the passenger transportation operating segment of KZT 14.1 billion.

Consolidated Results of Operations for the Years Ended 31 December 2009 and 2008

Revenue

The Group's revenue for the year ended 31 December 2009 was essentially flat compared to the year ending 31 December 2008, registering a 0.6% decrease from 2008 to 2009, with the decline in freight transportation revenue being offset by increases in passenger transportation revenue and Government grants.

Freight Transportation

Revenue from freight transportation decreased KZT 9.1 billion, or 2.2%, to KZT 407.4 billion for the year ended 31 December 2009 from KZT 416.5 billion for the year ended 31 December 2008. The decease was principally the result of 7.8% decrease in the volume of freight transported and declines in additional fees from services rendered of KZT 3.5 billion. In 2009, revenue did not decrease proportionately with the decrease in volume of freight transported primarily due to an increase in distances travelled for exports and an increase in transportation of freight such as crude oil and iron ore, which goods are subject to higher tariff rates. The increase in export distances and the proportion of higher-value freight transported partially mitigated the fact that tariffs were not increased in 2009. See "– *Consolidated Results of Operations for the Six Months Ended 30 June 2010 and 2009 – Revenue – Freight Transportation*" for details of the Group's freight transportation revenue by transportation type and type of freight.

Passenger Transportation

Revenue from passenger transportation increased KZT 4.1 billion, or 9.7%, to KZT 46.6 billion for the year ended 31 December 2009 from KZT 42.5 billion for the year ended 31 December 2008. The increase was principally the result of an increase in passenger turnover in part due to an increase in the number of passenger routes operated by the Group. See "– *Consolidated Results of Operations* *for the Six Months Ended 30 June 2010 and 2009 – Revenue – Passenger Transportation*" for details of the Group's passenger transportation revenue. There was no change in passenger tariffs in 2009 compared to 2008. See *"Business of the Group – Government Regulation and Tariffs – Passenger Tariff Regulation and Pricing"*.

Government Grants

For the year ended 31 December 2009, revenue from Government grants was KZT 10.1 billion, which represented a KZT 2.8 billion, or 37.8%, increase as compared to the KZT 7.3 billion in revenue from Government grants for the year ended 31 December 2008. The increase was mainly attributable to an increase in passenger turnover in part due to an increase in the number of passenger routes operated by the Group, which caused an additional loss in the passenger transportation sector of the business due to the Government tariff regulation described elsewhere in this Prospectus.

Other Revenue

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

Other revenue decreased KZT 0.5 billion, or 3.1%, to KZT 16.9 billion for the year ended 31 December 2009 from KZT 17.4 billion for the year ended 31 December 2008. The decrease was mainly because the Group stopped its provision of non-core activities, such as providing electricity (other than power transmission services).

Cost of Sales

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

	For the year ended 31 December		% change between the year ended 31 December 2008 and 2009
	2009	2008	
	(KZT in thousands)		
Personnel costs, including short-term provisions	128,038,953	119,642,835	7.0
Services[(1)]	60,230,911	59,337,408	1.5
Fuels and lubricants	52,864,686	67,407,942	(21.6)
Depreciation and amortization	46,343,637	46,926,697	(1.2)
Materials and supplies	40,706,919	39,475,987	3.1
Wagon usage fee[(2)]	17,488,694	18,040,101	(3.1)
Electricity	15,429,343	16,645,447	(7.3)
Operating lease expenses	2,746,587	3,701,879	(25.8)
Professional services	1,876,339	1,718,470	9.2
Business trip expenses	1,456,444	1,355,446	7.5
Employee benefit expenses	806,248	1,008,441	(20.1)
Personnel training	453,204	537,085	(15.6)
Other	518,258	1,385,222	(62.6)
Total	368,960,223	377,182,960	(2.2)

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

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

Cost of sales was relatively unchanged from 2008 to 2009 with a KZT 8.2 billion, or 2.2%, decrease from the year ended 31 December 2008 to the year ended 31 December 2009. The decrease was primarily the result of a 4.9% decrease in cost of sales attributable to the cargo (or freight) transportation operating segment from KZT 309.2 billion in 2008 to KZT 293.9 billion in 2009, partially offset by a 13.4% increase in cost of sales attributable to the passenger transportation operating segment from KZT 57.6 billion in 2008 to KZT 65.3 billion in 2009. The reduction in cost of sales for the freight transportation operating segment was mainly because of a decrease in the volume of freight transportation and implementation by the Group of cost-saving measures as a result of the economic crisis. Moreover, the price of fuel was lower in 2009 as compared to 2008. Cost of sales for the passenger transportation operating segment increased due to increased passenger turnover and an increase in the number of passenger routes operated by the Group.

Also contributing to the decrease in cost of sales was a KZT 14.5 billion, or 21.6%, decrease in the cost of fuels and lubricants, partially offset by a KZT 8.4 billion, or 7.0%, increase in personnel costs, including short-term provisions. The cost of fuel and lubricants decreased from 2008 to 2009 mainly because of a decrease in the price and volume of diesel fuel used for locomotive haulage. Personnel costs, including short-term provisions, increased from 2008 to 2009 mainly because of an 18.8% increase in the official minimum wage level set forth in the 2009 Kazakhstan budget.

General and Administrative Expenses

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

	For the year ended 31 December		% change between the year ended 31 December 2008 and 2009
	2009	**2008**	
	(KZT in thousands)		
Personnel costs, including short-term provisions	21,401,017	21,115,696	1.4
Property tax and other taxes	9,656,700	15,354,376	(37.1)
Charities and sponsorship	5,369,444	3,812,880	40.8
Allowance for doubtful debts	2,067,730	3,735,467	(44.6)
Professional services	1,577,467	1,588,691	(0.7)
Depreciation and amortization	1,506,662	1,219,563	23.5
Allowance for impairment of value added tax recoverable	1,465,167	980,196	49.5
Operating lease expenses	997,132	1,289,388	(22.7)
Business trip expenses and representative expenses	857,171	1,123,552	(23.7)
Bank services	655,471	543,128	20.7
Social activities	570,295	918,695	(37.9)
Consulting, audit and legal services	546,698	821,488	(33.5)
Advertising expenses	544,943	835,146	(34.7)
Materials	522,880	631,276	(17.2)
Services	371,197	847,789	(56.2)
Employee benefit expenses	148,608	180,381	(17.6)
Other expenses	1,564,180	3,992,021	(60.8)
Total	49,822,762	58,989,733	(15.5)

General and administrative expenses decreased KZT 9.2 billion, or 15.5%, to KZT 49.8 billion for the year ended 31 December 2009 from KZT 59.0 billion for the year ended 31 December 2008. The overall decrease resulted from cost reduction measures taken by the Group, including, among others, a reduction in expenses relating to non-core activities of the Group and a decrease in employee, administrative, training and entertainment expenses. The decrease was principally the result of a KZT 5.7 billion, or 37.1%, decrease in property tax and other taxes and a KZT 1.7 billion, or 44.6%, decrease in the allowance for doubtful debts, partly offset by a KZT 1.6 billion, or 40.8%, increase in charities and sponsorships.

Property tax and other taxes decreased from 2008 to 2009 mainly because of the 2009 Tax Code, which changed the tax basis for calculation of property tax.

The allowance for doubtful debts decreased from 2008 to 2009 primarily as a result of write-offs of unrecoverable VAT in 2009 resulting from the 2009 Tax Code, which became effective on 1 January 2009 and changed the calculation of VAT accrued for the provision of wagons for use by foreign railways. As a result of these changes in the 2009 Tax Code, management determined that a portion of VAT owed by certain national railways of other countries would be unrecoverable and such portion was written off. Also as a result of the 2009 Tax Code, the Group, beginning in 2009, can include the cost of VAT in its cost of services rendered to customers. However, because the Group was on fixed contracts in 2009, it still experienced a bad debt allowance of approximately KZT 2.1 billion in 2009.

Charities and sponsorships increased from 2008 to 2009 mostly as a result of the increase in the Group's sponsorship amounts budgeted for 2009. In particular, the Company allocated additional funds to support certain public and private domestic sports teams, including the Federation of Cycling Sport of Kazakhstan and the Locomotive Soccer Club.

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

For the year ended 31 December 2009, the Group had a loss from impairment of property, plant and equipment of KZT 1.4 billion as compared to a recovery of loss from impairment of property, plant and equipment of KZT 0.6 billion for the year ended 31 December 2008. The loss in 2009 was primarily because of a KZT 1.3 billion loss on capital construction in progress from an allowance made after an investigation by the Company revealed incomplete or suspended construction projects, primarily associated with the electrification of the Kandyagash-Makat railway section.

Other Income and Expenses

The Group's other income and expenses consist primarily of income and expenses on disposal of fixed assets and accounts payable that are written off. For the year ended 31 December 2009, other income was KZT 0.6 billion, which represented a KZT 0.9 billion, or 62.5%, decrease as compared to the KZT 1.5 billion in other income for the year ended 31 December 2008. In 2008, the Group received income from disposal of freight cars owned by Kaztemirtrans and entered into a number of lease contracts relating to fixed assets of the Group that were unrelated to its core business activities. The decrease of other income in 2009 was mainly attributable to a decrease in the amount of income generated from leasing certain fixed assets by the Group, a decrease in the amount of income from the disposal of freight cars and a decrease in the amount of payments received under guarantees issued in favour of the Company.

Finance Income

The Group's finance income consists primarily of interest income on short-term investments and bank deposits. Finance income decreased KZT 4.5 billion, or 62.9%, to KZT 2.7 billion for the year ended 31 December 2009 from KZT 7.2 billion for the year ended 31 December 2008. The decrease was principally the result of an overall decrease in interest rates on bank deposits consistent with general market trends, a decrease in duration of bank deposits and a decrease in cash available for deposit at commercial banks.

Finance Costs

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

	For the year ended 31 December		% change between the year ended 31 December 2008 and 2009
	2009	**2008**	
	(KZT in thousands)		
Interest expenses on debt securities issued	7,928,125	6,466,125	22.6
Interest expenses on loans	1,182,441	1,207,682	(2.1)
Finance lease charge	329,338	1,034,217	(68.2)
Amortization of discount on debt securities issued	233,586	177,909	31.3
Total	9,673,490	8,885,933	8.9

Finance costs increased KZT 0.8 billion, or 8.9%, to KZT 9.7 billion for the year ended 31 December 2009 from KZT 8.9 billion for the year ended 31 December 2008. The increase was primarily the result of a KZT 1.5 billion, or 22.6%, increase in interest expenses on debt securities issued, partially offset by a KZT 0.7 billion, or 68.2%, decrease in finance lease charges.

Interest expenses on debt securities issued increased from 2008 to 2009 mainly due to the NBK's devaluation of the Tenge on 4 February 2009, which affected all foreign currency denominated liabilities of the Group.

The decrease in finance lease charges from 2008 to 2009 was primarily because of changes made to the financial leasing arrangement between JSC Transtelecom and a telecommunication company regarding construction of a fibre-optic network for the Group. The changes to the leasing arrangement affected the cost of the leased equipment, the construction schedule and decreased the financial lease payments beginning in 2009. See "*Business of the Group – Litigation*".

Foreign Exchange Loss

For the year ended 31 December 2009, foreign exchange loss was KZT 21.9 billion, which represented a KZT 20.3 billion, or 1,306.7%, increase as compared to the KZT 1.6 billion in foreign exchange loss for the year ended 31 December 2008. The increased loss was mainly attributable to devaluation of the Tenge in 2009, in particular the NBK's devaluation of the Tenge on 4 February 2009. See "*– Major Factors Affecting Results of Operations – Impact of Changes in Exchange Rates*" and "*– Quantitative and Qualitative Disclosures about Market Risk – Foreign Currency Exchange Rate Risk*".

Share of (Loss)/Profit of Associates

The Group accounts for its investments in associates, entities over which the Group has significant influence but not joint or sole control, using the equity method of accounting. With respect to the Group's associates, the Group shared in a loss of KZT 0.09 billion for the year ended 31 December 2009 as compared to a profit of KZT 0.9 billion for the year ended 31 December 2008. The loss in 2009 resulted mainly from a decrease in profit for JSC Kedentransservice due to the disposal in 2009 of its interests in certain of its subsidiaries. The profit in 2008 was primarily because of the increase in the net profit of associates JSC Kedentransservice and JSC Temirzhol Zhondeu, which was partially offset by a loss incurred by JSC Roskazzheldortrans in 2008.

Income Tax (Expense)/Benefit

The 2009 Tax Code became effective on 1 January 2009. Before the enactment of the 2009 Tax Code, the statutory corporate income tax rate in Kazakhstan, where substantially all of the Group's operations are located, was 30%. Under the 2009 Tax Code, the corporate income tax rate was reduced to 20% in 2009 and is scheduled to be reduced further to 17.5% in 2013 and 15% in 2014.

Income tax (expense)/benefit comprises current income tax expense and deferred income tax expense or benefit. For the year ended 31 December 2009, the Group had income tax expense of KZT 12.9 billion as compared to income tax benefit of KZT 16.6 billion for the year ended 31

December 2008. The difference between the periods is primarily the result of a KZT 35.0 billion tax benefit recognised in 2008 as a result of the 2009 Tax Code going into effect. In accordance with IAS 12, the Company was required to apply the tax rate in the 2009 Tax Code in connection with calculating the deferred tax assets for 2008 because the 2009 Tax Code, although not effective until 1 January 2009, was adopted in 2008 (10 December 2008). Accordingly, the Company reflected the effect of the change in tax rates in 2008 when determining the amount the deferred tax liability/asset that would be realised in future periods.

The Group's effective tax rate was 39.8% for the year ended 31 December 2009. The Group's effective tax rate for 2009 was greater than the statutory tax rate for 2009 because of the KZT 12.9 billion total income tax expense incurred by the Group in 2009. The Group had a tax credit for the year ended 31 December 2008.

Profit for the Year

Profit for the year ended 31 December 2009 decreased KZT 44.4 billion, or 69.5%, to KZT 19.5 billion from KZT 63.9 billion for the year ended 31 December 2008. The decrease was largely attributable to a KZT 29.5 billion swing in income tax, from a KZT 16.6 billion benefit in 2008 to a KZT 12.9 billion expense in 2009, and a KZT 21.9 billion foreign exchange loss in 2009.

The Group's passenger transportation business is not profitable. The provision of passenger rail services in Kazakhstan is considered a social responsibility of the rail operator. Although revenue from passenger transportation increased in 2009, the cost of sales associated with the provision of such services also increased KZT 7.7 billion from 2008 to 2009, resulting in a loss in 2009 for the passenger transportation operating segment of KZT 17.7 billion.

Liquidity and Capital Resources

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

The Group's cash flow from operations, Government grants, borrowings under credit agreements, 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. For example, as a result of the economic downturn, the Group substantially reduced its capital expenditures in 2009, which it could no longer fully fund from operating cash flow or other sources, and implemented cost reduction measures. In these instances, the Group had to defer, among other things, necessary maintenance and modernisation projects. See "*Risk Factors – Risk Factors Relating to the Group – The Group's railway infrastructure requires significant investment in its maintenance and modernisation and there can be no assurance that the Group will receive the funding necessary to make such investments*".

As at 30 June 2010, the Group's current liabilities exceeded its current assets by KZT 34.2 billion, whereas the Group's current assets exceeded its current liabilities by KZT 23.7 billion as at 31 December 2009. This working capital deficit as at 30 June 2010 was due in part to the classification as a current liability of the entire KZT 67.3 billion outstanding under the Issuer's 6.50% notes due 11 May 2011. The Company intends to repay the notes at the maturity date by means of cash on hand, short-term deposits and operating cash flow. The Group, among other approaches, has addressed its working capital needs by utilising available borrowings. The Group also receives capital contributions from time to time, including a KZT 20.8 billion contribution from Samruk-Kazyna in July 2010, which contribution will be partly offset by a dividend payment of KZT 1.9 billion to Samruk-Kazyna which is to occur on 15 October 2010. In August 2010, Samruk-Kazyna applied to the Government for the allocation of state budget funds for the purpose of making additional capital contributions to the Company of up to KZT 17.6 billion. The Company anticipates that the Government will approve Samruk-Kazyna's budget application and, accordingly the Company anticipates Samruk-Kazyna will make this additional capital contribution by the end of 2010. However, there can be no assurance that such funds will be approved in the amount and in accordance with the timeline that the Company currently anticipates. See "*– Consolidated Capitalisation of the Company*", "*Risk Factors –*

Risk Factors Relating to the Group – The Group has experienced liquidity problems and had a working capital deficit as at 30 June 2010" and "*Risk Factors – Risk Factors Relating to the Group – The Group has historically received and continues to rely on support from and is indirectly controlled by the Government*".

The Group's excess of current assets over current liabilities as at 31 December 2009 represented an 18.7% decrease as compared to 31 December 2008, on which date the Group's current assets exceeded its current liabilities by KZT 29.1 billion. This decrease was primarily due to a decrease of trade liabilities as a result of the Company's decision in the fourth quarter of 2009 to a write off of trade accounts receivable of certain of its subsidiaries and VAT receivables due to unrecoverable debts from international counterparties of the Group. In addition the Group decreased its inventories in 2009 in line with the Group's objective of optimising the level of inventories and maintaining the efficiency of its operational expenses.

Cash Flows

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

	For the six months ended 30 June		For the year ended 31 December	
	2010	**2009**	**2009**	**2008**
	(Unaudited)	*(Unaudited)*		
		(KZT in thousands)		
Net cash from operating activities	78,144,385	25,338,032	96,835,186	90,043,769
Net cash (used in) investing activities	(90,015,850)	(29,551,959)	(102,130,844)	(68,250,873)
Net cash from financing activities	17,413,405	5,961,753	8,696,703	952,109
Net increase in cash and cash equivalents	5,541,940	1,747,826	3,401,045	22,745,005
Cash and cash equivalents at the beginning of the period	52,442,441	49,164,450	49,164,450	26,369,694
Effect of foreign exchange rates on cash and cash equivalents	(102,459)	127,434	(123,054)	49,751
Cash and cash equivalents at the end of the period	57,881,922	51,039,710	52,442,441	49,164,450

Net Cash Flows From Operating Activities

For the six months ended 30 June 2010, net cash flows from operating activities increased KZT 52.8 billion, or 208.4%, to KZT 78.1 billion from KZT 25.3 billion for the same period in 2009. The increase was mainly the result of an increase in profit before taxation due to increases in freight and passenger transportation volumes.

Notwithstanding lower profit before tax in 2009 as compared to 2008, for the year ended 31 December 2009, net cash flows from operating activities increased KZT 6.8 billion, or 7.5%, to KZT 96.8 billion from KZT 90.0 billion for the same period in 2009. The increase was primarily attributable to an increase in revenue resulting from an increase in advance payments for transportation services.

Net Cash Flows Used In Investing Activities

For the six months ended 30 June 2010, net cash flows used in investing activities increased KZT 60.4 billion, or 204.6%, to KZT 90.0 billion from KZT 29.6 billion for the same period in 2009. The increase was primarily the result of an increase in the acquisition of fixed assets and short-term investments.

For the year ended 31 December 2009, net cash flows used in investing activities increased KZT 33.8 billion, or 49.6%, to KZT 102.1 billion from KZT 68.3 billion for the same period in 2008. The increase was primarily because the Group was not as active in 2009 redeeming short-term investments as it was in 2008, when the Group's short-term investment activity (the net of short-term investment purchases and sales) resulted in KZT 53.4 billion in net proceeds. In 2009, the Group maintained a large balance of cash and cash equivalents during the year than it did in 2008 partially in response to continuing uncertain global economic conditions. The increase in net cash flows used in investing activities was partially offset by a decrease in property, plant and equipment purchases of KZT 28.6 billion, or 22.0%, for the year ended 31 December 2009 as compared to 2008. Continuing uncertain global economic conditions were also influential in the Group's decision to reduce its property, plant and equipment purchase activity in 2009.

Net Cash Flows From Financing Activities

For the six months ended 30 June 2010, net cash flows from financing activities increased KZT 11.4 billion, or 192.1%, to KZT 17.4 billion from KZT 6.0 billion for the same period in 2009. The increase was primarily the result of a KZT 14.1 billion capital contribution to charter capital for construction of railway lines and for the acquisition of JSC Doszhan Temir Zholy.

For the year ended 31 December 2009, net cash flows from financing activities increased KZT 7.7 billion, or 813.4%, to KZT 8.7 billion from KZT 1.0 billion for the same period in 2009. The increase was primarily because the Group increased its amount of borrowings KZT 4.4 billion in 2009 over 2008 and sold KZT 1.6 billion of equity to Samruk-Kazyna, which proceeds were used to acquire additional interests in JSC Doszhan Temir Zholy.

Capital Expenditures

The Group's capital expenditure budget for the year ended 31 December 2010 is KZT 225.5 billion. As at 30 June 2010, the Group had KZT 162.8 billion in committed contracts for the construction of the Group's administrative building in Astana, capital repair of railways, construction of new rail lines between Khorgas and Zhetygen as well as between Uzen and the Turkmenistan border, project implementation of an automatic system of electronic recordkeeping, activities related to the Dostyk station, construction of a locomotive assembly plant at the Sorokovaya station, construction of a fibre-optic communication line and the purchase and capital repair of shunting locomotives and cargo cars. This amount is expected to be paid prior to 31 December 2010. The Group approves its capital expenditures plan for each year at the end of the preceding year.

Moreover, in accordance with the Development Strategy, the Company intends to invest a significant amount over the next several years to maintain, develop and modernise its railway infrastructure. See "*Business of the Group – The Rail System – Existing Infrastructure – Investment Projects and Expansion*". The Group currently anticipates financing its budgeted and committed capital expenditures primarily with financing from its sole shareholder and through new long-term borrowings. However, no assurances can be provided that such financing will be received. See "*Risk Factors – The Group's railway infrastructure requires significant investment in its maintenance and modernisation and there can be no assurance that the Group will receive the funding necessary to make such investments*".

The Group's capital expenditures increased by KZT 18.1 billion, or 38.5%, to KZT 65.1 billion for the six months ended 30 June 2010 from KZT 47.0 billion for the six months ended 30 June 2009. This increase was primarily attributable to the anticipated increase in scheduled railway repairs and the commencement of construction of new rail lines between Zhetygen and Khorgas on the border with China and between Uzen and the Turkmenistan border in the first half of 2010.

The Group's capital expenditures decreased by KZT 24.3 billion, or 17.9%, to KZT 111.1 billion for the year ended 31 December 2009 from KZT 135.4 billion for the year ended 31 December 2008. This decrease was primarily attributable to suspension of certain investment projects of the Group due to lack of available funds largely resulting from the lack of increased tariff rates in 2009 and cost-reduction measures taken by the Group. See "*Risk Factors – Risk Factors Relating to the Group – The Group's railway infrastructure requires significant investment in its maintenance and modernisation and there can be no assurance that the Group will receive the funding necessary to make such investments*" and "*Risk Factors – Risk Factors Relating to the Group – The position of the Company as a monopoly and the other Guarantors as dominant entities may result in adverse regulatory interference in the Group's operations*".

Borrowings

The Group's main sources of borrowings are bank loans from Kazakhstan and foreign banks, and U.S. Dollar-denominated debt securities. The following table sets forth the Group's short-term and long-term borrowings as at 30 June 2010, all of which are denominated in U.S. Dollars unless otherwise indicated:

	Maturity of non-current portion	Interest rate (%)	Current (unaudited)	Non-current (unaudited)
			(KZT in thousands)	
Short-term borrowings:				
Citi Bank loan[(1)]	2010	LIBOR + 4.5	4,423,800	—
Long-term borrowings:				
Fixed rates:				
Japan Bank for International Cooperation[(2)]	2020	3.00	648,466	6,107,721
Instituto de Credito Oficial	2021	2.50	367,890	3,393,939
Development Bank of Kazakhstan	2013	9.80	378,607	740,876
Debt securities (tranche 1)	2011	6.50	66,826,267	—
Debt securities (tranche 2)	2016	7.00	504,798	50,890,556
HSBC Bank	2012	14.3	20,241	32,807
Variable rates:				
ABN Amro Bank:				
Loan 1[(3)]	2012	LIBOR + 0.13	555,517	564,870
Loan 2[(4)]	2014	LIBOR + 0.07	2,091,413	4,965,719
Loan 4[(3)]	2011	LIBOR + 1.20	13,979,427	6,934,850
ATF Bank	2012	4.26-9.29	170,891	169,175
EBRD[(3)]	2018	LIBOR + 3.25	37,731	5,969,254
Total			90,005,048	79,769,767

(1) LIBOR is 1-month LIBOR for U.S. Dollar-denominated deposits.

(2) Loan is denominated in Japanese Yen.

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

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

Since 30 June 2010, the Group entered into additional loan agreements with EBRD and SB JSC HSBC Bank Kazakhstan. After 30 June 2010, Kaztemirtrans borrowed funds under its 29 March 2010 credit agreement with the EBRD. The credit agreement has a term of 10 years and amounts borrowed under the agreement bear interest at LIBOR + 5%. As at the date of this Prospectus, U.S.$43.7 million had been drawn under the agreement. Also after 30 June 2010, the Company borrowed funds under its 9 June 2010 loan agreement with SB JSC HSBC Bank Kazakhstan. The loan bears interest at a rate of 7.25% for draws in U.S. Dollars and 9.5% for draws in Tenge. Interest on the loan is repaid quarterly until its full settlement on 9 June 2011. As at the date of this Prospectus, U.S.$10.0 million had been drawn under the agreement. After 30 June 2010, the Group borrowed an aggregate of U.S.$24.6 million under its 15 September 2008 credit agreement with the EBRD at a rate of LIBOR + 3.25%. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group – Liquidity and Capital Resources – Borrowings*".

Going forward, the Group intends to attract longer-term financing for its investment projects from international financial markets. These markets have traditionally offered lower interest rates as compared to the domestic financial markets. The Group 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, Locomotive and other subsidiaries comply with certain affirmative and negative covenants in the operation of their respective businesses. While the specific provisions of each of the loan and guarantee agreements vary, they generally require that the Group members subject to the agreements take or refrain from taking certain actions specified in the loan or guarantee agreements. These provisions require the Group members subject to the agreements to obtain the prior written consent of the lender prior to implementing any material change to the scope or nature of their respective businesses. In addition, lender consent generally is required prior to any merger, consolidation or reorganisation of the affected members of the Group, prior to encumbering assets and prior to certain sales, transfers and dispositions of properties in excess of a specified value or which are essential to the conduct of its business, although certain agreements contain exceptions for reorganisations or transfers of assets pursuant to the Development Strategy. However, any disposition of the core railway network, freight carriages or locomotives would require consent of certain lenders. Other transactions that are limited by one or more of the agreements or guarantees include incurring capital expenditures greater than amounts specified in the loan agreement and incurring additional indebtedness or guaranteeing the indebtedness of third parties without the prior approval of the lender.

In addition to imposing affirmative and negative obligations regarding the conduct of the business of members of the Group, existing loan and guarantee agreements require that the parties subject to the agreements maintain or periodically satisfy as at particular dates certain financial tests. The most restrictive of these financial ratio tests requires maintenance of an EBITDA to interest expense ratio of 3.5 or more, total debt tangible net worth of 0.6 or less and total debt to EBITDA of 3.5 or less, with compliance computed using the definitions contained in the relevant agreements. As at the date of this Prospectus, the Group believes that it is in compliance with the covenants in its existing loan and guarantee agreements.

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

Contractual Commitments

The following sets forth the contractual maturities of the Group's significant contractual obligations as at 31 December 2009:

	Payments due by periods			
	Total	**Up to 1 year**	**1-5 years**	**More than 5 years**
	(KZT in thousands)			
Bank debt	46,385,145	13,884,007	26,032,574	6,468,564
Other borrowings(1)	5,020,506	5,020,506	—	—
Debt securities (tranche 1 and 2)	147,730,367	7,974,350	82,876,109	56,879,908
Finance lease	11,116,971	1,337,899	4,739,611	5,039,461
Purchase commitments(2)	99,912,134	99,912,134	—	—
Total(3)(4)	310,165,123	128,128,896	113,648,294	68,387,933

(1) Subsequent to 31 December 2009, the Group has entered into additional borrowings. See "*– Liquidity and Capital Resources – Borrowings*".

(2) Subsequent to 31 December 2009, the Group has entered into additional purchase commitments. See "*– Liquidity and Capital Resources – Capital Expenditures*".

(3) 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 2009. In addition, the amounts related to debt have certain restrictive covenants, which if violated could result in acceleration of these payments.

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

See Note 30 to the Notes to the Annual Financial Statements.

Quantitative and Qualitative Disclosures about Market Risk

Market risk is the sensitivity of income, fair market values and capital to changes in commodity prices, foreign currency exchange rates, interest rates and other relevant market prices and rates. The Group is exposed to a variety of market risks arising in the operation of its business, including (i) inflation and commodity prices, (ii) foreign currency exchange risk, (iii) interest rate risk (iv) liquidity risk, and (v) credit risk. Under the direction of the Board of Directors and the Risk Management Department of the Company, as well as the Department of Marketing and Procurement Analysis in respect of commodity prices, the Group has adopted procedures and policies to mitigate these risks. The objective of market risk management is to monitor and control market risk exposures within acceptable limits.

Inflation and Commodities Prices

A significant portion of the Group's operating expenses are affected by the level of inflation, particularly in wages and salaries. The Group's properties and operations are located in Kazakhstan, which recently experienced substantial economic difficulty due to the international global crisis during 2008 and 2009. As global economic conditions worsened, money supply contracted, which resulted in an inflation rate of 6.2% for the year ended 31 December 2009 as compared to 9.5% for the year ended 31 December 2008. Inflation remained relatively unchanged for the first six months of 2010 at 6.8%. 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. The Department of Marketing and Procurement Analysis is responsible for monitoring consumer, commodities and services prices on a regular basis and preparing market research. The research comprises forecast reports in respect of anticipated future movements in commodity and consumer prices which are considered when the Company budgets for purchases of services, fuel and lubricants and other materials for the relevant period. To manage the pricing risks the Company 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 subject commodity or service decrease. See "*Risk Factors – Risk Factors Relating to the Group – The Group is subject to commodity price risk and foreign currency exchange rate risk, each of which the Group has a limited ability to manage*" and "*– Major Factors Affecting Results of Operations – Cost of Fuel*".

Foreign Currency Exchange Rate Risk

The Group is exposed to currency risk on accounts receivable, accounts payable 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. 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 other currencies. Increases in the value of the U.S. Dollars relative to the Tenge will increase the value of the Group's U.S. Dollar denominated liabilities when measured in Tenge. 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's primary exposure is related to the Group's borrowings, which are mostly denominated in U.S. Dollars. 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. The Group does not enter into hedging arrangements in respect of foreign currency exchange rate risk. However, the Group is developing a methodology for hedge accounting in accordance with IFRS which the Group believes will be finalised by 31 December 2010. Such methodology, if and when implemented, must be approved by Samruk-Kazyna and any hedging agreements or transactions may need to be additionally coordinated with the Anti-Monopoly Agency. See Note 30 of the Notes to the Annual Financial Statements. See "*Risk Factors – Risk Factors Relating to the Group – The Group is subject to commodity price risk and foreign currency exchange rate risk, each of which the Group has a limited ability to manage*" and "*– Major Factors Affecting Results of Operations – Impact of Changes in Exchange Rates*".

Interest Rate Risk

Interest rates on the Group's borrowings are either fixed or variable, at a fixed spread over LIBOR or variable within a range, for the duration of each contract. At the time of raising additional debt financing, the Group uses its judgment to decide whether a fixed or variable rate would be more favourable over the expected term. 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. As at 30 June 2010 and 30 June 2009, 23.5% and 18.3%, respectively, of the Group's total borrowings and debt securities issued were borrowings and debt securities issued with variable interest rates. The Group does not enter into hedging arrangements in respect of interest rate risk. However, the Group is developing a methodology for hedge accounting in accordance with IFRS which the Group believes will be finalised by 31 December 2010. Such methodology, if and when implemented, must be approved by Samruk-Kazyna and any hedging agreements or transactions may need to be additionally coordinated with the Anti-Monopoly Agency. See Note 30 of the Notes to the Annual Financial Statements. See "– *Major Factors Affecting Results of Operations – Movements in Interest Rates*".

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. However, this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Group manages liquidity risk in accordance with requirements of Samruk-Kazyna on the risk of liquidity of short-term, mid-term and long-term financing. The Group manages liquidity risk by maintaining adequate reserves, banks loans and accessible credit lines, by monitoring the projected and actual cash flows of the Group and comparing the maturities of the Group's financial assets and liabilities on a quarterly basis, by observing internal ratios of liquidity and borrowings and coordinating with Samruk-Kazyna in respect of capital contributions. In the case of a liquidity deficit, the Group may take various actions to restore liquidity, including funding loans, reducing expenses, negotiating changes in the maturity of liabilities and/or restructuring assets and liabilities for the purpose of changing their duration. See Note 30 of the Notes to the Annual Financial Statements. See "*Risk Factors – Risk Factors Relating to the Group – The Group has experienced liquidity problems and had a working capital deficit as at 30 June 2010*".

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk arises principally from the Company's accounts receivables from customers and its investment securities. Customer credit risk is minimised by the fact that the Group operates on a prepayment basis with the majority of its customers. Prepayments are secured by bank guarantees. The Group manages credit risk on its investment securities by establishing limits for deposits put with banks and other financial institutions and conducting financial operations with creditworthy counterparties with an adequate credit history and a stable financial position. See Note 30 of the Notes to the Annual Financial Statements and "*Business of the Group – Customers and Suppliers – Freight Customers*".

Off-Balance Sheet Arrangements

The Company does not have any material off-balance sheet arrangements except those included in the table under "– *Liquidity and Capital Resources – Contractual Commitments*".

KAZAKHSTAN'S ECONOMY AND THE RAILWAY INDUSTRY IN KAZAKHSTAN

Kazakhstan's Economy

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

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

According to the IMF, the Kazakhstan economy, similar to most national economies, recently experienced significant economic difficulty in light of the 2008 and 2009 global financial crisis. The IMF reported that global liquidity conditions began to tighten in Kazakhstan in August 2007 and by 2008, the ability for domestic banks to access international financial markets declined, exports for goods and services declined, credit growth stalled and property prices dropped following years of rapid growth. The IMF also observed that, although high oil prices cushioned, to an extent, the sudden decline in capital inflows, Kazakhstan's economic growth slowed by mid-2008 and into 2009. The World Bank reported that during 2009, Kazakhstan experienced a reduction in trade and significant capital outflows. The IMF has noted that banking sector difficulties and large external debt repayments in the banking sector led to a devaluation of the Kazakhstan currency in 2009. On 4 February 2009, the NBK devalued the Tenge by 18% to KZT 143.98 per U.S.$1.00. The IMF has further noted that exchange rate pressures eased following the devaluation.

According to World Bank data, Kazakhstan's GDP grew by only 3.2% in 2008 and 1.2% in 2009. However, in June 2010, the IMF noted that stronger trade, public sector support and externally driven activity in the mining and manufacturing industries contributed to a strong economic rebound in the fourth quarter of 2009. Although predictions were initially for an economic recovery in 2010 reflecting strengthening global markets and stronger commodity prices, recent economic results worldwide have been less robust than expected, raising concern about the strength of the worldwide economic recovery. The IMF has projected Kazakhstan's economy to grow by 4% in 2010 based on first quarter developments but notes that external economic forces may reduce consumer demand.

Despite the current progress, economic recovery in Kazakhstan is expected to be fragile as credit expansion remains restrained and activity in key sectors, such as construction and real estate, remains weak. Resolution of the bank solvency crisis remains a top priority for Kazakhstan and is viewed as critical to the recovery of Kazakhstan's economy. Although Kazakhstan authorities have made progress towards resolving the banking sector problems, a number of concerns remain, such as system-wide asset quality and an increase in the number of non-performing loans among the portfolios of Kazakhstan's banks. Further, the decline in the value of real estate prices and of the Tenge have added to the cumulative effects of the economic difficulty.

Although Kazakhstan's economic prospects have improved, the country's economy remains highly dependent on exports of commodities and commodity prices. Consequently, the Government has made diversification of the Kazakhstan economy a priority.

Railway Industry

Overview

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

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

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

According to the NSA, The Worldwide Association of Cooperation for Railway Companies and other publicly available information, for the year ended 31 December 2009, net freight turnover for select state-owned railway companies was as follows: Russian Railways (Russia) – 2,271 billion tonne-km; National Railways (China) – 2,524 billion tonne-km; Canadian Pacific Canadian National Railway (Canada) – 823 billion tonne-km; the Group (Kazakhstan) – 197 billion tonne-km; Ukrainian Railways (Ukraine) – 196 billion tonne-km; and Deutsche Bahn (Germany) – 94 billion tonne-km.

Freight Transportation and International Trade

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

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

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

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

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

BUSINESS OF THE GROUP

Overview

The Company is the national railway company of Kazakhstan and, directly or through other members of the Group, owns and operates all of Kazakhstan's railway system and related infrastructure. As Kazakhstan's national railway company, the Company has a monopoly over Kazakhstan's mainline railway networks with respect to freight transportation. The Group is the dominant provider of freight and passenger transportation services in Kazakhstan and also provides support services such as maintenance to the railway infrastructure of Kazakhstan. The Group is the largest employer and taxpayer in Kazakhstan and also is a significant contributor to the development of the infrastructure necessary to transport raw materials and finished goods, both into and out of Kazakhstan. Due to Kazakhstan's limited access to navigable water routes, underdeveloped road infrastructure and Kazakhstan's dependence on the export of raw materials and import of finished goods, the railway system is a crucial component of Kazakhstan's economic growth.

The Group's freight transportation revenues represented 85.6% and 84.6% of its total revenues for the six months ended 30 June 2010 and 2009, respectively, and 84.7% and 86.1% of its total revenues for the years ended 31 December 2009 and 2008, respectively. For the six months ended 30 June 2010, the Group had an overall freight turnover of 101.2 billion tonne-kilometres, which represented an increase from the same period in 2009 when the Group had an overall freight turnover of 89.1 billion tonne-kilometres. The increase in turnover for the six months ended 30 June 2010 as compared to the same period in 2009 was mainly the result of improving economic conditions generally. According to the NSA and the Group's internal data, the Group's freight turnover for 2009, which includes freight transported in third party wagons hauled by the Group, accounted for 58.5% of all freight turnover in Kazakhstan by all modes of transportation for that period. For the year ended 31 December 2009, the Group had an overall freight turnover of 197.3 billion tonne-kilometres, which represented a decrease from 2008 when the Group had an overall freight turnover of 214.9 billion tonne-kilometres. The decline in freight turnover for 2009 as compared to 2008 primarily resulted from the economic downturn in Kazakhstan that occurred during that period, during which a lower volume of raw materials and finished goods were being transported throughout Kazakhstan. See "*– Business Operations of the Group – Transport Services – Freight Transportation*".

The Group's passenger transportation revenues represented 8.1% and 9.5% of its total revenues for the six months ended 30 June 2010 and 2009, respectively, and 9.7% and 8.8% of its total revenues for the years ended 31 December 2009 and 2008, respectively. For the six months ended 30 June 2010, the Group had a passenger turnover of 7.4 billion passenger-kilometres, which represented an increase from the same period in 2009 when the Group had a passenger turnover of 7.2 billion passenger-kilometres. In 2009, the Group had a passenger turnover of 14.9 billion passenger-kilometres, which represented an increase from 2008 when the Group had a passenger turnover of 14.4 billion passenger-kilometres. The increase in passenger turnover for the six months ended 30 June 2010 as compared to the same period in 2009 and for the year ended 31 December 2009 as compared to the same period in 2008 primarily resulted from the economic downturn in Kazakhstan that occurred during those periods and customers' continuing desire to utilise rail transportation as a lower-cost form of transportation. See "*– Business Operations of the Group – Transport Services – Passenger Transportation*".

The railway industry in Kazakhstan generally and the Group specifically have undergone and continue to undergo reforms and restructuring. See "*– Ongoing Restructuring*".

As at 31 December 2009, the assets of the Group included:

- approximately 14,202 kilometres of operational rail track, of which approximately 4,054 kilometres were electrified tracks;
- 758 stations, including: (i) six distributing stations, where trains are linked or unlinked and locomotives are changed, (ii) 70 freight stations, where freight can be processed, (iii) 63 division stations, where transit freight can be processed, and (iv) 619 wayside stations, where trains can be temporarily idled to make way for passing trains;
- 1,638 locomotives;
- 60,337 freight cars;
- 2,270 passenger cars; and
- 19,667 track switches.

See "– *The Rail System*".

The Company's status as a monopoly and the status of Kaztemirtrans and Locomotive as dominant entities, as discussed below, subject these entities to Government regulation, including limitations on the amount these entities can charge customers for their services. See "– *Government Regulation and Tariffs*".

The Group provides railway transportation, infrastructure and support services. See "– *Business Operations of the Group*". The Group is also responsible for: maintaining all railway infrastructure, machinery and equipment; ensuring 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.

The Government exercises substantial influence over the Group through its share ownership and its regulatory and legislative powers. See "*Risk Factors – Risk Factors Relating to the Group – The Group has historically received and continues to rely on support from and is indirectly controlled by the Government*". The Government, through its wholly owned subsidiary Samruk-Kazyna, owns all of the outstanding shares of the Company. As the Company's sole shareholder, Samruk-Kazyna has the exclusive right to, among other things, determine when dividends are paid by the Company, elect the Company's Board of Directors and approve the five-year strategic plan of the Company. See "*Management and Employees – Company – Sole Shareholder*" and "*Share Capital and Principal Shareholders – Samruk-Kazyna*".

Key Strengths

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

- **Status as National Railway Company of Kazakhstan**. The Group owns and operates all of Kazakhstan's railway system and related infrastructure. Consequently, the Group has a dominant role in Kazakhstan freight and passenger transportation and plays a strategic role in the overall Kazakhstan economy. According to the NSA and the Group's internal data, the Group's freight turnover for 2009, which includes freight transported in third party wagons hauled by the Group, accounted for 58.5% of all freight turnover in Kazakhstan by all modes of transportation for that period. The Group also provides significant domestic passenger transportation services in Kazakhstan, with an overall passenger turnover of 14.9 billion passenger-kilometres in 2009.
- **Proximity to the Chinese Economy**. The Group 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. The Group believes that rail transportation is superior to other modes of transportation in Kazakhstan for transporting transit freight through Kazakhstan. In 2009, 99% of transit freight through Kazakhstan was transported by rail, according to Ministry of Transportation.
- **Geographic Reach and Flexibility of Services**. The geographic reach of the railway system allows the Group to take advantage of evolving regional economic centres, as the Group can divert resources and traffic routing to areas with increasing transportation demand. The Group believes that this geographic reach will allow it to grow and evolve simultaneously with the development of the Kazakhstan economy and develop new trade routes, which will increase the railway system's throughput capacity and efficiency by reducing the frequency of empty runs. The Group believes this strength is particularly significant due to Kazakhstan's limited access to navigable water routes and underdeveloped road infrastructure.
- **Broad Range of Services**. The Group owns and operates a broad range of assets, which enables it to efficiently provide a full range of railway transportation services. The Group believes its ability to offer customers a complete array of transportation services gives the Group an advantage over prospective competitors.

Ongoing Restructuring

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. This enabled the railway industry to achieve greater transparency of the movement of its financial and material resources, as well as to increase the efficient use of its working capital. In order to address issues of low efficiency and poor profitability of the system as a whole, in 1997 the Government began to implement changes to the railway industry to create conditions where railway transport could adapt to economic growth, develop competition and attract investments, while preserving the Government's control over the system.

Pursuant to restructuring programmes commenced in 1997, a number of critical initiatives were undertaken to make the Company more efficient and profitable, including those set out below.

- The Company was appointed the sole operator of Kazakhstan's mainline railway networks, which vested in the Company the power to grant or deny, in its sole discretion, access to Kazakhstan's mainline railway networks by private freight operators, thereby creating the Company's monopoly over Kazakhstan's mainline railway networks with respect to freight transportation. The Company performed its role as sole operator by entering into separate agreements with each private freight operator for the provision of services.
- The Company was permitted to divest itself of various social welfare facilities and other non-core operations.
- Several support activities (for example, the repair and maintenance of the railway track, the repair of railcars and locomotives, the supply of water and heat to the units, and provision for the supply of communication services) were transferred from the Company to subsidiaries of the Company.
- The freight transportation tariff was modified to distinguish among transportation categories, including the destination and type of freight, which allowed the Company to approach different customer categories individually depending on their operational needs and financial position.

In May 2010, the Board of Directors of the Company approved the Development Strategy, which sets forth the development strategy of the Group through 2020 in light of ongoing Government reform measures. The Development Strategy is focused primarily on building an efficient organisational structure to enhance the Group's commercial and operational performance and ability to compete in the more competitive environment being fostered by the Government.

The Development Strategy contemplates a restructuring of the Group as follows:

- **Create a more efficient holding company structure**. Through the reorganisation, merger and liquidation of certain subsidiaries, potentially including Kaztemirtrans and Locomotive, the Company will ultimately become a holding company focusing primarily on strategic development decisions in respect of the Group, including controlling the business efficiency of the Group as a whole and coordinating the distribution of assets and personnel within the Group.
- **Redistribute assets, personnel and functions to isolate the four principal business lines:**
    - **Mainline railway infrastructure**. The Company plans to create a wholly owned subsidiary that would manage the mainline railway networks and related repair and maintenance functions for the Company. This subsidiary would have the power to directly provide access to the mainline railway networks to the Group's operators and private operators. The Group believes that the future result of ongoing Government reforms of the railway industry will be that only tariffs for access to the mainline railway networks will be subject to Government regulation, while tariffs for transportation of freight and passengers will be determined by market competition.
    - **Freight transportation**. The Company intends to establish a wholly owned subsidiary, created by combining Kaztemirtrans, Locomotive and certain assets of the Company, for the performance of 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. In the future the Company intends to sell a minority stake to private investors in the newly formed freight transportation subsidiary.
    - **Passenger transportation**. The Company anticipates that JSC Passengers Transportation will retain its status as the national passenger transportation operator. The Company plans for JSC Passengers Transportation to own and operate the Group's passenger locomotives and passenger cars and to render a full range of passenger transportation services. The Group believes that in order to create an

efficient system for the railway transportation industry, passenger transportation losses should be fully covered from 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.

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

- **Divest non-core assets**. The Company intends to sell fully or partially its non-core operations that have minimal strategic importance to the Group. The Company intends to use the proceeds of these asset sales to fund investment projects relating to its core operations.

The plan to implement the Development Strategy has received all requisite corporate approvals and is pending approval by the Government, which is expected to occur in late 2010.

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

General

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

The business address 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 registered office of the Company is 98 Pobedy Avenue, Sary-Arka District, Astana, 010000, The Republic of Kazakhstan.

The Rail System

Overview

Kazakhstan's railway system, which is wholly owned and operated by the Group, consists of nine mainline railway networks, 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 2009, the railway system had an operational length of approximately 14,202 kilometres, of which approximately 4,054 kilometres were electrified tracks.

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

As at 30 June 2010, there were 1,219 locomotives (excluding shunting locomotives) operating on the nine mainline railway networks, of which 1,141 are owned and operated by the Group. The remaining 78 locomotives are leased or subcontracted by the Group from private companies.

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

– Oil Field

– Oil and Gas Field

– Coal

– Stations

– Cities and Key Stations

– Astana, capital of Kazakhstan

– Capitals of CIS countries

The following table sets forth certain information in respect of the nine mainline railway networks as at and for the six month period ended 30 June 2010:

Mainline Network	Brief Description	Freight Turnover	Length*
		(billion tonne-km)	*(km)*
Aktau – Beineu – Makat – Kandyagash – Arys – Lugovaya – Almaty – Aktogay – Dostyk	Connects Western Kazakhstan to the Kazakhstan-China border through the southern regions of Kazakhstan	29.6	4,121
Presnogorkovskaya – Kokshetau – Astana – Dostyk	Connects the Kazakhstan-Russia border to the Kazakhstan-China border	22.6	2,043
Petropavlovsk – Astana – Dostyk	Connects Northern Kazakhstan to the Kazakhstan-China border	19.9	1,902
Tobol – Astana	Connects Northern Kazakhstan to the capital of Kazakhstan	14.4	665
Iletsk – Aktobe – Kandyagash – Arys – Saryagash	Connects Russia to Southern Kazakhstan	11.3	1,754
Ozinki – Kandyagash – Ayrs – Lugovaya – Almaty – Aktogay – Dostyk	Connects Western Kazakhstan-Russia border to the Kazakhstan-China border	22.9	3,708
Saryagash – Arys – Lugovaya – Aktogay – Dostyk	Connects Southern Kazakhstan to the Kazakhstan-China border	13.7	1,824
Aksarayskaya – Makat – Beineu – Oasis	Connects Western Kazakhstan-Russia border to the Kazakhstan-Uzbekistan border	7.0	826
Makat – Kandyagash – Nickeltau	Connects Western Kazakhstan to the northwest portion of the Kazakhstan-Russia border	4.7	527

* Several of the mainline networks overlap and share common tracks. As at 31 December 2009, the Kazakhstan railway system had approximately 14,202 kilometres of operational rail track.

Kazakhstan's railway system provides rail access throughout 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, interregional and international passenger services throughout Kazakhstan. Kazakhstan's rail networks constitute a significant part of several international railway networks including the Trans-Asian railroad. See "– *International Transit Corridors*".

The Group is responsible for building, maintaining and modernising Kazakhstan's railway system. In accordance with the Civil Code of Kazakhstan dated 27 December 1994 and the Law on Railway Transport dated 8 December 2001, the mainline railway networks of the Group are a strategic asset of Kazakhstan that are not subject to privatisation. The Group provides private freight and passenger carriers with access to the mainline railway networks in exchange for collection of approved tariffs. See "– *Government Regulation and Tariffs – Freight Tariff Regulation and Pricing*".

Network Specifications and Land Leases

As at 31 December 2009, Kazakhstan's railway system had an operational length of approximately 14,202 kilometres, of which approximately 4,054 kilometres were electrified tracks. The operational length includes 4,819 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 2009, wooden and concrete rail sleepers comprised 52% and 48%, respectively, of the total rail sleepers in Kazakhstan. As at 31 December 2009, the Kazakhstan railway system has 6,312 kilometres of tracks at rail yards that facilitate yard operations, three tunnels, 3,501 bridges and 16 interstate border stations.

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 55.2% and 53.2% of total freight turnover of the Group for the six months ended 30 June 2010 and for the year ended 31 December 2009, 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, most notably Temirzholenergo LLP. 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 minimal and usually result in 30 and 20 minute delays for freight and passenger trains, respectively. The Company monitors interruptions in the supply of electricity and for each interruption generates a report documenting the reasons for such interruption, the actions to be taken to ensure a reliable supply of electricity and any damages to be recovered from the electricity provider.

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

Existing Infrastructure, Investment Projects and Expansion

In addition to the railway tracks and stations, as at 31 December 2009, the Group owned all of the rail terminals, signals and other technology and property necessary to provide logistic and operation support for freight and passenger transportation services, including 9,159 buildings (primarily transformer stations), 88 maintenance depots, 21 control-maintenance depots, 234 inspection stations, 33,436 kilometres of power lines, 6,835 kilometres of aerial communication lines, 8,954 kilometres of cable communication lines and 290 kilometres of fibre-optic communication lines.

During the year ended 31 December 2009, the Company made significant expenditures for repairs to its track facilities and fleet and comprised track and track facilities repairs, including replacement of jointings, rails, crossing sleepers and switches as well as track repair and repair of engineering structures; systems repairs, including power supply, signalling and communications systems repairs; gondola cars repairs; service carriage repairs; and repairs to other units.

The Group recognises the importance of developing its infrastructure in order to further adapt the Kazakhstan railway system to meet international rail standards and meet future transportation demand. Accordingly, in connection with the Development Strategy and subject to Government approval of the Group's plan to implement the Development Strategy, the Group intends to invest a significant amount over the next several years to further develop the Dostyk border station and strengthen the Aktogai-Dostyk rail section; upgrade, maintain, develop and modernise its rail lines; acquire new locomotive and modernise existing locomotives; acquire freight wagons; and develop information, automation and telecommunication systems. "*Risk Factors – Risk Factors Relating to the Group – The Group's railway infrastructure requires significant investment in its maintenance and modernisation and there can be no assurance that the Group will receive the funding necessary to make such investments*".

The Group is currently in the process of constructing new rail lines between Khorgas and Zhetygen and Uzen and the Turkmenistan border. Construction of a new rail line between Zhetygen and Khorgas (totalling approximately 293 kilometres in length) is expected to open another railway border point with China, which is expected to lessen the burden on the Dostyk station and establish a new route by which China may transport goods through Kazakhstan and access European markets. Construction of the line between Zhetygen and Khorgas has commenced and is expected to be completed by 2012.

The new rail line between Uzen and the Turkmenistan border (totalling approximately 146 kilometres in length) will form part of an international corridor that is expected to facilitate direct transportation between Kazakhstan, Turkmenistan and other regional destinations. Construction of the line between Uzen and the Turkmenistan border has commenced and is expected to be completed by 2012.

Although the Group owns or leases all the buildings, equipment and other assets necessary for the Group to conduct its business as it has historically been conducted and such buildings, equipment and other assets are generally in good operating condition and repair, the Group's existing infrastructure requires significant investment. However, the Group's main fixed assets (for example, track, electricity supply equipment, alarm system and connection, rolling stock) are highly depreciated. See "*Risk Factors – Risk Factors Relating to the Group – The Group's railway infrastructure requires significant investment in its maintenance and modernisation and there can be no assurance that the Group will receive the funding necessary to make such investments*" and "*Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group – Liquidity and Capital Resources – Capital Expenditures*".

International Transit Corridors

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

- **Northern corridor of the Trans-Asian Railroad**. The Northern corridor connects Western Europe with the Korean peninsula and Japan through the Russian Federation and Kazakhstan. In Kazakhstan, the Northern corridor is approximately 1,910 kilometres long and includes the cities of Dostyk, Aktogay, Astana and Petropavlovsk.
- **Southern corridor of the Trans-Asian Railroad (Central)**. The Southern corridor connects Southeast Europe with China and Southeast Asia through Turkey, Iran, Central Asian countries and Kazakhstan. In Kazakhstan, the Southern corridor is approximately 1,831 kilometres long and includes the cities of Dostyk, Aktogay, Almaty, Shu and Saryagash.
- **Mid-Asian corridor of the Trans-Asian Railroad**. The Mid-Asian corridor is approximately 2,147 kilometres long and plays an important role in the support of regional transit transportation through the cities of Saryagash and Kandyagash.
- **Transport Corridor Europe – Caucasus – Asia** ("**TRACECA**"). The TRACECA links Eastern Europe to Central Asia through the Black Sea, Caucasus and the Caspian Sea. In Kazakhstan, the TRACECA is approximately 3,836 kilometres long and includes the cities of Dostyk, Almaty and Aktau.
- **North-South corridor**. The North-South corridor connects Northern Europe with the Middle East through the Russian Federation and Kazakhstan. In Kazakhstan, the North-South corridor is approximately 838 kilometres long and includes the cities of Aktau, Uralsk and Atyrau.

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

Business Operations of the Group

Overview

The Group provides the following services:

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

The Company's most significant subsidiaries are Kaztemirtrans and Locomotive, each of which is wholly owned by the Company and each of which is a Guarantor. Kaztemirtrans owns the Group's freight railcar fleet, which is primarily subcontracted to the Company, and provides freight railcars and other services such as arranging for transportation from starting points to points of destination, preparing transportation documents, transporting freight between warehouses and railway stations and packing and marking of freight, among other things. Locomotive owns the Group's locomotives, provides locomotive haulage services for the Company's freight and passenger lines, and provides shunting operations, which involve sorting of rolling stock into trains.

Transport Services

Freight Transportation

Freight transportation plays a key role in the Group's business operations. Overall freight turnover for the Group was 101.2 billion tonne-kilometres and 89.1 billion tonne-kilometres for the six months ended 30 June 2010 and 2009, respectively, and 197.3 billion tonne-kilometres and 214.9 billion tonne-kilometres for the years ended 31 December 2009 and 2008, respectively. Freight transportation revenue was KZT 239.4 billion, or 85.6% of total revenue, and KZT 188.5 billion, or 84.6%, of total revenue for the six months ended 30 June 2010 and 2009, respectively. Freight transportation revenue was KZT 407.4 billion, or 84.7% of total revenue, and KZT 416.5 billion, or 86.1% of total revenue, for the years ended 31 December 2009 and 2008, respectively. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group – Consolidated Results of Operations for the Six Months Ended 30 June 2010 and 2009 – Revenue – Freight Transportation*" for details of the Group's freight transportation revenue by transportation type.

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

	For the six months ended 30 June		**For the year ended 31 December**	
	2010	**2009**	**2009**	**2008**
	(millions of tonnes)			
Export	48.5	37.9	85.7	93.4
Domestic	66.2	58.5	131.3	140.0
Transit*	6.2	7.2	14.8	15.5
Import	7.7	7.2	15.9	20.1
Total	128.6	110.8	247.7	268.9

* Transit freight tariffs are subject to controls under the CIS Tariff Policy and are not regulated by the Anti-Monopoly Agency.

	For the six months ended 30 June				**For the year ended 31 December**			
	2010		**2009**		**2009**		**2008**	
	Turnover	**Average distance**	**Turnover**	**Average distance**	**Turnover**	**Average distance**	**Turnover**	**Average distance**
	(billions of tonne-km)	*(km)*	*(billions of tonne-km)*	*(km)*	*(billions of tonne-km)*	*(km)*	*(billions of tonne-km)*	*(km)*
Export	44.7	921.8	35.7	941.9	79.8	930.6	84.0	899.3
Domestic	37.5	566.4	33.6	573.9	75.4	574.4	81.9	585.3
Transit*	10.7	1,729.2	11.8	1,641.9	24.5	1,657.0	26.5	1,715.5
Import	8.4	1,079.8	8.0	1,118.5	17.6	1,111.2	22.5	1,119.0
Total	101.2	787.3	89.1	804.4	197.3	796.6	214.9	799.2

* Transit freight tariffs are subject to controls under the CIS Tariff Policy and are not regulated by the Anti-Monopoly Agency.

Despite the relatively low volumes of transit freight, transit freight continues to be an important part of the Group's business because tariffs on transit rates are not subject to the Anti-Monopoly Agency's approval. See "*– Government Regulation and Tariffs – Freight Tariff Regulation and Pricing – Transit Freight Tariffs*".

Over the last decade, coal has been the main product transported by rail and is the main source of energy in Kazakhstan for generation of electric energy and heating. However, transportation of oil and oil products generated more revenue for the Group than coal due to higher tariff rates on these items. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group – Consolidated Results of Operations for the Six Months Ended 30 June 2010 and 2009 – Revenue – Freight Transportation*" for details of the Group's freight transportation revenue.

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

	For the six months ended 30 June		For the year ended 31 December	
	2010	**2009**	**2009**	**2008**
	(millions of tonnes)			
Coal	48.1	39.9	92.1	102.6
Iron ore	14.9	11.9	27.8	27.8
Construction materials	7.6	5.8	15.8	17.0
Oil and oil products	17.6	17.0	35.1	33.5
Grain and grain products	6.1	4.9	10.5	11.8
Ferrous metals	4.4	5.0	9.7	9.4
Other	29.9	26.3	56.7	66.8
Total	128.6	110.8	247.7	268.9

	For the six months ended 30 June				For the year ended 31 December			
	2010		**2009**		**2009**		**2008**	
	Turnover	**Average distance**	**Turnover**	**Average distance**	**Turnover**	**Average distance**	**Turnover**	**Average distance**
	(billions of tonne-km)	*(km)*	*(billions of tonne-km)*	*(km)*	*(billions of tonne-km)*	*(km)*	*(billions of tonne-km)*	*(km)*
Coal	25.2	522.9	19.4	486.0	47.4	514.0	57.7	562.6
Iron ore	11.1	745.8	9.8	819.9	22.6	813.2	16.8	603.2
Construction materials	4.2	553.7	3.6	624.7	9.1	579.6	9.8	578.2
Oil and oil products	15.7	893.5	15.4	908.6	31.8	907.9	34.6	1,033.5
Grain and grain products	8.9	1,453.2	7.3	1,482.0	15.7	1.495.5	16.1	1,361.8
Ferrous metals	6.3	1,447.4	7.3	1,466.9	13.9	1,434.4	12.9	1,366.0
Other	29.8	998.4	26.3	1,002.5	56.8	1,001.0	67.0	1,003.6
Total	101.2	787.3	89.1	804.4	197.3	796.6	214.9	799.2

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

Container transportation accounts for approximately 1% of all railway freight turnover of the Group. The Group considers container transportation to be one of the fastest growing segments of its freight transportation business.

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

Passenger Transportation

Overall passenger turnover for the Group was 7.4 billion passenger-kilometres and 7.2 billion passenger-kilometres for the six months ended 30 June 2010 and 2009, respectively, and 14.9 billion passenger-kilometres and 14.4 billion passenger-kilometres for the years ended 31 December 2009 and 2008, respectively. Passenger transportation revenue was KZT 22.8 billion for the six months ended 30 June 2010 and KZT 46.6 billion for the year ended 31 December 2009 accounting for 8.1% and 9.7%, respectively, of the Group's total revenue. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group – Consolidated Results of Operations for* *the Six Months Ended 30 June 2010 and 2009 – Revenue – Passenger Transportation*" for details of the Group's passenger transportation revenue.

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

	Six months ended 30 June				Year ended 31 December			
	2010		2009		2009		2008	
	Turnover	Number	Turnover	Number	Turnover	Number	Turnover	Number
	(billions of passenger-km)	*(millions)*	*(billions of passenger-km)*	*(millions)*	*(billions of passenger-km)*	*(millions)*	*(billions of passenger-km)*	*(millions)*
Interregional	5.7	6.1	5.4	6.0	11.2	12.2	10.4	10.7
International	1.6	1.7	1.7	1.7	3.4	3.6	3.9	4.1
Intercity and suburban	0.2	1.6	0.1	1.3	0.3	3.0	0.1	1.9
Total	7.4	9.4	7.2	9.0	14.9	18.8	14.4	16.6

The Company participates in passenger transportation through its subsidiary JSC Passengers Transportation, which has 47 international and interregional routes. A subsidiary of JSC Passengers Transportation, JSC Suburban Transportation, has 56 interregional and intercity and suburban routes.

The Group's passenger transportation business is not profitable. The Group's losses on passenger transportation are mitigated by Government grants. Beginning in 2005, the Government introduced a competitive open tender system to issue grants for passenger transportation routes that are significant to the public. Open tenders are held on an annual basis by the Ministry of Transportation and by local municipalities for the interregional and intercity and suburban routes, respectively. Open tenders are not held for international routes because international routes are operated exclusively by the Group. The grants for interregional routes 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 three years and allow such grant only as a coverage for losses. The grant contracts also require the carrier to own or lease at least half of the passenger cars needed for the route and meet certain scheduling demands in order to ensure due and timely transportation for passengers. The Group submits applications and participates on equal terms with all other participants. For the six months ended 30 June 2010 the Group received KZT 7.9 billion in grants and for the years ended 31 December 2009 and 2008, the Group received KZT 10.1 billion and KZT 7.3 billion, respectively. As at the date of this Prospectus, approximately 92% of passenger routes in Kazakhstan are operated by the Group and the remainder are operated by private operators.

Historically, there has been a shortage of passenger cars in Kazakhstan. This shortage has limited the number of passenger routes that could be operated and required frequent usage of the same passenger cars, which negatively impacted planned repairs and maintenance. The Group anticipates that growth in tourism will increase passenger transportation and require significant investment in passenger equipment between 2012 and 2020. As part of the overall reform of Kazakhstan's railway industry, the Government envisages development of passenger transportation routes that are significant to the public through joint participation by and among the Government, the Group and private carriers under private-public partnerships.

Infrastructure Services

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

- **Local Rail Line Operations**. The Group provides access to rail lines for various purposes, such as to allow trains to pass each other, for shunting operations, loading and discharging and layovers. In addition, the Group rolls out wagons and provides specialised mechanical equipment. The Group also arranges for various transportation services, which include customs clearance, warehousing, car and container supply and rebooking freight.

- **Repair Services**. The Group provides repair services for its railcars and the railcars of third parties. The Group also repairs locomotives and railway lines and prepares locomotives for use during the winter and summer seasons.
- **Assembly of Locomotives**. The Group assembles locomotives, provides spare parts, and facilitates the planning and protection of locomotives and their technical maintenance and support.
- **Flushing and Steaming of Wagons**. Flushing and steaming services are provided by the Group in order to prepare wagons for the loading of bulk oil. This activity is performed by the Group in the South Kazakhstan and Pavlodar regions (oblasts). The Group has installed purification facilities where it flushes wagons in order to minimise the environmental impact of the activity. The Group's flushing activity is subject to annual inspection by the department of ecology of each of the South Kazakhstan and Pavlodar oblasts.

Support Services

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

Government Regulation and Tariffs

Government Regulation

As Kazakhstan's national railway company, the Company has a monopoly over Kazakhstan's mainline railway networks with respect to freight transportation and, as such, is regulated by the Anti-Monopoly Agency under the Law on Natural Monopolies. The Law on Natural Monopolies imposes a number of significant restrictions on the Company's operations, including prohibiting the Company from conducting business not related to freight and passenger rail transportation and other related activities, owning shares in commercial organisations (other than non-State owned pension funds and certain permitted commercial organisations) or otherwise participating in the activities of commercial organisations, and selling or disposing of assets without the consent of the Anti-Monopoly Agency. Additionally, the Law on Natural Monopolies and other laws applicable to the Company regulate the Company's tariffs (other than transit tariffs).

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

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

Freight Tariff Regulation and Pricing

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

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

Freight Tariffs

Freight tariffs comprise (i) the mainline railway tariff, (ii) the locomotive haulage tariff, (iii) the freight and commercial services tariff and (iv) the tariff for the use of the Group's freight cars and containers, if applicable. Freight tariffs for domestic, export and import transportation vary depending on the type of freight being transported. As at 30 June 2010, tariffs for both domestic and import freight transportation (excluding VAT) ranged from approximately KZT 918 per tonne per 1,000 km (for coal) to KZT 3,786 per tonne per 1,000 km (for iron and steel scrap) and tariffs for export freight transportation (excluding VAT) ranged from approximately KZT 1,347 per tonne per 1,000 km (for coal) to KZT 8,963 per tonne per 1,000 km (for crude oil). As at 30 June 2010, the tariff for the use of the Group's freight cars and containers, which is one of the four component tariffs of the total freight tariff and the only one with respect to which the Group currently faces competition from private carriers, on average accounted for only 13.6%, 12.4% and 12.9% of the total freight tariff for domestic, export and import transportation, respectively.

Freight tariffs were not increased during 2009. In 2010, freight tariffs were increased an average of 17.6%. The Group has submitted proposed increases in freight transportation tariffs of 15% for 2011 and 15% for 2012 to the Anti-Monopoly Agency for approval as described below. These proposed increases in freight tariffs can only be realised if they are approved by the Anti-Monopoly Agency. See "*Risk Factors – Risk Factors Relating to the Group – The position of the Company as a monopoly and the Other Guarantors as dominant entities may result in adverse regulatory interference in the Group's operations.*"

Increases in the overall freight tariffs result from increases in one or more of the Group's mainline railway tariffs, locomotive haulage tariffs, freight and commercial services tariffs or the tariffs for use of the Group's cars and containers. Mainline railway tariffs are approved by the Anti-Monopoly Agency and vary depending upon the type of transportation, such as domestic, export or import. The current mainline railway tariffs were approved by orders of the Anti-Monopoly Agency No. 242-OD, dated 25 May 2004, and No. 72-OD, dated 21 February 2008. The Group calculates the proposed mainline railway tariffs and submits its determinations to the Anti-Monopoly Agency for approval. Mainline railway tariffs may be revised once a year.

The Anti-Monopoly Agency's procedure for approving mainline railway tariffs is articulated in Anti-Monopoly Agency order No. 82-OD, dated 19 March 2003. When determining whether to approve the Group's freight tariffs, the Anti-Monopoly Agency must consider a number of factors which are prescribed by regulation, including the solvency and investment needs of the Group. In order to obtain the Anti-Monopoly Agency's approval, the Group must provide documentation confirming that the relevant costs of the Group comply with the applicable regulations of the Anti-Monopoly Agency. Additionally, a public hearing must be held for any proposed tariff increase. Members of legislative bodies, state authorities, customers, public associations, independent experts and members of the media, among others, attend public hearings. At a public hearing the Group presents a detailed explanation and rationale for its requested level of tariffs. Other participants at the hearing are invited to present their opinions on the proposed tariff rates in an attempt to persuade the Anti-Monopoly Agency to deny the Group's request for such increases. Opinions voiced at public hearings are advisory in nature and may be taken into account by the Anti-Monopoly Agency in its decision to approve or deny the requested tariff increase.

In certain cases the Group provides discounts to the mainline railway tariff. A customer that plans to seek a discount to the mainline railway tariff must submit an application to the Company, the Transportation Ministry, the Tax Committee of the Ministry of Finance and the Anti-Monopoly Agency. The customer must also submit to the Anti-Monopoly Agency documentation evidencing a need for such discount. The above entities consider the request for the mainline railway tariff discount and give their opinion to the Anti-Monopoly Agency. When considering the request for the discount, consideration may be given to a variety of factors, among others which include, 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 existing customer of the Group. In the event that the request for a discount is denied, the final decision is made by the Anti-Monopoly Agency.

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

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

Transit Freight Tariffs

Freight tariffs for transit transportation vary depending on the type of freight being transported. As at 30 June 2010, tariffs for transit freight transportation (excluding VAT) ranged from approximately KZT 24.14 per tonne per 1,000 km (for oil products) to KZT 48.28 per tonne per 1,000 km (for each of crude oil and non-ferrous ore). Freight tariffs for transit transportation of all freight types increased 5.8% and 3.8% from 1 January 2008 to 1 January 2009 and from 1 January 2009 to 1 January 2010, respectively.

Kazakhstan is party to the Tariff Agreement between the railway administrations of the CIS, which was approved on 17 February 1993, the Concept of Concurrence of Railway Tariff Policies of the CIS dated 18 October 1996, and the Agreement of Mutual Policy on Tariffs dated 17 January 1997 (collectively, the "**CIS Tariff Agreement**"). The parties to the CIS Tariff Agreement meet annually to approve the Tariff Policy of Railways of CIS Countries for International Cargo Transportation ("**CIS Tariff Policy**"), which establishes the framework for tariffs imposed on CIS member states by other CIS member states. The CIS Tariff Policy that is approved annually is based on International 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 1950, establishes unified regulations for the international transportation of freight between member states. As at the date of this Prospectus, 22 countries, including Kazakhstan, are party to this agreement. The rates provided by the CIS Tariff Policy determine the maximum tariff amount for the corresponding year. However, the railway administration of each country may decrease the tariff rate by providing discounts or may increase the rate up to twice per year. If the rate is increased by a country's railway administration, the CIS Tariff Agreement requires it to provide one month advance notice of such increase to the other parties to the CIS Tariff Agreement. Although the CIS Tariff Policy does not compel Kazakhstan to adopt specific transit freight tariffs, Kazakhstan's transit freight tariffs are typically prepared on the basis of the CIS Tariff Policy.

As at the date of this Prospectus, the Eurasian Economic Community is in the process of preparing an Agreement on Regulation of Access to Natural Monopolies Services in the Field of Railway Transport, which will include principles of tariff policy. This agreement envisages that each party will take measures to standardise tariffs for monopoly railway transportation services. The Group believes that introduction of the common customs tariff within the Customs Union, whose members include Kazakhstan, the Russian Federation and the Republic of Belarus, will shorten the time necessary to gain customs clearance for freight transported through the Customs Union member territories and will reduce the overall costs of freight transportation. See "*– International Cooperation – The Customs Union*".

Passenger Tariff Regulation and Pricing

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

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

Prior to 1 January 2010, the international and domestic passenger multipliers had not been increased since 2007. The Anti-Monopoly Agency consented to a 10% increase for international and domestic passenger transportation multipliers in 2010 and the Group has submitted proposals to the Anti-Monopoly Agency to increase international and domestic passenger multipliers by an additional 10% in 2011 and 2012. However, the Anti-Monopoly Agency has not yet approved the proposed increase for 2011 and 2012. See "*Risk Factors – Risk Factors Relating to the Group – The position of the Company as a monopoly and the other Guarantors as dominant entities may result in adverse regulatory interferences in the Group's operations*".

Customers and Suppliers

Freight Customers

The Group had approximately 9,200 customers for freight transportation during 2009. The largest freight shippers are coal, oil, metals, construction material and agriculture suppliers. For the year ended 31 December 2009, no single customer accounted for more than 10% of the Group's freight transportation revenue.

The following table identifies the Group's top five customers by volume of freight loaded:

		Six months ended 30 June		Year ended 31 December	
Customer	**Product**	**2010**	**2009**	**2009**	**2008**
		(millions of tonnes)			
BAK LLP	coal	19.1	13.9	34.2	45.7
EEC JSC	coal	10.1	9.5	20.1	19.8
SSGPO JSC	iron ore, construction materials and other goods	10.1	7.7	18.3	17.9
Kazakhmys Corporation LLP	coal, chemicals, nonferrous metal ore and copper	7.0	6.4	13.0	13.7
ArcelorMittal Temirtau JSC	steel, coal, chemicals and other goods	5.8	7.3	14.5	11.8
Total for top five customers		52.1	44.8	100.0	108.9
Other customers		62.2	66.0	147.8	160.0
Total		128.6	110.8	247.7	268.9

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

Suppliers

Because the Company is a wholly owned subsidiary of Samruk-Kazyna, the Group conducts its procurement of goods, works and services in accordance with Samruk-Kazyna's Rules for the Procurement of Certain Goods, Works and Services and the Ownership Rights or Trust Management adopted by the Board of Directors of Samruk-Kazyna dated 18 November 2009 No. 32, which is Samruk-Kazyna's rules for companies directly or indirectly majority owned or trust managed by Samruk-Kazyna (the "**Procurement Rules**").

The Procurement Rules provide for the organisation of tenders using various methods; procedures for procurement from single sources and entering into procurement agreements; and monitoring and reporting by potential suppliers of the Kazakhstan content of proposals, in order to increase the usage of local goods and services.

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

The Group's principal purchases are fuel, electricity, and railcars. The Group acquires diesel fuel for its locomotives from TEK-KAZAKHSTAN LLP. Because TEK-KAZAKHSTAN LLP holds a dominant market position in Kazakhstan, its prices are regulated by the anti-trust laws of Kazakhstan and, consequently, are not prone to frequent change. Electricity is purchased primarily from Temirzholenergo LLP. Open cars and steel 8-wheel open cars are supplied by Kazakhstan Car Manufacturing Company LLP and JSC ZIKSTO, while sleepers with fastenings and ballasts are supplied by Magnetic LLP and JSC TAS-KUM, respectively.

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

International Joint Ventures and Projects

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

- In June 2010, the Company entered into a Memorandum of Understanding with Patentes Talgo S.L. (Spain) in order to introduce high speed tracks in Kazakhstan. The parties to the memorandum agreed to establish a joint venture in Astana to produce and provide maintenance to passenger cars using Patentes Talgo S.L. technology, with a planned capacity of 100 passenger cars per year. The joint-venture, Tulpar-Talgo LLP, is a consolidated subsidiary of the Group and was registered in 7 September 2010. The estimated cost of this project is KZT 8.6 billion with equal contributions by the Company and Patentes Talgo S.L. The Company's share in the joint venture is anticipated to be 50%, but the Company has not yet made its contribution to the joint venture. The project is expected to be implemented between 2010 and 2011.
- In June 2010, the Company signed a Memorandum on Mutual Cooperation with CJSC Transmasholding (Russia) and Alstom Transport (France). The Memorandum envisages production of modern mainline electric locomotives at the Bayterek A plant in Atbasar, Akmola oblast. The production capacity of 50 locomotives per year will be used both to supply the Group's needs and for exports.
- In May 2010, the Company and Ansaldo STS S.p.A, a subsidiary of Finmeccanica S.p.A, formed a joint venture named KTZ – Ansaldo STS Italy LLP. KTZ – Ansaldo STS Italy LLP is focused on projects that involve construction and modernisation of electrical, signalling and communication systems, creation of automated transportation control systems and maintenance and technical support, among others.
- In March 2010, JSC Almaty Wagon Repair Plant, a wholly owned subsidiary of the Company, and Zos-Vyvoj S.R.O., a Slovakian company, signed a foundation agreement to establish a joint venture for the production of so called "rail buses", motorised rolling stock used mainly in suburban transportation. In May 2010, the parties signed the charter of the joint venture, to be called NurZholBarys LLP. Total value of the project is estimated at U.S.$30 million. All arrangements relating to the implementation of the project are still under consideration, including capital contribution amounts to be paid by each joint venture partner. Production is planned to launch in 2011, with the joint venture to reach full production capacity of six trains per year in 2012. As at the date of this

Prospectus, the Anti-Monopoly Agency is reviewing the application of JSC Almaty Wagon Repair Plant, which was filed with the purpose of obtaining consent to establish an entity to be majority owned by the state or its affiliates.

- In October 2009, the Company, OJSC Uralwagonzavod and the Bank for Development and Foreign Economic Affairs (Vnesheconombank) signed a Memorandum of Cooperation for the purpose of building a wagon manufacturing plant in Karaganda oblast, Kazakhstan. As at the date of this Prospectus, a working group created pursuant to the Memorandum was in the process of selecting a land plot where the plant will be constructed.
- In July 2009, the Locomotive Assembling plant in Astana, which produces Evolution series diesel locomotives, was established by GE Transportation and the Company. The plant is operational and announced the production of its first locomotive in December 2009. The cost of the project is U.S.$141 million and commenced in 2007. The full amount of the project cost was received as a loan from ABN Amro Bank N.V. (now, The Royal Bank of Scotland plc). As at 30 June 2010 the Company has paid U.S.$6.2 million as interest and commission, however the full principal amount of the loan is still outstanding. The Company believes that no further capital contributions will be required. The companies intend for the plant to annually assemble 100 mainline and shunting locomotives, some of which are to be exported primarily to Russia. GE Transportation and the Company are also working together on the rollout of a new generation of diesel shunting locomotives and arranging diesel locomotives maintenance. As at the date of this Prospectus, the Company is the sole shareholder of the Locomotive Assembling plant in Astana, but is in negotiations with GE Transportation to sell a minority interest.
- In September 2008, the Russian Railways Operator and the Group created a joint working group to address the following issues: control over international passenger transportation and freight transportation; commercial management and the upgrading of interstate division points; manufacture and repair of fleet and technical equipment; cooperation in railway machinery; adoption of advanced information technology; development of joint business projects; scientific and technical development; development of container transportation; legislative development and harmonisation; marketing of freight transportation and improvement of tariff policy; and cooperation on Customs Union issues.

Although dependent on the Group's ultimate ownership of the joint venture, the Group expects to consolidate these joint ventures. See "*Risk Factors – Risk Factors Relating to the Group – The Group's railway infrastructure requires significant investment in its maintenance and modernisation and there can be no assurance that the Group will receive the funding necessary to make such investments*."

International Cooperation

Kazakhstan, or the Company, as the case may be, is a member of various international transportation organisations such as the Organisation for Economic Cooperation (the "**OEC**"), 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 OEC

In 1992, Kazakhstan became a member of the OEC. The OEC was founded in 1985 as a successor to the Organisation of Regional Cooperation for Development and is aimed to secure cooperation for assistance in social, economic, technical, scientific and cultural spheres. Kazakhstan's priorities within the OEC 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.

During the six months ended 30 June 2010, the Company participated in more than 20 initiatives of the organisation, including both projects and conferences.

The OSJD

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

The BRT CIS

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

The Customs Union

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

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

Each of these changes will have an impact on the economic activity of the member countries and their railway industries. The Group believes that the common customs tariff will provide stability to customs tariffs and will reduce the time needed for customs clearance in Kazakhstan. With respect to international trade, freight delivery by rail would encounter less customs barriers when travelling between China and the EU, as customs clearance would only be required when entering and exiting the border of the Customs Union territory, and could increase competition with sea carriers.

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

The EBRD

Several of the Group's projects are carried out through involvement with the EBRD. In March 2010, Kaztemirtrans and the EBRD entered into a U.S.$50 million loan agreement for the acquisition of 1,000 freight wagons. Additionally, the Group and EBRD entered into a Memorandum of Understanding in Joint Accomplishment of Strategic Initiatives on the Railways for the purposes of enhancing corporate management and anti-corruption measures, co-financing the renewal and modernisation of the railway infrastructure and fleet, and rendering assistance to the Group in accessing international debt capital markets.

Competition

Competition with Private Operators

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

As independent operators do not have access to the mainline railway network, private participation in the Kazakhstan rail industry is currently limited to ownership, leasing and operation of railcars and containers. Due to lack of available rolling stock, some major freight companies have invested in their own railcar fleets or entered into contracts for long-term railcar leases with private owners. As at 31 December 2009, private operators owned 39.7% of all the railcars operating in Kazakhstan. Private railcar owners include Transcom LLP, Bogatyr Trans LLP, Kaztranscom Service LLP, Eastcomtrans LLP, EuroAsia Transit Group LLP and First Freight Company LLP, among others. Many of these companies are affiliated with the largest customers of the Group and use their railcars and containers for the needs of such customers. In circumstances where privately owned railcars or containers are used, the Group charges its standard freight tariff but excludes the tariff for the use of the Group's freight cars and containers. See "– *Freight Tariff Regulation and Pricing –*

Freight Tariffs". According to the NSA and the Group's internal data, the Group's freight turnover for 2009, which includes freight transported in third party wagons hauled by the Group, accounted for 58.5% of all freight turnover in Kazakhstan by all modes of transportation for that period..

During 2009, a total of 11 companies, including JSC Passengers Transportation and JSC Suburban Transportation, which are members of the Group, and nine private carriers provided passenger transportation in Kazakhstan. These private carriers are Passazhirskaya Kompaniya Turan Express, Prigorodnie Perevozki Batys, Maral Nur, Damir Trans, Shygys Zhol Serik, Sunkar 1, Kunan Trans, Arlan Trans-Astana and Kazinterfrakht.

As at the date of this Prospectus, approximately 92% of passenger routes in Kazakhstan are operated by the Group. In addition, the Group comprised 87% and 84% of the total passenger turnover by rail transportation in Kazakhstan for the year ended 31 December 2009 and the six month period ended 30 June 2010, respectively. As at 30 June 2010, the Group operated on 103 international, interregional, intercity and suburban routes, while private carriers operated on 12 interregional, 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 7.9% and 30.0% of the Government grants issued in 2009 and 2008, respectively.

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

Competition with Other Modes of Transportation

Rail transportation competes favourably with other modes of transportation in terms of regularity of service, safety, speed and cost. The Kazakhstan railway system has a high carrying capacity at a relatively low cost for freight and passenger transportation and operates in spite of adverse weather conditions. Additionally, due to Government grants received for passenger transportation, passenger fares are kept low. The railway system ranks third behind that of air and road transportation with respect to the speed of freight delivery. The railway transportation system also ranks third behind water (river) and pipeline transportation in terms of freight transportation costs.

According to the NSA, freight turnover in Kazakhstan comprised the following for the year ended 31 December 2009:

Type of Transportation	**Billion Tonne-Kilometres**	**Percentage**
Railway	197.3	58.5
Pipeline	71.7	21.3
Road	66.3	19.7
Water	1.46	0.4
Air	*	*
Total	337.0	100.0

* Represents less than 7 million tonne-kilometres and less than 1% of total freight turnover.

According to the NSA, passenger turnover in Kazakhstan comprised the following for the year ended 31 December 2009:

Type of Transportation	**Million Passenger-Kilometres**	**Percentage**
Railway	14,930	46.2
Automobile	12,084	37.4
Air	5,297	16.4
Total	32,311	100.0

See "*Risk Factors – Risk Factors Relating to the Group – Railway transportation may be subject to increasing competition from other modes of 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 2009 was 16,295 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.

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

Transportation by Air

Air transportation is a high speed service that provides short delivery times for freight and passenger transportation. Kazakhstan is serviced by 25 airports, with nearly all international flights flying to and from Astana. According to the Asian Development Bank, the level of freight and passenger transportation in Kazakhstan has recently increased. In 2007, 4.5 million passengers traveled through Kazakhstan airports, which represented an increase of 36% from 2006. In that same year, the volume of freight transportation handled by Kazakhstan airports increased by 55.8% more than the 15.7% growth rate from 2001 to 2007. Despite faster delivery times, air transportation can be more expensive than other modes of transportation and is subject to weather conditions. Additionally, air transportation is more limited by the weight and dimension of the freight being carried than other modes of transportation.

Transportation by Road

According to the NSA, Kazakhstan had approximately 93,612 kilometres of roads as at 31 December 2008. 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 30 April 2009 and is expected to be completed by 31 December 2013.

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

Transportation by Water

According to the NSA, Kazakhstan has over 4,054 kilometres of internal navigable water routes. Water transportation offers high transport capacity and low carrying costs, especially with respect to bulk freight. Despite such advantages, water transport is subject to differences in transport times and increased fuel costs that depend on whether freight is being transported with or against the current. Water transportation is relatively slower than other modes of transportation. Additionally, transportation by boat is subject to changes in weather conditions.

Environmental Protection, Health & Safety

Environmental Policies

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

The Company monitors its production processes and hazardous emissions through the use of production and ecological controls. 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 heath, and increasing efficiency with respect to the use of energy and natural resources.

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

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 discharge from a wagon flashing unit at the Ush-Tobe station. The action plan stipulates capital repairs to the Ush-Tobe station totaling KZT 16 million to be completed during 2010. The action plan also provides for the construction of a warehouse for storage of solid fuel and acquisition of dust collector, a vacuum cleaner and a vacuum machine for the Ust-Tobe station totaling KZT 9 million, which is expected to be completed by 2011.

During the years ended 31 December 2009 and 2008, the Group spent KZT 586 million on its environmental programme and expects to spend a further KZT 953 million between 2010 and 2012.

Environmental Claims

On 19 January 2010, a state land plot allocated to the Ilyisky region of Kapshagay city was contaminated with 30 tonnes of oil products due to a collision between the tail car of a freight wagon and a locomotive of the following train. On 22 January 2010, the South-East transport department of internal affairs initiated a criminal investigation against the operator, who is an employee of the Group, under Article 295, point 4 of the Kazakhstan Criminal Code, violation of safety instructions of operation and exploitation of railway, air or water transport. However, the court experts were unable to determine whether the operator was at fault. As a result, an independent entity was engaged for the purpose of determining liability. As at the date of this Prospectus, the investigation was on-going as the independent entity's official opinion was pending.

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

Significant Licences

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

Insurance

The insurance market is still in the early stages of development in Kazakhstan. Like many other state-owned enterprises in Kazakhstan, the Group maintains limited insurance coverage. Except for holding the required statutory minimum insurance coverage with respect to automobile insurance, employer liability insurance, environmental insurance and passenger insurance for personal injury, death and loss or damage to passenger property, the Group does not maintain any insurance against the risk of damage (including by fire, explosion or flood) to any of its properties, assets or equipment (including infrastructure, rolling stock and stations), any business interruption insurance, or any insurance against third party liability in respect of property or environmental damage arising from accidents involving the Group's property or relating to the Group's operations. Insurance policies that are maintained by the Group are purchased from commercial insurance operators in Kazakhstan.

When the Group transports freight it carries the risk of loss in respect of the freight provided, however, that the consignor or consignee are responsible for properly preparing the freight so that it can be transported safely. The Group is also responsible for the security of the freight in circumstances where the Group has been hired to provide security services in respect of the freight. The Group is also exposed to potential liability if freight is not timely delivered. See "*Risk Factors – Risk Factors Relating to the Group – The Group faces numerous operating risks that may result in loss and additional expenditures, which may not be fully covered by insurance*".

Litigation

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

In December 2004, the Group entered into a 15 year lease agreement with TeleKRONA LLP totaling KZT 19.3 billion to lease telecommunication equipment. In April 2009, the Group and the lessor amended the original lease agreement whereby the total lease amount was reduced to KZT 14.5 billion, the amount of equipment called for by the original lease was reduced and the schedule of payments was revised. Additionally, the Company and the lessor agreed to waive all penalties resulting from obligations imposed under the lease agreement as at the date the amended lease agreement was signed. In December 2009, the lessor challenged the amended lease agreement on the grounds that the amended agreement had been signed on terms unfavourable to the lessor and that the Group's failure to comply with the amended schedule of payments resulted in the poor financial performance of the lessor. After a series of appeals, the previous court decisions were set aside and a new trial was granted. If the amended lease agreement is ultimately rescinded, the lease payment will increase to the original lease amount of KZT 19.3 billion and the Group could owe penalties totaling between KZT 4.9 and KZT 8.0 billion. As at the date of this Prospectus, the Company had not accrued liabilities which may occur as a result of this claim. As at 30 June 2010, the Company had not recorded any liabilities associated with this claim as it believed, and continues to believe, that it is not probable that the Company will make payments associated with this claim.

During 2007 and 2008, the State enterprise Tax Department of Astana city conducted a tax audit of the Company for fiscal years 2003 through 2006. As a result of the tax audit, the tax authorities assessed additional taxes, including fines and penalties, to the Company in the aggregate amount of KZT 14.3 billion. The Company challenged the tax assessment with the appellate tax authority and the additional tax amount was reduced to KZT 10.5 billion. After a series of challenges by the Company and appeals by the tax authorities in the Kazakhstan court system, the amount of additional taxes owed by the Company was further reduced to KZT 5.6 billion, comprising KZT 3.5 billion in taxes and KZT 2.1 billion in fines. However, the Group filed an appeal with the Supreme Court, which appeal is pending. Due to uncertainties associated with the Kazakhstan tax system, no assurance can be given as to the possible outcome of such appeal. The Company recorded a liability of KZT 3.9 billion during the year ended 31 December 2010 based on its best estimate of the amount the Company believes it is probable it will pay related to the tax audit. The Company believes this amount continues to represent its best estimate and has therefore not recorded any further liability.

In April 2008, the former president of the Company, Mr. Kulekeyev, was arrested on charges that included allegations that he had used his powers contrary to the interests of the Company. Mr. Kulekeyev was found guilty and was sentenced to three years of imprisonment. In October 2009, Mr. Kulekeyev was released on parole. As at the date of this Prospectus, the criminal case against Mr. Kulekeyev has been closed and Mr. Kulekeyev is no longer associated with the Company.

Information Technology

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

- a system of operational management used to process data from the Company's trains and information relating to train, locomotive, wagon and container operations;
- 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;
- a booking and management system for passenger transportation on railways of CIS and Baltic countries with respect to ticket sales, informational services, freight, freight-baggage and mail transportation and the use and repair of passenger wagon fleets;
- 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; and
- an automated management system of track facilities, alarms and communications and the power supply infrastructure.

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

- *Automated management system for contract and commercial work*. This project is aimed to provide support for business processes, concluding freight agreements with clients, and processing freight and commercial work at the line level. As at 30 June 2010, the Group completed its technical inquiry stage and the data processing design for the second stream of the system.
- *Information system for the settlement of freight transportation*. As at 30 June 2010, the Group had completed the technical inquiry stages for creation of the system and developed the data processing design for the first stream of the system.
- *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. As at 30 June 2010, the Group had completed the stages 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 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 an aerial survey for the Astana-Atbasar portion of the railway and implemented the pilot version of this project.

The Group is also planning to implement several additional information technology projects, such as an automated system of management of passenger services of the Company, an automated system of operational control over transportation on the DB2 platform shoe and a system to transfer messages on the basis of WebSphere MQ. The Group also plans to commence the second stage of the automated integrated processing system that produces the machinist's route.

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

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

TRANSACTIONS WITH RELATED PARTIES

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

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

The Group's policy with respect to the approval of transactions with related parties is that the transaction should be approved by the Management Board by a majority of votes but not less than three quarters of the elected members. If the Management Board is not available to approve the transaction, then a majority of the members of the Board of Directors who are not interested in the transaction may vote to approve the transaction. If all members of the Board are interested, then a majority of the independent directors may vote to approve the transaction. If the independent directors are not available to approve the transaction, then the sole shareholder may approve it.

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

	Due from related party			**Due to related party**		
	As at 30 June	**As at 31 December**		**As at 30 June**	**As at 31 December**	
Company Name	**2010**	**2009**	**2008**	**2010**	**2009**	**2008**
	(Unaudited)			*(Unaudited)*		
			(KZT in thousands)			
JSC National Company KazMunaiGas	405,977	27,242	744	227,241	339,702	458,430
JSC Kazpost	83,896	83,317	81,875	—	—	1,139
JSC Kazakhtelecom	—	—	—	18,046	61,494	43,232
JSC National nuclear company Kazatomprom	1,353	—	—	35,795	45,725	28,090
JSC National company Kazakhstan engineering	—	—	—	431,354	47,353	312,203
JSC Samruk-Energo	6,655	22,542	11,972	9,912	—	278,002
JSC Air Astana	—	—	1,009	4,763	4,371	6,812
JSC KOREM	—	—	—	651	1,666	—
JSC Repair Corporation Kamkor	1,000,739	—	—	6,217,315	4,962,446	4,134,621
LLP JV Betpak Dala	—	—	—	2,261	2,218	2,244
LLP JV Katco	—	—	—	6,127	11,130	3,644
JSC International Airport Atyrau	—	—	—	1,115	1,331	—
JSC GSM Kazakhstan JSC Kazakhtelecom	17,788	19,811	17,705	605	—	1,071
JSC Development Bank of Kazakhstan	—	—	—	—	—	224,758
JSC Astana Finance	—	—	—	—	1,962,860	—
Other	915	364	—	6,025	2,301	1,970
	1,517,323	153,276	113,305	6,961,210	7,442,597	5,496,216

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

	Sales of services				Purchases of services			
	For the six months ended 30 June		For the year ended 31 December		For the six months ended 30 June		For the year ended 31 December	
Company Name	**2010**	**2009**	**2009**	**2008**	**2010**	**2009**	**2009**	**2008**
	(Unaudited)	*(Unaudited)*			*(Unaudited)*	*(Unaudited)*		
				(KZT in thousands)				
JSC National Company KazMunaiGas	4,613,505	1,093,924	4,632,207	8,910,726	564,724	27,070	355,554	48,197
JSC Kazpost	358,642	252,040	603,155	521,890	74,302	38,666	135,658	94,880
JSC Kazakhtelecom	145,107	176,818	384,299	231,256	288,654	252,686	518,454	871,569
JSC National nuclear company Kazatomprom	211,087	216,231	413,374	344,295	4,988	45,509	59,305	73,696
JSC National company Kazakhstan engineering	47,564	3,259	44,005	5,520	392,327	8,372	2,250,034	1,052,450
JSC Samruk-Energo	61,408	243	104,672	16,292,634	112,480	95,107	190,596	241,397
JSC Air Astana	26,234	43,104	60,728	18,044	—	3	—	1,082
JSC Repair Corporation Kamkor	931,843	725,341	1,807,111	1,317,973	26,437,644	18,580,943	44,247,565	48,759,706
JSC GSM Kazakhstan JSC Kazakhtelecom	111,582	81,913	384,299	184,206	160	515	518,454	4,043
JSC Development Bank of Kazakhstan	—	—	—	4,622	—	—	1,302	165,761
JSC Astana Finance	442,982	—	—	—	—	—	—	—
Other	17,368	18,284	47,561	24,575	32,623	—	20,455	—
	6,967,322	2,611,157	8,481,411	27,855,741	27,907,902	19,048,871	48,297,377	51,312,781

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

As at 30 June 2010, 31 December 2009 and 31 December 2008, certain of the Group's borrowings in the amount of KZT 3,716,829 thousand, KZT 3,950,158 thousand and KZT 3,349,541 thousand, respectively, were guaranteed by the Government of the Republic of Kazakhstan.

As at 30 June 2010, 31 December 2009 and 31 December 2008, the Group had loans from related party the Development Bank of Kazakhstan in the aggregate amount of KZT 1,119,483 thousand, KZT 1,314,034 thousand and KZT 1,375,286 thousand, respectively.

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

	As at 30 June	As at 31 December	
	2010	2009	2008
	(Unaudited)	*(KZT in thousands)*	
JSC "Halyk Bank of Kazakhstan"			
Cash on current accounts and on short-term deposits with maturity period of up to three months	11,678,501	7,546,779	10,940,701
Deposits with maturity period of 3 to 12 months	13,974,973	10,173,176	3,000,000
JSC "Kazkommertsbank"			
Cash on current accounts and on short-term deposits with maturity period of up to three months	11,233,158	20,787,238	—
Deposits with maturity period of 3 to 12 months	2,836,220	—	—
JSC "BTA Bank"			
Cash on current accounts and on short-term deposits with maturity period of up to three months	153,028	300,824	—
Deposits with maturity period of 3 to 12 months	—	—	—
JSC "Alliance Bank"			
Cash on current accounts and on short-term deposits with maturity period of up to three months	4,342	5,455	—
Deposits with maturity period of 3 to 12 months	—	—	—
JSC "Temir Bank"			
Cash on current accounts and on short-term deposits with maturity period of up to three months	26,345	—	—
Deposits with maturity period of 3 to 12 months	—	—	—
Total	39,906,567	38,813,472	13,940,701

MANAGEMENT AND EMPLOYEES

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

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. The reporting lines to the Vice President's include, among others, the Managing Director of Fleet, the Managing Director of Field Operations and the Managing Director of Corporate Development. Also reporting directly to the President are the Vice-President of Economy and Finance, the Vice-President of Human Resources and Social Affairs, the Vice-President of Supplies, the Managing Director – Head of Administration and the Managing Director on Legal Issues.

Sole Shareholder

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

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

Board of Directors of the Company

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

In particular, the powers of the Board of Directors include, among others, (i) setting the priorities of the Company's activities, (ii) approving the terms of bonds and derivatives to be issued by the Company, (iii) appointing the members of the Management Board, except for the Chairman of the Management Board, (iv) approving the remuneration of the members of the Management Board, (v) approving acquisitions by the Company of 10% or more of the shares in other legal entities, (vi) approving transactions related to the incurrence of liabilities by the Company in an amount of 10% or more of the Company's equity, (vii) selecting a registrar of the Company and (viii) approving all interested party transactions.

The members of the Company's Board of Directors are appointed by a resolution of the sole shareholder and may be re-appointed for an indefinite number of successive terms, the duration of which is defined by the sole shareholder.

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

As at the date of this Prospectus, the Company's Board of Directors consists of seven members with Mr. Kulibayev 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
Timur Askarovich Kulibayev (Chairman)	43	Mr. Kulibayev was born in 1966 in Almaty and graduated from Moscow State University in 1988 specialising in economics. He holds a degree in economics, which was conferred by the Ministry of Education and Science. Between 1988 and 1992, Mr. Kulibayev worked in several positions as an economist and in the science and technology industry. He worked as an economist, junior research associate economist at the Economic Research Institute for Planning and Standards under the State Planning Committee of KazSSR and as Director of the Science Advisory Centre under the Fund of Cultural, Social and Scientific-Technical Development of Kazakhstan. Beginning in 1992, he managed various businesses. In 1997, he was appointed as the Head of the Project Appraisal Directorate of the State Investment Committee of Kazakhstan. From May 1997 to March 1999, he worked as Vice-President for Economy and Finance of CJSC National Oil and Gas Company Kazakhoil. In March 1999, he was appointed as President of CJSC KazTransOil and, from May 2001 to February 2002, he served as General Director of CJSC National Company Transportation of Oil and Gas. From February 2002 to October 2005, he served as First Vice-President of JSC National Company KazMunayGas, which was incorporated as a result of the merger between CSJC National Company Kazakhoil and CJSC National Company Transportation of Oil and Gas. In October 2005, Mr. Kulibayev was appointed as Advisor to the President of Kazakhstan. From April 2006 to August 2007, he served as Deputy Chairman of the Management Board of JSC Kazakhstan Holding for the Management of State Assets Samruk. On 17 October 2008, Mr. Kulibayev was appointed as Deputy Chairman of the Management Board of the JSC National Welfare Fund Samruk-Kazyna. Since 2005, he has been the Chairman of KazEnergy Association, which unites oil, gas and energy companies operating in Kazakhstan. He was appointed to his current position as the Chairman of the Board of Directors of the Company in June 2009.
Askar Uzakpayevich Mamin (President of the Company)	44	For information regarding Mr. Mamin, see "– *Management Board of the Company*".
Azat Gabbassovich Bekturov (Vice-Minister of Transport and Communications of Kazakhstan)	33	Mr. Bekturov was born in 1976. He graduated from Almaty Abai State University specialising in banking and management. Mr. Bekturov holds a masters degree in marketing from Golden Gate University of San Francisco, California (United States), an MBA degree from the University of California (United States) and a PhD in economics from Al-Farabi Kazakh National University (Kazakhstan). Mr. Bekturov started his career in 2001 as an analyst of electronic business projects at Chevron Corporation in San Ramon, California (United States). Between 2002 and 2004, he served as General Manager, Deputy Department Director and Director of Corporate Development of CJSC KazTransGas. From 2004 to 2006, Mr. Bekturov worked as Vice-President of JSC Air Astana. He has been in his current position as Vice-Minister of Transport and Communications since 2006. Mr. Bekturov is a member of the Remuneration Committee of the Board of Directors.

Name and position	Age	Background and principal outside activities and duties
Nurzhan Talipovich Baidauletov (Managing Director of Samruk-Kazyna)	49	Mr. Baidauletov was born in 1960 and graduated from the Moscow Institute of Railway Transport in 1986 specialising in management of transportation processes for railways. From 1986 to 1998, Mr. Baidauletov was employed by the system of Ministry of Railways of the USSR and the Republic of Kazakhstan serving in the following positions: Shunting Master; Station Operator; Process Engineer at the Ekibastuz station of the Tselinnaya railway line; Chief Engineer of the Pavlodar-North station; Deputy Traffic Manager of the Pavlodar division of the Tselinnaya railway line; Master of the Pavlodar station; First Deputy Division Superintendant of the Pavlodar division of the Tselinnaya railway line; Deputy Head of the Akmolinsk railway line – Pavlodar Division Superintendent; and Head of the Akmolinsk railway line. In 1998, Mr. Baidauletov was appointed as Director of the Railway Transport Department of the Ministry of Transport and Communications. From 2003 to 2004, he worked as Vice-Minister of Transport and Communications. From 2004 to 2006, Mr. Baidauletov held the position of Chairman of the Railway Committee under the Ministry of Transport and Communications. Since 2006, Mr. Baidauletov has served as Managing Director of Transport and Industrial Assets of JSC Samruk Holding, Managing Director of JSC Samruk Holding and Managing Director of JSC Samruk-Kazyna. In addition to being a member of the Board of Directors of the Company, he is also the Chairman of the Appointment Committee and a member of the Audit Committee of the Board of Directors.
Nigmatzhan Kabatayevich Issingarin (Independent Director)	69	Mr. Issingarin was born in 1941 and graduated from Uralsk Electromechanic Institution of Railway Engineers in 1964 and from the Academy of National Economy under the Council of Ministers of the USSR in 1984. He holds a doctorate degree in economics, which was conferred by the Ministry of Education and Science of the Republic of Kazakhstan. From 1964 to 1991, Mr. Issingarin was employed by the USSR Railways serving in the following positions: Engineer, Chief Engineer and Head of Signalisation and Communication Division at the Tselinograd railway division; Head of the Engineering Department and Deputy Head Engineer of the Kazakhstan railway line; Head Engineer and Head of the Tselinnaya railway line, Vice-Minister of Railways of the USSR, and Superintendent of the Almaty railway division. Between 1991 and 2002, Mr. Issingarin served as Minister of Transport, Minister of Transportation and Communications, First Deputy Prime-Minister of the Republic of Kazakhstan, and executive officer of the Eurasian Economic Community. Since 2002, Mr. Issingarin has been serving as General Director of Economtransconsulting LLP, Chairman of the National Expeditors of Kazakhstan Association and as Chairman of the Kazakhstan Association of Carriers and Car Operators. In 2006, he was appointed as an Independent Director of the Board of Directors of the Company. In addition to being a member of the Board of Directors of the Company, he is also the Chairman of the Remuneration Committee and a member of the Appointment Committee of the Board of Directors.
Kalman Somodi (Independent Director)	51	Mr. Somodi was born in 1959 and graduated from Leningrad Institute of Railway Engineers in 1983 specialising in automatics, telemechanics and communications. In 1986, he graduated from Budapest Technical University as a specialist of automation. From 1987 to 2002, Mr. Somodi occupied several positions within the

Name and position	Age	Background and principal outside activities and duties
		railway industry. He has been the Section Manager of the International Relations Department under Hungarian State Railways. Working with international railway organisations, Mr. Somodi acted as Chairman of the Transport Law Commission, Chairman of the Transport Policy Commission, Deputy Chairman of the OSJD Committee, Permanent Representative of the Hungarian Minister of Transport at OSJD, and Policy Officer of the UIC to cooperate with the CIS and Baltic railways. Between 2002 and 2008, Mr. Somodi acted as the Executive Secretary of the OSJD Committee. Mr. Somodi has been in his current position working as Head of the Department of the Hungarian State Railway Corporation since 2009. 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 Audit Committee, a member of the Appointment Committee and a member of the Remuneration Committee of the Board of Directors.
Chris Walton (Independent Director)	53	Mr. Walton was born in 1957 and graduated from the University of Western Australia in 1979 with a bachelor's degree in political science and an MBA degree in finance from the University of Western Australia in 1985. From 1983 to 2005, Mr. Walton occupied the following positions: Research Officer to Australian Senator J.D. Evans; Corporate Planner at BP Australia; Group Finance Planning Manager of Australian Airlines; Group Manager – Financial Management at Australia Post; Finance Manager – International at Air New Zealand; and Finance Director and Chief Financial Officer of Easy Jet Plc. Currently, Mr. Walton serves as the Independent Chairman of the board of directors of Goldenport Holdings Inc., and as the Independent Director and the Chairman of the audit committee of Rockhopper Exploration Plc. Since 2006, Mr. Walton has served as an Independent Director of the Board of Directors of the Company and as a member of the Audit Committee of the Board of Directors.

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

The registered office of the Company is 98 Pobedy Avenue, Sary-Arka 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 and (vi) approving other decisions relating to the business of the Company that are not among the exclusive authority of the Board of Directors of the Company or its sole shareholder.

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

As at the date of this Prospectus, the Company's Management Board consists of 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)	44	Mr. Mamin was born in 1965 and graduated from Tselinograd Institution of Civil Engineering in 1987 specialising in construction engineering. He also graduated from the Plekhanov Russian Academy of Economics in 2003 where he specialised in economics. He started his career as an assembler in the Tselintyazhstroy Group. From 1991 to 1993, he served as Deputy General Director of the Union of Innovative Enterprises of Kazakhstan. From 1996 to 2008, Mr. Mamin occupied the following positions: First Deputy Akim (Mayor) of Astana; Vice-Minister of Transport and Communications; First Vice-Minister of Industry and Trade; Minister of Transport and Communications; and Akim (Mayor) of Astana. He was appointed to his current position in April 2008.
Ermek Anuarbekovich Kizatov (Vice-President)	49	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 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 and for the TSC Group Corporation LLP as Deputy General Director. In 2008, Mr. Kizatov was appointed as the Interim Vice-President and Vice-President of Business Development of the Company. He was appointed to his current position in September 2009.
Erik Hamzinovich Sultanov (Vice-President of Supply)	54	Mr. Sultanov was born in 1956. In 1978, he graduated from Karaganda Polytechnic Institute where he specialised in construction, road-building machines and equipment. In 2005, he graduated from Eastern Kazakhstan State Technical University with a degree in construction of auto-roads and aerodromes. Mr. Sultanov started his career in 1978 as a RMS mechanic at the Ekibastuzshakhtostroy Industrial Complex where he occupied various positions through 1992, including Chief RMS Engineer, Chairman of the Trade Union Committee and Director of the wood working plant. In 1995, Mr. Sultanov became President of JSC Ekibastuzshakhtokurylys. Between 1996 and 1998, Mr. Sultanov served as the Chairman of Pavlodar and the Northern Kazakhstan State Property and Privatisation Committee. From 1999 to 2005, Mr. Sultanov worked for the Ministry of Transport and Communications holding the following positions: Director of the Auto-Roads Department, Chief Coordinator of Advisors on External Loans, First Deputy General Director and Interim General Director of RSE Kazautodor and Chairman of the Auto-Roads Committee under the Ministry of Transportation. From 2005 to 2008, he served as Chairman of Kazdorstroy Company and as Vice-Akim (Mayor) and Chief Vice-Akim (Mayor) of Astana. Mr. Sultanov joined the Company as the Interim Vice-President of

Name and position	Age	Background and principal outside activities and duties
		Supply and was later appointed to his current position of Vice-President of Supply in April 2008.
Kanat Kalievich Alpysbayev (Vice-President of Economy and Finance)	38	Mr. Alpysbayev was born in 1972. In 1994, he graduated from the Almaty Institute of Railway Engineers where he specialised in automation, telemechanics and communication of railway transport. In 1998, he obtained a BBA degree from the University of Kentucky and in 2007 received an MBA degree from Moscow International School of Business. Mr. Alpysbayev started his career in 1994 as an electrician of computing techniques for the repair and maintenance group of the third signalisation and communication division of the Tselinnaya railway controlled by the Ministry of Transport of the Republic of Kazakhstan. In 1999, Mr. Alpysbayev joined the RSE Kazakhstan Temir Zholy where he held the following positions until 2002: Analyst and Deputy Head of the Financing and Budget Financing Divisions; Head of the Budget Division and Department; Head of the Finance Department; Deputy Head of Economy and Finance of the Locomotives Facilities Department; and Director of ASE Locomotive. From 2002 to 2003, he worked as Vice-President of Finance of JSC Air Astana, the national air carrier of the Republic of Kazakhstan. Between 2003 and 2005, he worked as Deputy Chairman of the Board and Advisor to the Chairman of the Board of JSC Intranscom. From 2005 to 2008, Mr. Alpysbayev was employed by General Electric International Inc. where he was a Sales Manager and Director of Business Development of the Transport Systems Department. He was appointed to his current position in October 2008.
Askhat Harisovich Akchurin (Vice-President of Human Resources Management and Social Issues)	49	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 Leading Special Construction Bureau PET (LSCB PET) in Tselinograd (one of the former names of Astana) as a construction engineer in 1983. From 1983 to 1996, he worked as a Lead Engineer, Divisional Manager, Chief Engineer and Head General Constructor of LSCB PET. Between 1996 and 2004, Mr. Akchurin served as Chief Constructor of JSC Tselinogradselmash and occupied several executive positions at Akimat (Mayor's office) of Astana. From 2004 to 2006, he worked as State Inspector at the Executive Office of the President of Kazakhstan. From 2006 to 2008, he was Deputy Akim (Governor) of the West-Kazakhstan oblast. Between 2008 and 2009, he worked as Chief of the Company's staff. Mr. Akchurin was appointed to his current position as the Vice-President of Human Resources Management and Social Issues in January 2009.
Yerzhan Bisengalievich Tajiyakov (Managing Director of Finance)	35	Mr. Tajiyakov was born in 1975 and in 1996 he graduated from Kazakh State Academy of Management where he specialised in finance and credit. In 2000, Mr. Tajiyakov obtained a masters degree in finance and economy from Fairleigh Dickinson University (New Jersey, United States). Mr. Tajiyakov started his career in 1994 as a financial controller at Kazkommertsbank. From 1995 to 2000, Mr. Tajiyakov worked for Halyk Bank as a Senior Specialist, Senior Banker, and Dealer. Between 2001 and 2006, Mr. Tajiyakov served as Head Manager of the Borrowings and Structured Finance Department, Managing Director and Vice-President of the

Name and position	Age	Background and principal outside activities and duties
		Development Bank of Kazakhstan. From 2007 to 2008, he worked for ENRC Management KZ as Managing Director and Head of Treasury. Since February 2008, Mr. Tajiyakov has been employed by the Company as Managing Director of Finance.
Kanat Esmukhanovich Almagambetov (Managing Director of Field Operations)	48	Mr. Almagambetov was born in 1962. In 1983, he graduated from Almaty Institute of Railway Engineers specialising in railway operations. In 2001, he graduated from Kazakh Academy of Transport and Communications with a degree in economy and management of railways. Mr. Almagambetov began his career in 1981 at the Tselinnaya railway line, which was part of the Ministry of Railways of the USSR as an apprentice to a shunting master and later occupied various positions at railway organisations. In 1997, Mr. Almagambetov, became Head of the Transportation Department of the Tselinnaya Railway Administration. From 1999 to 2005, he held the following positions: Head of the Chief Administration of Transportation, Head of the Freight Transportation Department of RSE Kazakhstan Temir Zholy, Director of ASE Freight Transportation and Vice-President of Kaztemirtrans. Since 2008, he has been serving as Managing Director of the Company. Mr. Almagambetov was appointed to his current position in June 2009. Mr. Almagambetov has over 20 years of experience serving in executive positions.
Beibit Gazizovich Zhussupov (Managing Director – Head of Administration)	62	Mr. Zhussupov was born in 1948. In 1970, he graduated from Sverdlovsk Law Institute with a degree in law and in 1989 graduated from Almaty Higher Party School. Mr. Zhussupov started his career in 1969 as an investigator at the prosecutor's office of the Alexeevskiy district of the Tselinograd oblast. Until 1976, he served as Senior Investigator, Prosecutor and Deputy Head of the Investigation Department of the Tselinograd oblast prosecutor's office. From 1976 to 1981, Mr. Zhussupov worked on the Communist party committee of the Tselinograd oblast. From 1981 to 1982, he served as Deputy Transport Prosecutor of the Tselinograd oblast. Between 1982 and 1990, Mr. Zhussupov worked as the head of administrative agencies and state-legal divisions of the Communist party committee of the Tselinograd oblast. From 1990 to 1992, he held the office of Deputy Chairman of the Tselinograd oblast Council of Deputies. From 1992 to 1998, Mr. Zhussupov served as the Deputy Akim (Mayor) of the Akmolinsk (Tselinograd) oblast. Between 1998 and 2004, he served as a Senator of the Parliament of Kazakhstan. Between 2004 and 2007, Mr. Zhussupov worked as the Head of the office at the Supreme Court of Kazakhstan. Prior to joining the Company in 2009, Mr. Zhussupov worked as First Deputy Akim of the Kyzylorda oblast. Mr. Zhussupov was appointed to his current position in January 2009.
Rustem Koibagarovich Khasenov (Managing Director of Legal Issues)	48	Mr. Khasenov was born in 1962. He graduated from Karaganda State University in 1984 with a degree in law and began his career as an Investigator of the Kokshetau Municipal Department of Internal Affairs. From 1987 to 1991, he worked as a Senior Inspector and Senior Specialist of the Kokshetau municipal authorities. From 1991 to 1997, Mr. Khasenov held the position of Legal Manager of the Kokshetau oblast Agricultural Department. Between 2003 and 2006, he held the following legal positions with the Kazakhstan Ministry of Transportation: Chief Specialist; Head of the Division; and Deputy Director of the Legal

Name and position	Age	Background and principal outside activities and duties
		Department. Prior to joining the Company, Mr. Khasenov served as Director of the State Legal Department of Astana city Akim's (Mayor's) office. Mr. Khasenov was appointed to his current position in April 2008.
Almas Muratovich Lepesbayev (Managing Director of Economy)	32	Mr. Lepesbayev was born in 1978. In 2000, he graduated from Kokshetau University where he specialised in economy and management in infrastructure. He also obtained a bachelor's degree from Kazakh Humanitarian Law University in 2007. Since 2009, he has held a degree in economics, which was conferred by the Ministry of Education and Science of the Republic of Kazakhstan. Mr. Lepesbayev started his career in 2000 as a Lead Engineer in the Department of Technical Policy of RSE Kazakhstan Temir Zholy. Following this position, Mr. Lepesbayev has served in various positions within the Company and its subsidiaries including being appointed as Director of the Department of Economy and Finance of JSC Kazzheldortrans in 2005. In 2006, Mr. Lepesbayev took office as Director of Economy of the Company and was appointed to his current position as Managing Director of Economy in 2009. Since 2009, he has been serving as a member of the Board of Directors of Kaztemirtrans, and since 2010, as Managing Director of B.V.

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

Management Remuneration of the Company

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

Before 2009, the Company did not pay remuneration to the members of the Board of Directors. However, in May 2009, the Management Board of Samruk-Kazyna adopted a resolution "On Remuneration Paid to the Independent Directors" which requires that independent directors receive compensation for their services semi-annually. Such compensation is comprised of annual fixed fees and Board meeting attendance fees. As at 30 June 2010, the Company set the annual fixed fee to be paid to the Independent Directors at an aggregate amount of KZT 15.3 million.

Compensation to members of the Management Board is personalised and depends on personal work performance, difficulty level and amount of responsibility required for assigned tasks, the specificity of the type of work performed and the personal qualifications of the individual director. Remuneration amounts may be reduced for an individual director due to (i) deterioration in the financial and economic performance of the Company as compared to the previous year and (ii) failure to accomplish assigned tasks or poor performance by the director. The total compensation paid to members of the Management Board amounted to KZT 45.5 million, KZT 108.3 million and KZT 125.8 million for the six month period ended 30 June 2010 and for the years ended 31 December 2009 and 31 December 2008, 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

As at 30 June 2010, the Company had 144,931 employees as compared to 144,408 as at 31 December 2009 and 143,665 as at 31 December 2008. The following tables present the distribution of the Group's employees as at the dates indicated:

	Number of Employees		
		As at 31 December	
Activity	**As at 30 June 2010**	**2009**	**2008**
Locomotives	19,210	19,505	19,426
Rolling Stock	1,721	1,830	1,810
Infrastructure	56,763	56,828	57,581
Freight Transportation	20,333	20,386	20,479
Passenger Transportation	15,427	16,348	15,618
Other	31,477	29,511	28,751
Total	144,931	144,408	143,665

	Number of Employees		
		As at 31 December	
Employer	**As at 30 June 2010**	**2009**	**2008**
Company	81,067	81,190	81,328
Locomotive	19,210	19,505	19,426
Kaztemirtrans	1,721	1,830	1,810
Other	42,933	41,883	41,101
Total	144,931	144,408	143,665

In August 2010, employees of the Group received a 5% increase in salaries.

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 2009 had 153,754 members representing employees of the Group and other companies engaged in the railway business. In 2009 the Company entered into collective bargaining agreements with the Trade Union for the period 2009 to 2011. 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 member employee due to staff redundancy or insufficient qualification of an employee, or refusal of an employee to continue in labour relations due to changes in labour conditions, should be made with consideration of the reasonable opinion 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 on the working group regarding such elimination. Additionally, the majority of Kaztemirtrans' employees are members of the trade union associated with Kaztemirtrans. See "– *Employees of Kaztemirtrans*".

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

Training Programs

The Company has various training and educational programmes for its employees. In 2006, the Company established the center of evaluation and development of railway staff (the "**Center**"). The Center operates as a branch of the Company and is designed to provide professional development progammes for the Company's employees. The Center cooperates with various higher educational institutions and foreign institutions that train specialists in the railway industry. Programmes offered through the Center include collaboration with the Tynyshpayev Kazakh Academy of Transport and Communication and the Center of International Programs JSC in order to train and recruit young railway specialists, as well as to provide internships for students. Advanced training for engineering, technical and administrative employees is offered through seminars, trainings, internships and conferences at universities in Kazakhstan and CIS countries. The Company also provides computer training to its 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 in 2010, the Company will provide funding for its employees to obtain doctoral degrees. In order to attract and retain young railway specialists to the Company, the Company awards scholarships and educational grants for mainline, graduate and doctoral courses. This is accomplished through the Company's association with various educational organisations in Kazakhstan, CIS countries and other countries for railway professions that are considered a priority to the Company.

Social Support of Employees

From December 2005 to July 2009, the Company implemented its Programme on Provision of Housing by the Company, pursuant to which employees of the Company could purchase housing for 10% to 30% of its net value, with such purchase price primarily based on length of service to the Company. In November 2009, the Company adopted a programme for construction of service housing for employees of the Company. As at the date of this Prospectus, the Company is considering the adoption of rules for the selling of housing in installments to its employees.

The Company and its subsidiaries also provide other types of social support to their employees, including medical assistance, organisation of sporting events and celebrations of certain national and professional holidays, birth grants and grants for funerals, and material aid for young professionals living arrangements.

Employee Retirement Benefits

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

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

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

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

Retirement benefits expenses amounted to KZT 0.5 billion, KZT 0.9 billion and KZT 0.9 billion for the six months ended 30 June 2010 and for the years ended 31 December 2009 and 2008, respectively.

Audit Committee of the Company

The Company's Audit Committee was formed in November 2009 as a consulting and advisory body of the Board of Directors. The Audit Committee was established to consider 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. 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) controlling the financial and business activity of the Company, including consideration and pre-approval of the annual financial statements and accounting policies; (ii) monitoring the reliability and effectiveness of internal control and risk management systems as well as the execution of documents relating to corporate governance; and (iii) controlling the independence of internal and external auditors.

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

Name	Other Positions
Kalman Somodi	Independent Director; Chairman of the Audit Committee
Nurzhan Baidauletov	Managing Director of Samruk-Kazyna; member of the Board of Directors
Chris Walton	Independent Director
Saya Mynsharipova	Director of Audit and Control Department of Samruk-Kazyna; Expert of the Audit Committee

Internal Audit Service

In accordance with the Company's charter, the Internal Audit Service monitors the Company's financial and economic activities and its internal controls, and also oversees risk management of the Company. 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, 12 individuals serve on the Internal Audit Service, comprising a Head of the Service, a Deputy Head of the Service, five Senior Auditors and five Auditors.

Kaztemirtrans

General

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

Sole Shareholder

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

Board of Directors of Kaztemirtrans

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

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

Members of the Board of Directors are appointed by the sole shareholder. The members may be reappointed for an indefinite number of successive terms, the duration of which is defined by the sole shareholder. 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 three members with Mr. Kizatov serving as the Chairman of the Board. Certain biographical information regarding members of the Board of Directors is provided below:

Name and position	Age	Background and principal outside activities and duties
Ermek Anuarbekovich Kizatov (Chairman of the Board of Directors of Kaztemirtrans, Vice-President of the Company)	49	For information regarding Mr. Kizatov, see "– *Management Board of the Company*".
Almas Muratovich Lepesbayev (Managing Director of Economy of the Company)	32	For information regarding Mr. Lepesbayev, see "– *Management Board of the Company*".
Gulmaira Kurmangaliyevna Madiyeva (Independent Director)	45	Mrs. Madiyeva was born in 1965 and graduated from Kazakh State University in 1987 specialising in biology. In 1997, she graduated from the Institute of Market under Kazakh State Academy of Management where she specialised in finance and credit. In 2004, Mrs. Madiyeva received a masters degree in management from the International Business Academy (Almaty) and an MBA degree from the Maastricht School of Management. Mrs. Madiyeva was appointed to her current position as an Independent Director of the Company on 11 January 2008. Additionally, she serves as the Chairperson of the Board of Directors of JSC "CAIFC Company".

President of Kaztemirtrans

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

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

Employees of Kaztemirtrans

Kaztemirtrans employed 1,721, 1,830 and 1,810 individuals as at 30 June 2010 and as at 31 December 2009 and 2008, respectively. As at 30 June 2010, 1,463 of Kaztemirtrans' employees were members of the Public Association Trade Union of JSC Kaztemirtrans (the "**Trade Union of Kaztemirtrans**").

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

Business Address of Kaztemirtrans

The business address of Kaztemirtrans is the business address of the Company, located at 6 Kunayev Street, Esil District, Astana, 010000, Republic of Kazakhstan and its telephone number is +7 (7172) 60 06 85. The registered office of Kaztemirtrans is 29 Syganak Street, Esil District, Astana, 010000, The Republic of Kazakhstan.

Kaztemirtrans' Executive Compensation

In accordance with Kaztemirtrans' charter, the remuneration of the President is set by the Board of Directors, while the remuneration of the members of the Board of Directors is determined by the sole shareholder. Other than its Independent Director, all members of the Board of Directors of Kaztemirtrans are employees of the Company and, accordingly, receive remuneration from the Company. As at 30 June 2010, the annual fixed fee paid to independent directors of Kaztemirtrans was approximately KZT 2.2 million.

The President of Kaztemirtrans received an aggregate of approximately KZT 4.2 million and KZT 11.1 million in compensation for the six months ended 30 June 2010 and for year ended 31 December 2009, respectively, with such amounts including both short-term and post-term employee benefits.

Locomotive

General

Locomotive's sole shareholder, the Company, retains exclusive authority over the operations of Locomotive as set forth in the JSC Law, and the Company's charter. Locomotive is managed by its Board of Directors, except for those limited matters expressly reserved to the sole shareholder. The President, elected by the sole shareholder but subject to the supervision of the Board of Directors, is responsible for the executive authority of the day-to-day management and affairs of Locomotive.

Sole Shareholder

The functions of the sole shareholder include, among other things, (i) approving any amendments to the charter of Locomotive, (ii) approving the corporate governance code as well as any amendments to the code of Locomotive, (iii) approving a reorganisation or liquidation of Locomotive, (iv) appointing the auditors of Locomotive, (v) approving the payment of dividends, (vi) approving the annual financial statements of Locomotive (vii) approving the number, the term of authority and the members of the Board of Directors of Locomotive, (viii) appointing the Chairman of the Management Board and the Board of Directors of Locomotive and (ix) approving a decision with respect to Locomotive's participation in establishment of the business of other legal entities where a transfer of all or a part of Locomotive'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 Locomotive

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

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

Members of the Board of Directors are appointed by the sole shareholder. The directors may be reappointed for an indefinite number of successive terms, the duration of which is defined by the sole shareholder. The Board of Directors must be comprised of at least three members, as set forth in Locomotive'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, Locomotive's Board of Directors consists of six members with Mr. Kizatov serving as the Chairman of the Board. Certain biographical information regarding members of the Board of Directors are provided below:

Name and position	Age	Background and principal outside activities and duties
Ermek Anuarbekovich Kizatov (Chairman, Vice-President of the Company)	49	For information regarding Mr. Kizatov, see "– *Management Board of the Company*".
Kadyl Sekenovich Talaspekov (President of Locomotive)	59	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. In October 2008, Mr. Talaspekov was appointed to his current position as President of Locomotive.
Mereke Amanzholovich Turarbekov (Executive Director of Economy of the Branch Administration of Transport Activities)	40	Mr. Turarbekov was born in 1970. In 1996, he graduated from the Akmola Agricultural Institute specialising in agricultural engineering. In 2004, Mr. Turarbekov graduated from Karaganda Economic University where he specialised in law and in 2009 he graduated from the International Business Academy (Almaty) specialising in Management. In 2010, he received a masters degree in finance from Kazakh University of Economics, Finance and International Trade. From 2002 to 2010, Mr. Turarbekov held the following positions within the Company: Deputy Head of the Department for Work with Joint Stock Companies and for Optimisation of Company Property, Head of the Legal and Land Management Divisions for the Department of New Products and for Optimisation of Company Property and Head Manager of the Asset Management Department. In January 2010, Mr. Turarbekov was appointed as the Executive Director for Economy of the Branch Administration of Transport Activities. Since August 2010, he has been serving as Head of the Revisions Department of the Company.
Kadyrzhan Kalizhanovich Alzhanov	36	Mr. Alzhanov was born in 1974. In 1996, he graduated from Kazakh State Law Institute with a degree in law. Mr. Alzhanov began his career in 1996 as a leading specialist at the Almaty oblast Department of Emergencies. From 1996 to 2005, he served as legal counsel in a number of state agencies and private companies including, among others, the Department of Legal Work with Banks, and the Administration of the President of the Republic of Kazakhstan. From March 2004 to September 2005, Mr. Alzhanov worked for JSC KazTrustInvest as Deputy Chairman of the Board. In 2005, he served as Vice-President of Transport Holding of Kazakhstan LLP. From 2005 to 2008, Mr. Alzhanov served as the Executive Director of the Legal Department of the Company. Pursuant to the Order of the President of the Company No.600 dated 20 July 2009, Mr. Alzhanov's employment agreement with the Company was terminated.

Name and position	Age	Background and principal outside activities and duties
Begendyk Sautovich Utibayev (Independent Director)	59	Mr. Utibayev was born in 1951. In 1980, he graduated from the Tselinograd Agricultural Institute where he specialised in economics. He holds a doctorate degree in economics, which was conferred by the Ministry of Education and Science of the Republic of Kazakhstan. Mr. Utibayev has spent the majority of his career working in higher education. He has worked at Kazakh Agrotechnical University of Astana, University Turan-Astana and the Astana Institute of Management. Since February 2010, Mr. Utibayev has been employed as a professor at Kazakh University of Economics, Finance and International Trade.
Anuarbek Sabetov (Independent Director)	63	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 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 Lokomotive.

President of Locomotive

The President is appointed by the sole shareholder as set forth in Locomotive's charter. The President of Locomotive is Mr. Talaspekov as at the date of this Prospectus, who was appointed by the sole shareholder's resolution dated 31 December 2008 to serve until his successor is appointed. The business address of the President is the registered address of Locomotive.

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

Employees of Locomotive

Locomotive employed 19,210, 19,505 and 19,426 employees during the six month period ended 30 June 2010 and for the years ended 31 December 2009 and 31 December 2008, respectively. Locomotive's employees are members of the Trade Union.

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

Business Address of Locomotive

The business address of Locomotive is the business address of the Company, located at 6 Kunayevstreet, Esil District, Kazakhstan and its telephone number is +7 (7172) 60 03 04. The registered office of Locomotive is 5/1 Esenberlin Street, Sary-Arka District, Astana, 010000, The Republic of Kazakhstan.

Locomotive Executive Compensation

In accordance with Locomotive'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. The President and Independent Directors are the only members of the Board of Directors who receives remuneration from Locomotive. All other members of the Board of Directors are employees of the Company and, accordingly, receive remuneration from the Company.

The President of Locomotive received an aggregate of KZT 9.6 million in compensation for the year ended 31 December 2009, which includes both short-term and post-term employee benefits.

SHARE CAPITAL AND PRINCIPAL SHAREHOLDERS

The Company

The Company, formed in March 2002, as at 13 September 2010, has a total authorised equity capital of 502,040,458 common voting shares of which 491,130,457 are outstanding and held by the Company. As at 31 July 2010, the share capital of the Company totals KZT 521,100,457 thousand. In July 2010, the Company received capital contribution of KZT 20.8 billion from its Shareholder and it re-allocated KZT 9.2 billion from additional paid-in capital to share capital. Historically, all of the shares of the Company were owned directly by the Government. In January 2006, all of the Company's shares were transferred from the Government to Samruk, the predecessor of Samruk-Kazyna. As at the date of this Prospectus, Samruk-Kazyna is the sole shareholder of the Company.

Samruk-Kazyna

Samruk-Kazyna is wholly-owned by the Government and is the national managing holding company for substantially all state enterprises. Samruk-Kazyna was created in 2008 pursuant to the Presidential Edict No. 669, dated 13 October 2008, and the Resolution of the Government No. 962, dated 17 October 2008, by way of the merger of JSC "Kazakhstan Holding for Management of State Assets" "Samruk" and JSC "Sustainable Development Fund" "Kazyna". Samruk-Kazyna is a joint stock company whose shares are held by the Ministry of Finance's Committee of State Property and Privatisation on behalf of Kazakhstan.

Samruk-Kazyna's primary objective is to manage shares (participatory interests) of legal entities it owns with a goal of maximising long-term value and increasing competitiveness of such legal entities in world markets.

The governance of Samruk-Kazyna's activities is subject to general corporate governance applicable to all joint stock companies in Kazakhstan. Accordingly, the corporate governance structure of Samruk-Kazyna is as follows: the Government, as the sole shareholder constitutes the supreme governing body, the board of directors constitutes the managing body, and the management board constitutes the executive body.

Members of Samruk-Kazyna's board of directors are appointed by the government, and its members are, among others, the Minister of Economic Development and Trade, the Minister of Finance, the Minister of Oil and Gas, the Minister of Industry and New Technologies, independent directors and the chairman of the management board of Samruk-Kazyna. In addition, the board of directors is chaired by the Prime Minister of Kazakhstan.

The registered office of Samruk-Kazyna is at 23 Kabanbay Batyr Avenue, 010000 Astana, The Republic of Kazakhstan and the telephone number is: +7 7172 790 486.

Kaztemirtrans

Kaztemirtrans is a joint stock company organised under the laws of Kazakhstan. Kaztemirtrans was initially registered with the Ministry of Justice of Kazakhstan under state registration number 14750-1901-AO and re-registered on 24 January 2007 for an indefinite duration and is the national fleet carrier of Kazakhstan. Kaztemirtrans has a total authorised equity capital as at the date of this Prospectus of 63,000,000 common shares. The total share capital of Kaztemirtrans is KZT 60,893,056 thousand, all of which is held by the Company.

Locomotive

Locomotive is a joint stock company organised under the laws of the Republic of Kazakhstan. Locomotive's principal activity is the procurement of locomotive haulage services. Locomotive was registered with the Ministry of Justice under state registration number 14689-1901-AO on 14 October 2003 for an indefinite duration. Locomotive has a total authorised equity capital as at the date of this Prospectus of 50,588,989 common shares. The total share capital of Locomotive is KZT 50,588,989 thousand, all of which is held by the Company.

FORM OF THE NOTES AND TRANSFER RESTRICTIONS

The following information relates to the form, transfer and delivery of the Notes.

1. Form of the Notes

All Notes will be in fully registered form, without interest coupons attached. Notes offered and sold outside the United States in reliance on Regulation S will be represented by interests in the Unrestricted Global Note, in definitive fully registered form, without interest coupons attached, which will be deposited on or about the Closing Date with a common depositary for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee for such common depositary in respect of interests held through Euroclear and Clearstream, Luxembourg.

Notes offered and sold in reliance on Rule 144A will be represented by interests in the Restricted Global Note, in fully registered form, without interest coupons attached, which will be registered in the name of Cede & Co., as nominee for, and which will be deposited on or about the Closing Date with The Bank of New York Mellon, as custodian (the "**Custodian**") for, DTC. The Restricted Global Note (and any Note Certificates (as defined below) issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of such Note as set forth under paragraph 3 below.

The Unrestricted Global Note will have an ISIN number and a Common Code and the Restricted Global Note will have a separate ISIN number, Common Code and CUSIP number.

For the purposes of the Restricted Global Note and the Unrestricted Global Note, any reference in the Conditions to "**Note Certificate**" or "**Note Certificates**" shall, except where the context otherwise requires, be construed so as to include the Restricted Global Note or, as the case may be, the Unrestricted Global Note and interests therein.

2. Notices

So long as the Notes are represented by a Global Note and the Global Note is held on behalf of a clearing system, notices to Noteholders required to be published in the Financial Times may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders except that so long as the Notes are listed on the Official List and admitted to trading on the Market and the rules of that Exchange so require, notices shall also be published in a leading newspaper having general circulation in England (which is expected to be the Financial Times).

3. Transfer Restrictions

On or prior to the 40th day after the Closing Date, a beneficial interest in the Unrestricted Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the Restricted Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Agency Agreement), to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. After such 40th day, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject to the transfer restrictions contained in the legend appearing on the face of such Note, as set out below.

A beneficial interest in the Restricted Global Note may also be transferred to a person who wishes to take delivery of such beneficial interest through the Unrestricted Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

Any beneficial interest in either the Restricted Global Note or the Unrestricted Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Note will, upon transfer, cease to be a beneficial interest in such Global Note and become a beneficial interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Note for so long as such person retains such an interest.

The Notes are being offered and sold in the United States only to qualified institutional buyers within the meaning of and in reliance on Rule 144A. Because of the following restrictions, purchasers of Notes offered in the United States in reliance on Rule 144A are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Notes.

Each purchaser of Notes offered hereby pursuant to Rule 144A will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A are used herein as defined therein):

(i) the purchaser (a) is a qualified institutional buyer within the meaning of Rule 144A, (b) is acquiring the Notes for its own account or for the account of such a qualified institutional buyer and (c) such person is aware that the sale of the Notes to it is being made in reliance on Rule 144A;

(ii) the Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Notes offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged, or otherwise transferred except in accordance with the legend set out below; and

(iii) the Restricted Global Note and any Restricted Note Certificates (as defined below) issued in exchange for an interest in the Restricted Global Note will bear a legend to the following effect, unless the Issuer and the Guarantors determine otherwise in accordance with applicable law:

"NEITHER THIS NOTE NOR THE GUARANTEE HAS BEEN OR WILL BE REGISTERED UNDER, AND EACH WAS ORIGINALLY ISSUED OR MADE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), AND THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF REPRESENTS AND AGREES, FOR THE BENEFIT OF THE ISSUER AND THE GUARANTORS, THAT (A) THIS NOTE (AND ANY INTEREST HEREIN) MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER OR THE GUARANTORS, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THAT (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE (OR INTEREST HEREIN) FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (A) ABOVE.

THIS NOTE AND ALL RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFERS OF RESTRICTED SECURITIES GENERALLY. BY THE ACCEPTANCE OF THIS NOTE, THE HOLDER HEREOF SHALL BE DEEMED TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT."

Each purchaser of Notes outside the United States pursuant to Regulation S, and each subsequent purchaser of such Notes in re-sales during the period which expires on and includes the 40th day after the later of the commencement of the offering of the Notes and the Closing Date (the "**distribution compliance period**"), will be deemed to have represented, agreed and acknowledged as follows:

(i) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S);

(ii) it understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell pledge or otherwise transfer such Notes except in an offshore transactions in accordance with Rule 903 or Rule 904 of Regulation S, and in accordance with any applicable securities laws of any State of the United States; and

(iii) the Issuer, the Guarantor, the Registrar, the Joint Lead Managers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

4. Exchange of Interests in Global Notes for Note Certificates

The Restricted Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for Note certificates in definitive form (''**Restricted Note Certificates**'') if DTC (a) notifies the Issuer or the Guarantors that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Note or ceases to be a ''**clearing agency**'' registered under the Exchange Act, or is at any time no longer eligible to act as such, and the Issuer or the Guarantors are unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC or (b) an Event of Default (as defined and set out in Condition 12 (*Events of Default*) of the Notes) occurs. In such circumstances, such Restricted Note Certificates shall be registered in such names as DTC shall direct in writing and the Issuer or the Guarantors will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

The Unrestricted Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for Note certificates in definitive form (''**Unrestricted Note Certificates**'' if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so or (b) an Event of Default (as defined and set out in Condition 12 (*Events of Default*) of the Notes) occurs. In such circumstances, such Unrestricted Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing and the Issuer or the Guarantors will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

In the event that the Restricted Global Note is to be exchanged for Restricted Note Certificates or the Unrestricted Global Note is to be exchanged for Unrestricted Note Certificates (together ''**Note Certificates**'') the relevant Global Note shall be exchanged in full for the relevant Note Certificates and the Issuer or the Guarantors will, without charge to the holder or holders thereof, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders.

On exchange, a person having an interest in a Global Note must provide the Registrar with (i) a written order containing instructions and such other information as the Issuer, the Guarantors and the Registrar may require to complete, execute and deliver such Note Certificates and (ii) in the case of the Restricted Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Note Certificates issued in exchange for a beneficial interest in the Restricted Global Note shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under ''*Transfer Restrictions*'' above. Restricted Note Certificates issued as described above will not be exchangeable for beneficial interests in the Unrestricted Global Note and Unrestricted Note Certificates issued as described above will not be exchangeable for beneficial interests in the Restricted Global Note.

In addition to the requirements described under ''*Transfer Restrictions*'' above, the holder of a Note may transfer such Note only in accordance with the provisions of Condition 2 (*Transfer of Notes and Issue of Notes*) of the Notes.

Upon the transfer, exchange or replacement of a Restricted Note Certificate bearing the legend referred to under "Transfer Restrictions" above, or upon specific request for removal of the legend on a Restricted Note Certificate, the Issuer will deliver only Restricted Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer, the Guarantors and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer or the Guarantors that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

The Registrar will not register the transfer of any Notes or exchange of interests in a Global Note for Note Certificates for a period of 15 calendar days ending on the due date of any payment of principal or interest in respect of such Notes.

5. Euroclear, Clearstream, Luxembourg and DTC Arrangements

So long as DTC or its nominee or Euroclear, Clearstream, Luxembourg or the nominee of their common depositary is the registered holder of a Global Note, DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Agency Agreement, the Trust Deed and the Notes. Payments of principal, interest and Additional Amounts, if any, in respect of Global Notes will be made to DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof. None of the Issuer, the Guarantors, the Trustee, any Paying and Transfer Agent or the Joint Lead Managers or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal and interest with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by Euroclear or Clearstream, Luxembourg from the Principal Paying and Transfer Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg customers in accordance with the relevant system's rules and procedures.

Holders of book-entry interests in the Notes through DTC will receive, to the extent received by DTC from the Principal Paying and Transfer Agent, all distributions of principal and interest with respect to book-entry interests in the Notes from the Principal Paying and Transfer Agent through DTC. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

Interest on the Notes (other than interest on redemption) will be paid to the holder shown on the Register on the 15th day before the due date for such payment (the "**Record Date**"). Principal and interest with respect to the Restricted Note Certificates and the Unrestricted Note Certificates on redemption will be paid to the holder shown on the Register on the Record Date upon delivery and surrender of the relevant Note Certificate. Trading between the Restricted Global Note and the Unrestricted Global Note will therefore be net of accrued interest from the relevant Record Date to the relevant Interest Payment Date.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Note to such persons will be limited. Because DTC, Euroclear and Clearstream, Luxembourg can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book-entry interests in the Notes in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of the nominee of The Bank of New York Mellon and Cede & Co. to reflect the amounts of Notes held through Euroclear and Clearstream, Luxembourg on the one hand and DTC, on the other. Beneficial ownership in Notes will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

Interests in the Unrestricted Global Note and the Restricted Global Note will be in uncertificated book-entry form.

Trading between Euroclear and/or Clearstream, Luxembourg Account Holders. Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

Trading between DTC Participants. Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same Day Funds Settlement System.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser. When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Restricted Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Unrestricted Global Note (subject to such certification procedures as are provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC in accordance with the rules and procedures of DTC on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder. On the settlement date, the Custodian will instruct the Registrar to (a) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note and (b) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first Business Day following the settlement date. See above concerning the Record Date for payment of interest.

Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser. When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the Restricted Global Note (subject to such certification procedures as are provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m. Brussels or Luxembourg time, one Business Day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg account holder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the Custodian who will in turn deliver such book-entry interest in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note. See above concerning the Record Date for payment of interest.

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the Notes among participants of DTC, Clearstream, Luxembourg and Euroclear, none of Euroclear, Clearstream, Luxembourg or DTC is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Guarantors, the Trustee, any Paying and Transfer Agent or any of the Joint Lead Managers or any affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the Securities Act, will have any responsibility for the performance by DTC, Euroclear and

Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

6. Prescription

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by the Global Note will become void unless presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 10 (*Taxation*) of the Notes).

7. Meetings

The holder of a Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and, at any such meeting, as having one vote in respect of each U.S.$1,000 in principal amount of Notes for which the Global Note may be exchanged.

8. Purchase and Cancellation

Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the relevant Global Note.

9. Trustee's Powers

In considering the interests of Noteholders while a Global Note is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Note and may consider such interests as if such accountholders were the holder of the Global Note.

10. Put Option

The Noteholders' put option in Condition 9(c) (*Redemption at the option of the Noteholders*) of the Notes may be exercised by the holder of the relevant Global Note giving notice to the Principal Paying and Transfer Agent of the principal amount of Notes in respect of which the option is exercised and presenting the Global Note for endorsement of exercise within the time limits specified in such Condition.

SUBSCRIPTION AND SALE

The Joint Lead Managers have, pursuant to a Subscription Agreement dated 4 October 2010, severally but not jointly agreed with the Issuer and the Guarantors, subject to the satisfaction of certain conditions, to subscribe the Notes at 100% of their principal amount plus accrued interest, if any. The Issuer (failing whom the Guarantors) has agreed to pay to the Joint Lead Managers an underwriting commission of up to 0.30% 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.

United States

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Notes or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

The Notes have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or in a transaction not subject to the registration requirements of, the Securities Act.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the "**distribution compliance period**") within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to whom it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons substantially to the following effect:

> "The Notes covered hereby have not been registered under the U.S. Securities Act of 1933 (the "**Securities Act**") and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, except in either case in accordance with Regulation S or Rule 144A under the Securities Act. Terms used above have the meanings given to them by Regulation S."

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

The Subscription Agreement provides that each Joint Lead Manager may directly or through its U.S. broker dealer affiliate arrange for the offer and resale of Notes within the United States only to qualified institutional buyers in reliance on Rule 144A.

Terms used in this section have the meanings given to them by Regulation S or Rule 144A, as applicable, under the Securities Act.

United Kingdom

Each 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.

Kazakhstan

Each Joint Lead Manager has agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell the Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan, except in compliance with the laws of Kazakhstan.

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, or possession or distribution of 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, in any country or jurisdiction where action for that purpose is required.

TAXATION

The following is a general summary of the tax consequences in relation to the United Kingdom, The Netherlands, Kazakhstan and the United States as at the date hereof in relation to payments made under the Notes in relation to the sale or transfer of Notes. 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 EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), Member States are required to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction (a "paying agent") to or for an individual (or a non-corporate, "residual entity") in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

Also, a number of non-EU countries 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 made by a "paying agent" within its jurisdiction to or for an individual in a Member State.

Investors should note that the European Commission has proposed amendments (COM (2008) 727) to the EU Savings Directive. These proposed amendments, if implemented, would extend the scope of the EU Savings Directive so as to treat a wider range of income as similar to interest and to bring payments made through a wider range of collective investment undertakings wherever established within the scope of the EU Savings Directive. The European Parliament approved an amended version of this proposal on 24 April 2009. Investors who are in any doubt as to their position should consult their professional advisors.

United Kingdom Taxation

The following, which applies only to persons who are beneficial owners of the Notes, is a summary of the Issuer's understanding of current law and Her Majesty's Revenue and Customs ("**HMRC**") practice in the United Kingdom as at the date hereof relating to United Kingdom withholding tax and the provision of information. The United Kingdom tax treatment of prospective holders of the Notes depends on their individual circumstances and may be subject to change in the future. Prospective holders of the Notes who may be subject to tax in the United Kingdom or any other jurisdiction should seek their own professional advice. The following applies only in respect of the Notes issued by Kazakhstan Temir Zholy Finance B.V. (as "**Issuer**") and not to any Substituted Obligor and references to Notes and holders of Notes shall be construed accordingly.

Withholding tax

Payments of interest on the Notes by the Issuer may be made without withholding on account of United Kingdom tax.

Provision of information

Persons in the United Kingdom through whom interest is paid or credited to, or by whom interest is received on behalf of, an individual holder of Notes (whether resident in the United Kingdom or elsewhere) may be required to provide certain information to HMRC regarding the payment and the noteholder concerned. "Interest" for this purpose includes any amount to which a person holding a deeply discounted security is entitled on redemption of the security. However, in practice no information will be required to be provided in respect of such redemption amounts for the tax year 2010-2011. HMRC may communicate information to the tax authorities of other jurisdictions.

The United Kingdom has complied with its obligations under the EU Savings Directive and operates a system providing reports of information of or withholding tax from payments of savings income under the EU Savings Tax Directive.

Kazakhstan Taxation

The following is a general summary of Kazakhstan tax consequences as at the date hereof in relation to payments made under the Notes and in relation to the sale or transfer of the Notes. It is not exhaustive and purchasers are urged to consult their professional advisors as to the tax consequences to them of holding or transferring Notes.

Prior to the first interest payment with respect to the Notes, the Company intends to substitute itself for the Issuer as the issuer of the Notes, referred to herein as the Intended Substitution, and apply for a dual listing of the Notes on the KASE, referred to herein as the KASE Listing, along with the London Stock Exchange. See "*Terms and Conditions of the Notes – Meetings of Noteholders, Amendment, Modification and Waiver – Substitution*". Set forth below is a summary of Kazakhstan tax consequences both prior to and following the Intended Substitution and the KASE Listing. There can be no assurances that either or both of the Intended Substitution and the KASE Listing will take place. See "*Risk Factors – Risk Factors Relating to the Notes and the Guarantees – Favourable withholding tax treatment after the Intended Substitution is dependent on the Company maintaining the KASE Listing or a similar listing*".

Prior to the Intended Substitution

Interest

Under Kazakhstan law as presently in effect, payments of principal or interest on the Notes by the Issuer to an individual who is a tax non-resident of Kazakhstan or to a legal entity that is neither established in accordance with the legislation of Kazakhstan, nor has its actual governing body (place of actual management) in, nor maintains a permanent establishment in, Kazakhstan or otherwise has no legal taxable presence in Kazakhstan (together, "**Non-Kazakhstan Holders**") will not be subject to taxation in Kazakhstan, and no withholding of any Kazakhstan tax will be required on any such payments. Interest payable by the Issuer to residents of Kazakhstan or to tax non-residents who maintain a permanent establishment in Kazakhstan (together, "**Kazakhstan Holders**"), other than to individuals, will be subject to Kazakhstan income tax unless the Notes are listed, as at the date of accrual of interest, on the official list of a stock exchange operating in the territory of Kazakhstan.

Payments of interest from the Guarantors to the Issuer to fund the Issuer's obligations to make payments under the Notes will be subject to Kazakhstan withholding tax at a rate of 15% (unless a double tax treaty provides otherwise).

Gains

Gains realised by Non-Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes will not be subject to Kazakhstan income or profits tax. Any gains derived by Kazakhstan Holders in relation to Notes which are listed as at the date of sale on the official list of a stock exchange operating in the territory of Kazakhstan and sold through open trades on such stock exchange are not subject to Kazakhstan income tax.

Payments under the Guarantees

Payments of interest to Non-Kazakhstan Holders under the Guarantees issued by the Guarantors will be subject to withholding tax at a rate of 15% unless reduced by an applicable double taxation treaty. Payments of interest under such Guarantees to Non-Kazakhstan Holders registered in countries with a favourable tax regime which appear in a list published from time to time by the Kazakhstan Government (these countries currently include Cyprus, Liechtenstein, Luxembourg, Nigeria, Malta, Aruba, Singapore, Switzerland and others) will be subject to withholding of Kazakhstan tax at a rate of 20% unless reduced by an applicable double taxation treaty.

Payments of interest to Kazakhstan Holders under the Guarantees issued by the Guarantors, other than to Kazakhstan investment funds and certain other entities, will be subject to withholding tax at a rate of 15% (10% for legal entities from 1 January 2014 onwards).

The Guarantors will agree under their Guarantees in the Trust Deed to pay Additional Amounts (as defined in the Trust Deed) in respect of any such withholding, subject to certain exceptions set out in full in "*Terms and Conditions of the Notes – Taxation*". Payments by the Guarantors to a Noteholder entitled to the benefits of a Kazakhstan Tax Treaty may be subject to a reduced rate of withholding tax.

Following the Intended Substitution

Interest

Payments of interest on the Notes by the Company to Non-Kazakhstan Holders will be subject to withholding tax at a rate of 15% unless reduced by an applicable double taxation treaty. Payments of interest on the Notes to Non-Kazakhstan Holders registered in countries with a favourable tax regime which appear in a list published from time to time by the Kazakhstan Government (these countries currently include Cyprus, Liechtenstein, Luxembourg, Nigeria, Malta, Aruba, Singapore, Switzerland and others) will be subject to withholding of Kazakhstan tax at a rate of 20% unless reduced by an applicable double taxation treaty.

The withholding tax on interest would not apply if the Notes are, as at the date of accrual of interest, on the official list of a stock exchange operating in the territory of Kazakhstan (such as, the KASE).

Interest payable by the Company to Kazakhstan Holders, other than to individuals (who are exempt) and Kazakhstan investment funds and certain other entities, will be subject to Kazakhstan withholding tax at a rate of 15% (10% from 1 January 2014 onwards) unless the Notes are listed, as at the date of accrual of interest, on the official list of a stock exchange operating in the territory of Kazakhstan.

Gains

Gains realised by Non-Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes will be subject to withholding tax at a rate of 15%. If the disposal of the Notes is made to a Kazakhstan Holder and the transferor is registered in a country with a favourable tax regime, gains derived from such a disposal are subject to withholding tax in Kazakhstan at the rate of 20%. 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.

Any gains realised by Non-Kazakhstan Holders in relation to the Notes which are listed as of the date of sale on the official list of a stock exchange operating in the territory of Kazakhstan or a foreign stock exchange and sold through open trades on such stock exchanges are not subject to withholding tax. Also, the withholding tax on the gains may be reduced or eliminated under an applicable double taxation treaty.

Any gains derived by Kazakhstan Holders in relation to the Notes which are listed as of the date of sale on the official list of a stock exchange operating in the territory of Kazakhstan and sold through open trades on such stock exchange are not subject to Kazakhstan income tax.

Payments under the Guarantees by Kazakhstan Guarantors (other than the Company)

Payments of interest to Non-Kazakhstan Holders under the Guarantees issued by Guarantors will be subject to withholding tax at a rate of 15% unless reduced by an applicable double taxation treaty. Payments of interest under such Guarantees to Non-Kazakhstan Holders registered in countries with a favourable tax regime which appear in a list published from time to time by the Kazakhstan Government (these countries currently include Cyprus, Liechtenstein, Luxembourg, Nigeria, Malta, Aruba, Singapore, Switzerland and others) will be subject to withholding of Kazakhstan tax at a rate of 20% unless reduced by an applicable double taxation treaty.

Payments of interest to Kazakhstan Holders under the Guarantees issued by Guarantors, other than to Kazakhstan investment funds and certain other entities, will be subject to withholding tax at a rate of 15% (10% for legal entities from 1 January 2014 onwards).

The Guarantors will agree under their Guarantees in the Trust Deed to pay Additional Amounts (as defined in the Trust Deed) in respect of any such withholding, subject to certain exceptions set out in full in "*Terms and Conditions of the Notes – Taxation*". Payments by the Guarantors to a Noteholder entitled to the benefits of a Kazakhstan Tax Treaty may be subject to a reduced rate of withholding tax.

The Netherlands Taxation

The following is a general summary of certain Netherlands tax consequences of the acquisition, holding and disposal of the Notes. This summary does not purport to describe all possible tax considerations or consequences that may be relevant to a holder or prospective holder of Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as trusts or similar arrangements) may be subject to special rules. In view of its general nature, it should be treated with corresponding caution. Holders or prospective holders should consult with their tax advisors with regard to the tax consequences of investing in the Notes in their particular circumstances. The discussion below is included for general information purposes only.

Except as otherwise indicated, this summary only addresses Netherlands national tax legislation and published regulations, as in effect on the date hereof and as interpreted in published case law until this date, without prejudice to any amendment introduced at a later date and implemented with or without retroactive effect.

Withholding tax

All payments of principal and/or interest made by the Issuer under the Notes may be made free of withholding or deduction of, for or on account of any taxes of whatever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein.

Taxes on income and capital gains

Please note that the summary in this section does not describe the Netherlands tax consequences for:

(i) holders of Notes if such holders, and in the case of individuals, his/her partner or certain of their relatives by blood or marriage in the direct line (including foster children), have a substantial interest or deemed substantial interest in the Issuer under The Netherlands Income Tax Act 2001 (in Dutch: "*Wet inkomstenbelasting 2001*"). Generally speaking, a holder of securities in a company is considered to hold a substantial interest in such company, if such holder alone or, in the case of individuals, together with his/her partner (as defined in The Netherlands Income Tax Act 2001), directly or indirectly, holds (i) an interest of 5% or more of the total issued and outstanding capital of that company or of 5% or more of the issued and outstanding capital of a certain class of shares of that company; or (ii) holds rights to acquire, directly or indirectly, such interest; or (iii) holds certain profit sharing rights in that company that relate to 5% or more of the company's annual profits and/or to 5% or more of the company's liquidation proceeds. A deemed substantial interest arises if a substantial interest (or part thereof) in a company has been disposed of, or is deemed to have been disposed of, on a non-recognition basis;

(ii) pension funds, investment institutions (in Dutch: "*fiscale beleggingsinstellingen*"), exempt investment institutions (in Dutch: "*vrijgestelde beleggingsinstellingen*") (as defined in The Netherlands Corporate Income Tax Act 1969; in Dutch: "*Wet op de vennootschapsbelasting* 1969") and other entities that are exempt from Netherlands corporate income tax; and,

(iii) holders of Notes who receive or have received the Notes as employment income, deemed employment income or otherwise as compensation.

Residents of the Netherlands

Generally speaking, if the holder of the Notes is an entity that is a resident or deemed to be resident of the Netherlands for Netherlands corporate income tax purposes, any payment under the Notes or any gain or loss realised on the disposal or deemed disposal of the Notes is subject to Netherlands corporate income tax at a rate of 25.5% (a corporate income tax rate of 20% applies with respect to taxable profits up to € 200,000, the bracket for 2010).

If a holder of the Notes is an individual, resident or deemed to be resident of the Netherlands for Netherlands income tax purposes (including the non resident individual holder who has made an election for the application of the rules of The Netherlands Income Tax Act 2001 as they apply to residents of the Netherlands), any payment under the Notes or any gain or loss realised on the disposal or deemed disposal of the Notes is taxable at the progressive income tax rates (with a maximum of 52%), if:

(i) the Notes are attributable to an enterprise from which the holder of the Notes derives a share of the profit, whether as an entrepreneur or as a person who has a co entitlement to the net worth of such enterprise without being a shareholder (as defined in The Netherlands Income Tax Act 2001); or

(ii) the holder of the Notes is considered to perform activities with respect to the Notes that go beyond ordinary asset management (in Dutch: "*normaal, actief vermogensbeheer*") or derives benefits from the Notes that are (otherwise) taxable as benefits from other activities (in Dutch: "*resultaat uit overige werkzaamheden*").

If the above mentioned conditions (i) and (ii) do not apply to the individual holder of the Notes, such holder will be taxed annually on a deemed income of 4% of his/her net investment assets for the year at an income tax rate of 30%. The net investment assets for the year is the average of the fair market value of the investment assets less the allowable liabilities at the beginning of that year and the fair market value of the investment assets less the allowable liabilities at the end of that year. The Notes are included as investment assets. A tax free allowance may be available. An actual gain or loss in respect of the Notes is as such not subject to Netherlands income tax.

Non residents of the Netherlands

A holder of Notes that is neither a resident nor deemed to be a resident in the Netherlands (and, if such holder is an individual, such holder has not made an election for the application of the rules of The Netherlands Income Tax Act 2001 as they apply to residents of the Netherlands) will not be subject to Netherlands taxes on income or capital gains in respect of any payment under the Notes or in respect of any gain or loss realised on the disposal or deemed disposal of the Notes, provided that:

(i) such holder does not have an interest in an enterprise or deemed enterprise (as defined in The Netherlands Income Tax Act 2001 and The Netherlands Corporate Income Tax Act 1969) which, in whole or in part, is either effectively managed in the Netherlands or carried on through a permanent establishment, a deemed permanent establishment or a permanent representative in the Netherlands and to which enterprise or part of an enterprise the Notes are attributable; and

(ii) in the event the holder is an individual, such holder does not carry out any activities in the Netherlands with respect to the Notes that go beyond ordinary asset management and does not derive benefits from the Notes that are (otherwise) taxable as benefits from other activities in the Netherlands.

Gift and inheritance taxes

Residents of the Netherlands

Gift or inheritance taxes will arise in the Netherlands with respect to a transfer of the Notes by way of a gift by, or on the death of, a holder of such Notes who is resident or deemed resident of the Netherlands at the time of the gift or his/her death.

Non residents of the Netherlands

No Netherlands gift or inheritance taxes will arise on the transfer of Notes by way of gift by, or on the death of, a holder of Notes who is neither resident nor deemed to be resident in the Netherlands, unless:

(i) in the case of a gift of a Note by an individual who at the date of the gift was neither resident nor deemed to be resident in the Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in the Netherlands; or

(ii) the transfer is otherwise construed as a gift or inheritance made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be resident in the Netherlands.

For purposes of Netherlands gift and inheritance taxes, amongst others, a person that holds the Netherlands nationality will be deemed to be resident in the Netherlands if such person has been resident in the Netherlands at any time during the ten years preceding the date of the gift or his/her death. Additionally, for purposes of Netherlands gift tax, amongst others, a person not holding the Netherlands nationality will be deemed to be resident in the Netherlands if such person has been resident in the Netherlands at any time during the twelve months preceding the date of the gift. Applicable tax treaties may override deemed residency.

Value added tax (VAT)

No Netherlands VAT will be payable by the holders of the Notes on any payment in consideration for the issue of the Notes or with respect to the payment of interest or principal by the Issuer under the Notes.

Other taxes and duties

No Netherlands registration tax, customs duty, stamp duty or any other similar documentary tax or duty, other than court fees, will be payable by the holders of the Notes in respect or in connection with the issue of the Notes or with respect to the payment of interest or principal by the Issuer under the Notes.

U.S. Taxation

The following discussion is a summary of the principal U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes by a U.S. holder (defined below), but does not purport to be a complete analysis of all potential tax effects. This summary is based upon the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), existing, temporary and proposed U.S. Treasury Regulations issued thereunder, and judicial and administrative interpretations thereof, each as available and in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect or differing interpretations which could affect the tax consequences described herein. This discussion does not address all of the U.S. federal income tax consequences that may be relevant to a holder in light of such holder's particular circumstances, such as the unearned income Medicare contribution tax, or to holders that may be subject to special rules, such as certain financial institutions, certain former citizens or long-term residents of the United States, insurance companies, dealers or traders in securities or currencies, holders whose functional currency is not the U.S. dollar, tax exempt organisations, regulated investment companies, real estate investment trusts, grantor trusts, holders that will hold Notes through partnerships or other pass through entities and persons holding the Notes as part of a "straddle", "hedge", "conversion transaction" or other integrated transaction for U.S. federal income tax purposes. Moreover, this summary does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership, disposition or retirement of the Notes. In addition, this discussion is limited to persons who purchase the Notes for cash at original issue and at their "issue price" (the first price at which a substantial part of the Notes are sold to the public for cash, excluding sales to bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) and who hold the Notes as capital assets within the meaning of Section 1221 of the Code.

For purposes of this discussion, a "**U.S. holder**" is a beneficial owner of a Note that is (i) an individual citizen or resident of the United States; (ii) a corporation or other entity taxable as a corporation for U.S. federal income tax purposes created or organised in or under the laws of the United States or any state or any political subdivision thereof; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or if a valid election is in place under applicable U.S. Treasury Regulations to treat the trust as a U.S. person.

A "**non U.S. holder**" is a beneficial owner of the Notes that is neither a U.S. holder nor a partnership (or other entity that is treated as a partnership for U.S. federal income tax purposes).

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of the partnership and a partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor as to its consequences.

Internal Revenue Service Circular 230 Disclosure

Pursuant to United States Internal Revenue Service (the "**IRS**") Circular 230, we hereby inform you that the following description of U.S. federal tax issues is not intended or written to be used, and such description cannot be used by any holder for the purpose of avoiding any penalties that may be imposed on the holder under the Code. Such description was written to support the promotion or marketing of the Notes. Holders should seek advice based on the holder's particular circumstances from an independent tax advisor.

Characterisation of the Notes

The issuer intends to take the position that the Notes are debt for U.S. federal income tax purposes; however, if the IRS treats the Notes as equity for U.S. federal income tax purposes certain adverse consequences could result to U.S. holders. The remainder of this discussion assumes the Notes will be treated as debt for U.S. federal income tax purposes both before and after the substitution.

U.S. Holders

Interest

Payments of stated interest on the Notes, including any Additional Amounts, generally will be taxable to a U.S. holder as ordinary income at the time that such payments are received or accrued, in accordance with such U.S. holder's usual method of accounting for U.S. federal income tax purposes.

Interest income on a Note generally will be treated as foreign source income for U.S. federal income tax purposes and generally will be considered "passive income" or, in the case of certain U.S. holders, "general category income".

Effects of Certain Redemptions

Certain debt instruments that provide for one or more contingent payments are subject to U.S. Treasury Regulations governing contingent payment debt instruments. A payment is not treated as a contingent payment under these regulations if, as of the issue date of the debt instrument, the likelihood that such payment will be made is remote. In certain circumstances (see the discussion under "*Terms and Conditions of the Notes – Redemption, Purchase and Cancelation*"), the Issuer may pay amounts on the Notes that are in excess of the stated interest or principal of such Notes. The Issuer intends to take the position that the possibility that any such payment will be made is remote so that such possibility will not cause the Notes to be treated as contingent payment debt instruments. The Issuer's determination that these contingencies are remote is binding on a U.S. holder unless such holder discloses its contrary position to the IRS in the manner that is required by applicable U.S. Treasury Regulations. The Issuer's determination is not, however, binding on the IRS. It is possible that the IRS might take a different position from that described above, in which case the timing, character and amount of taxable income in respect of the Notes may be different from that described herein.

Sale, Exchange or Retirement of Notes

If you are a U.S. holder, upon the sale, exchange or retirement of a Note you will recognise taxable gain or loss equal to the difference, if any, between the amount realised on the sale, exchange or retirement, other than accrued but unpaid interest which will be taxable as such, and your adjusted tax basis in the Note. Your adjusted tax basis in a Note generally will equal the cost of the Note to you. Any gain or loss recognised on the sale, exchange or retirement of a Note (other than amounts attributable to accrued but unpaid interest will be capital gain or loss. Any gain or loss realised on the sale, exchange or retirement of a Note generally will be treated as U.S. source gain or loss, as the case may be. Under certain circumstances as described under the heading "*The Netherlands Taxation – Taxes on income and capital gains*", you may be subject to Dutch tax upon the disposition of your Notes. In such circumstances and subject to applicable limitations under the Code, you may elect to treat the gain as foreign source income and to credit the Dutch tax against your U.S. federal income tax liability with respect to the gain. The deductibility of capital losses is subject to limitations.

The Intended Substitution

As explained below, the Issuer intends to take the position that the Intended Substitution is not a taxable exchange for U.S. federal income tax purposes. No ruling will be sought from the IRS in connection with the Intended Substitution and no assurance can be given that the IRS will not challenge the conclusion below.

Under the Code gain or loss is recognised on the sale or exchange of property, such as the Notes. Treasury Regulations promulgated under the Code provide that the modification of the terms of a debt instrument results in an exchange of the original instrument for the modified instrument only if the modified debt instrument differs materially in kind or in extent from the original instrument. The Treasury Regulations provide that the modification of the terms of a debt instrument results in an exchange of the original instrument for the modified instrument only if the modified debt instrument differs materially in kind or in extent from the original instrument. That is, the modification is "significant".

The Intended Substitution is a modification of the Notes pursuant to the Treasury Regulations. However, the Intended Substitution does not cause a taxable exchange of the Notes for U.S. federal income tax purposes unless such modification is "significant". Under the Trust Deed, the Guarantor is liable as a guarantor with respect to the Notes as if it were the sole principal debtor and not merely a surety. Therefore, for U.S. federal income tax purposes, the Intended Substitution is treated as a deletion of a co-obligor. Under the Treasury Regulations, the deletion of a co-obligor on a debt instrument is a "significant" modification if such deletion of the co-obligor results in a change in payment expectations. The Issuer does not expect the Intended Substitution to result in a change in payment expectations because, among other factors, the Guarantor is at all times liable on the Notes as if it were the debtor and pursuant to the terms of this offering, the Intended Substitution is anticipated to occur prior to the first interest payment date with respect to the Notes. Based on the foregoing, the Intended Substitution should not result in a "significant" modification of the Notes that would be treated as a taxable exchange for U.S. federal income tax purposes.

This conclusion is not binding upon the IRS. U.S. holders should consult their tax advisors regarding the effect, if any, of the occurrence of the Intended Substitution on their ownership and disposition of the Notes.

Non-U.S. Holders

Subject to the discussion below under the heading "*Information reporting and backup withholding tax*", payments of interest on a Note to a non-U.S. holder generally will not be subject to U.S. federal income tax unless the income is effectively connected with the conduct by such non-U.S. holder of a trade or business in the United States.

Subject to the discussion below under the heading "*Information reporting and backup withholding tax*", any gain realised by a non-U.S. holder upon the sale, exchange, redemption or other disposition of a Note generally will not be subject to U.S. federal income tax, unless (i) the gain is effectively connected with the active conduct by such non-U.S. holder of a trade or business in the United States or (ii) in the case of any gain realised by an individual non-U.S. holder, such non-U.S. holder is present in the United States for 183 days or more in the taxable year of the sale, exchange, redemption or other disposition and certain other conditions are met.

Information Reporting and Backup Withholding Tax

A backup withholding tax and information reporting requirements apply to certain payments of interest on an obligation and to proceeds of the sale or redemption of an obligation, to certain holders of Notes that are U.S. persons. The payor will be required to withhold backup withholding tax on payments made within the United States, or by a U.S. payor or U.S. middleman, on a Note to a holder of a Note that is a U.S. person, other than an exempt recipient, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments within the United States, or by a U.S. payor or U.S. middleman, of principal and interest to a holder of a Note that is not a U.S. person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect.

Backup withholding is not an additional tax but, rather, is a method of tax collection. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against the holder's U.S. federal income tax liability provided the required information is furnished to the U.S. Internal Revenue Service in a timely manner.

New Legislation

In addition, for taxable years beginning after 18 March 2010, new legislation requires certain U.S. holders who are individuals to report information relating to an interest in our Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by certain financial institutions). U.S. holders are urged to consult their tax advisors regarding the effect, if any, of new U.S. federal income tax legislation on their ownership and disposition of the Notes.

The above summary is not intended to constitute a complete analysis of all tax consequences relating to the ownership of Notes.

Prospective purchasers of the Notes should consult their own tax advisors concerning the tax consequences of holding Notes in light of their particular circumstances, including the application of the U.S. federal income tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

GENERAL INFORMATION

1. **Clearing Systems**

The Notes have been accepted for clearance through the DTC, Clearstream, Luxembourg and Euroclear systems with Common Codes of 054621400 and 054713479 for Unrestricted Notes and Restricted Notes, respectively. The International Securities Identification Numbers (ISIN) for the Unrestricted Notes and Restricted Notes are XS0546214007 and US48667DAC83, respectively. The CUSIP number for the Restricted Notes is 48667DAC8.

2. **Admission to Trading**

It is expected that admission of the Notes to the Official List and to trading on the Market will commence on or about 7 October 2010, subject only to the issue of the Global Note. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in U.S. Dollars and for delivery on the third working date after the day of the transaction.

3. **Authorisations**

The Issuer and the Guarantors have obtained all necessary consents, approvals and authorisations in The Netherlands and Kazakhstan in connection with the issue and performance of the Notes and the Guarantee. The issue of the Notes was authorised by resolution of the Board of Directors of the Issuer passed on 1 April 2010, 16 September 2010 and 30 September 2010 and the giving of the Guarantee by the Company was authorised by resolution of the Board of Directors of the Company passed on 1 September 2010. Furthermore, the giving of the Guarantee by Kaztemirtrans was authorised by resolution of the Board of Directors of Kaztemirtrans passed on 8 September 2010 and the giving of the Guarantee by Locomotive was authorised by resolution of the Board of Directors of Locomotive passed on 8 September 2010.

4. **Material Adverse Change**

There has been no significant change in the financial or trading position of the Issuer, the Company and its subsidiaries, Kaztemirtrans and its subsidiaries or Locomotive and its subsidiaries since 30 June 2010 and no material adverse change in the financial position or prospects of the Issuer, the Company and its subsidiaries, Kaztemirtrans and its subsidiaries or Locomotive and its subsidiaries since 31 December 2009.

5. **Litigation**

Neither the Issuer, the Company and its subsidiaries, Kaztemirtrans and its subsidiaries nor Locomotive and its subsidiaries is involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) which may have, or have had during the 12 months preceding the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer, the Company and its subsidiaries, Kaztemirtrans and its subsidiaries or Locomotive and its subsidiaries.

6. **Documents on Display**

For so long as any of the Notes is outstanding, copies of the following documents may be inspected at the specified offices of each of the Paying and Transfer Agents during normal business hours:

(a) the Articles of Association of the Issuer and the Guarantors;

(b) the annual report and consolidated accounts of the Company for the financial years ended 31 December 2009 and 2008 including, in each case, the audit report relating to such accounts;

(c) the interim consolidated accounts of the Company for the six month period ended 30 June 2010 and 30 June 2009;

(d) the Trust Deed (including the Guarantee);

(e) the Agency Agreement; and

(f) this Prospectus and any supplements thereto.

English translations of any of the documents listed above which are not in English are also available for inspection as described above.

Neither the Issuer nor the Guarantors has entered into any material contracts outside the ordinary course of their businesses which could result in them being under an obligation or entitlement that is material to their ability to make payments under the Notes.

7. Auditors

The consolidated financial statements of the Company as at and for the financial years ended 31 December 2009 and 2008 contained in this Prospectus have been audited by Deloitte LLP in accordance with International Standards on Auditing without qualification.

8. Certificates

Any certificate of the Auditors (as defined in the Trust Deed) or any other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts set out therein notwithstanding that such certificate or report and/or any engagement letter or other document entered into by the Trustee in connection therewith contains a monetary or other limit on the liability of the Auditors or such other person in respect thereof and notwithstanding that the scope and/or basis of such certificate or report may be limited by any engagement or similar letter or by the terms of the certificate or report itself.

9. Conflicts of Interest

There are no potential conflicts of interest between any duties of the managing directors of the Issuer towards the Issuer and their private interests and/or other duties, there are no potential conflicts of interest between any duties of the board of directors, managing board and president of the Company towards the Company or the Issuer and their private interests and/or other duties, there are no potential conflicts of interest between any duties of the board of directors and president of Kaztemirtrans towards Kaztemirtrans or the Issuer and their private interests and/or other duties, and there are no potential conflicts of interest between any duties of the board of directors and president of Locomotive towards Locomotive or the Issuer and their private interests and/or other duties.

10. Enforcement by the Trustee

The Conditions provide for the Trustee to take action on behalf of the Noteholders in certain circumstances, but only if the Trustee is indemnified and/or otherwise secured to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes and accordingly in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it, and it will be for Noteholders to take action directly.

APPENDIX I

GLOSSARY OF FREQUENTLY USED DEFINED TERMS

The following terms are used in this Prospectus and are not defined in "*Terms and Conditions of the Notes*":

"**2006 Notes**" means the U.S.$450,000,000 aggregate principal amount of 6.50% notes due 2011 and U.S.$350,000,000 aggregate principal amount of 7.00% notes due 2016 issued by the Issuer, collectively;

"**2009 Tax Code**" means the adopted Kazakhstan tax code effective 1 January 2009, as amended;

"**Additional Amounts**" means additional amounts paid by the relevant Guarantor or Issuer to holders of the Notes as set forth in the Terms and Conditions of the Notes;

"**Annual Financial Statements**" means the Company's audited consolidated financial statements and consolidated statements of comprehensive income, cash flows and changes in shareholder's equity as at and for the years ended 31 December 2009 and 2008;

"**Anti-Monopoly Agency**" means the Agency for Regulation of Natural Monopolies;

"**Arbitration Law**" means the Law on International Commercial Arbitration adopted by the Parliament of Kazakhstan on 28 December 2004;

"**Basic Rates**" means the rates for international tariffs for passenger, cargo and baggage transportation by rail, which were approved in 1995;

"**BRT CIS**" means the Board for Railway Transportation of CIS Country Members;

"**Center**" means the center of evaluation and development of railway staff;

"**CIS Tariff Agreement**" the Tariff Agreement between the railway administrations of the CIS, which was approved on 17 February 1993, the Concept of Concurrence of Railway Tariff Policies of the CIS dated 18 October 1996, and the Agreement of Mutual Policy on Tariffs dated 17 January 1997, collectively;

"**CIS Tariff Policy**" means the Tariff Policy of Railways of CIS Countries for International Cargo Transportation, which establishes the framework for tariffs imposed on CIS member states by other CIS member states;

"**Civil Code**" means the Kazakhstan Civil Code adopted in December 1994, as amended;

"**Clearstream, Luxembourg**" means Clearstream Banking *société anonyme*;

"**Code**" means U.S. Internal Revenue Code of 1986, as amended;

"**Company**" means JSC National Company of Kazakhstan Temir Zholy;

"**Convention**" means the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards;

"**Custodian**" means The Bank of New York Mellon;

"**Defined Benefit Scheme**" means certain benefits provided by the Company to employees upon retirement in accordance with collective bargaining agreements with the Trade Union;

"**Development Strategy**" means the 2020 Development Strategy adopted by the Board of Directors of the Company on 7 May 2010, which aims to build an efficient organisational structure to enhance the commercial and operational performance of the Group in connection with the overall reform of the Kazakhstan railway industry;

"**distribution compliance period**" means the time period to which: (a) the Joint Lead Managers have agreed, except as permitted by the Subscription Agreement, not to offer, sell nor deliver the Notes (i) as part of its distribution at any time or (ii) otherwise until the expiration of 40 days after the later of the commencement of the offering and the Closing Date, and (b) each purchaser of the Notes outside the United States pursuant to Regulation S and each subsequent purchaser of the Notes in any re-sale have agreed to certain conditions regarding the Notes until the expiration of 40 days after the later of the commencement of the offering and the Closing Date;

"**domestic**" means the transportation of freight within Kazakhstan;

"**DTC**" means the Depository Trust Company;

"**EBRD**" means the European Bank for Reconstruction and Development;

"**EU Savings Directive**" EC Council Directive 2003/48/EC on the taxation of savings income;

"**Euroclear**" means Euroclear Bank SA/NA;

"**Exchange Act**" means the United States Securities Exchange Act of 1934, as amended;

"**export**" means the transportation of freight from within Kazakhstan to destinations outside of Kazakhstan;

"**Financial Statements**" means the Company's Annual Financial Statements and Interim Financial Statements, collectively;

"**Fitch**" means Fitch Ratings Ltd.;

"**freight tariffs**" means the tariffs charged by the Group for freight transported within, imported into or exported from Kazakhstan;

"**Global Notes**" means the Restricted Global Note together with the Unrestricted Global Note;

"**Government**" means the Government of the Republic of Kazakhstan;

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

"**Guarantee**" means the guarantee agreement contained in the Trust Deed among the Guarantors to pay all amounts due and payable in respect of the Notes;

"**Guarantor**" means each of the Company, Kaztemirtrans and Locomotive;

"**Guarantors**" means the Company, Kaztemirtrans and Locomotive, collectively;

"**IFRS**" means the International Financial Reporting Standards;

"**Import**" means the transportation of freight from outside of Kazakhstan to destinations within Kazakhstan;

"**Intended Substitution**" means the Company's intention, prior to the first interest payment date on the Notes, to be substituted for the Issuer as issuer of the Notes whereupon the Company will assume all of the obligations of the Issuer under the Notes;

"**Interim Financial Statements**" means the Company's unaudited condensed consolidated statement of financial position as at 30 June 2010 and consolidated statements of comprehensive income, cash flows and changes in equity for the six months ended 30 June 2010 and 2009;

"**Investor's Currency**" means the currency or currency unit of the investor;

"**IRS**" means the United States Internal Revenue Service;

"**Issuer**" means Kazakhstan Temir Zholy Finance B.V.;

"**Joint Lead Managers**" means Barclay's Bank PLC, HSBC Bank plc and The Royal Bank of Scotland plc, collectively;

"**KASE**" means the Kazakhstan Stock Exchange Inc.;

"**KASE Listing**" means the application by the Company to list the notes on the KASE;

"**Kazakhstan Holders**" means individuals who are tax residents of Kazakhstan or 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 JSC Kaztemirtrans, a wholly owned subsidiary of the Company and owner of the freight fleet;

"**Land Code**" means Article 26 of the Land Code of the Republic of Kazakhstan dated 20 June 2003 No. 442-II;

"**Law on Competition**" means the Law on Competition #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 dated 9 July 1998, as amended the Law on Natural Monopolies;

"**Locomotive**" means JSC Locomotive, a wholly owned subsidiary of the Company and owner of the locomotives;

"**London Stock Exchange**" means the London Stock Exchange plc;

"**Market**" means the London Stock Exchange's regulated market;

"**Ministry of Transportation**" means the Ministry of Transportation and Communication of the Republic of Kazakhstan;

"**Moody's**" means Moody's Investor's Service, Inc.;

"**NBK**" means the National Bank of Kazakhstan;

"**Non-Kazakhstan Holders**" means individuals who are non-residents of Kazakhstan for tax purposes or a legal entity that is neither established under Kazakhstan law, nor has its actual governing body (place of actual management) in, nor maintains a permanent establishment in or otherwise has no taxable presence in Kazakhstan and such Holders will not be subject to taxation in Kazakhstan or subject to Kazakhstan withholding taxes;

"**non-U.S. holder**" means a beneficial owner of the Notes that is neither a U.S. holder nor a partnership (or other entity that is treated as a partnership for U.S. federal income tax purposes);

"**Note Certificates**" means the Restricted Note Certificates and the Unrestricted Note Certificates, collectively;

"**Notes**" means the notes described in this Prospectus;

"**NSA**" means the Agency of the Republic of Kazakhstan for Statistics;

"**OEC**" means the Organisation for Economic Cooperation;

"**Official List**" means the Official List of the UK Listing Authority;

"**OSJD**" means the Organisation for Railways Cooperation;

"**Procurement Rules**" means Samruk-Kazyna's Rules for Procurement of Certain Goods, Works and Services and the Ownership Rights or Trust Management adopted by the Board of Directors of Samruk-Kazyna on 18 April 2009 No. 32, which is Samruk-Kazyna's rules for companies directly or indirectly majority owned or trust managed by Samruk-Kazyna;

"**Prospectus**" means the final prospectus in connection with the admission of the Notes to the Official List of the U.K. Listing Authority and the Stock Exchange's Regulated Market;

"**Prospectus Directive**" means the Directive 2003/71/EC;

"**QIB's**" means Qualified Institutional Buyers (within the meaning of Rule 144A under the Securities Act);

"**Record Date**" means the date upon which the determination is made as to the Noteholders entitled to receive interest payments and such date is set on the 15th day prior to the due date of the interest payment in respect of the Notes;

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

"**Relevant Persons**" means persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, collectively;

"**Restricted Global Note**" means the Notes that are offered and sold in reliance on Rule 144A;

"**Restricted Note Certificates**" means the Restricted Global Note that may become exchangeable, free of charge to the holder, in whole but not in part, for Note Certificates in definitive form if DTC (a) notifies the Issuer or the Guarantors that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Note or ceases to be a "clearing agency" registered under the Exchange Act, or is at any time no longer eligible to act as such, and the Issuer or the Guarantors are unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC or (b) an Event of Default occurs as set forth in the Terms and Conditions;

"**RSA**" means the New Hampshire Revised Statutes;

"**Rule 144A**" means Rule 144A promulgated under the Securities Act;

"**S&P**" means Standard & Poor's Rating Service, a division of McGraw-Hill Companies;

"**Samruk-Kazyna**" means JSC Sovereign Wealth Fund Samruk-Kazyna;

"**Samruk-Kazyna Law**" means the Kazakhstan Law on the Natural Welfare Fund;

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

"**Stabilising Manager**" means The Royal Bank of Scotland plc;

"**TRACECA**" means the Transport Corridor – Europe – Caucasus – Asia;

"**Trade Union**" means the Public Association Trade Union of Railway Employees;

"**Trade Union of Kaztemirtrans**" means the Public Association Trade Union of JSC Kaztemirtrans;

"**transit**" means the transportation of freight that originates outside of Kazakhstan and passes through Kazakhstan en route to its final destination;

"**transit freight tariffs**" means the tariffs charged by the Group for freight transported using the Group's locomotives, freight cars or containers in respect of freight that passes through Kazakhstan en route to its final destination;

"**Trustee**" means BNY Corporate Trustee Services Limited;

"**UIC**" means the International Union of Railways;

"**UK Listing Authority**" means the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000;

"**Unrestricted Global Note**" means the Notes that are offered and sold in reliance on Regulation S;

"**Unrestricted Note Certificates**" means the Unrestricted Global Note that may become exchangeable, free of charge to the holder, in whole but not in part, for Note Certificates in definitive form if: (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so or (b) an Event of Default occurs as set forth in the Terms and Conditions;

"**U.S. holder**" means a beneficial owner of a Note that is (i) an individual citizen or resident of the United States; (ii) a corporation or other entity taxable as a corporation for U.S. federal income tax purposes created or organised in or under the laws of the United States or any state or any political subdivision thereof; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or if a valid election is in place under applicable U.S. Treasury Regulations to treat the trust as a U.S. person; and

"**VAT**" means the value added tax arising on sales to customers outside of Kazakhstan.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

JSC "NATIONAL COMPANY "KAZAKHSTAN TEMIR ZHOLY"

Independent Auditors' Report

Consolidated Financial Statements
for the years ended December 31, 2009 and 2008

JSC “National Company “Kazakhstan Temir Zholy”

Consolidated Financial Statements
For the years ended December 31, 2009 and 2008

Contents

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

Management of JSC "National Company "Kazakhstan Temir Zholy" (the "Company") is responsible for the preparation of the consolidated financial statements of the Company and its subsidiaries (jointly the "Group") that present fairly in all material respects the consolidated financial position of the Group as at December 31, 2009 and 2008, and the consolidated financial results of its operations, cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the consolidated financial position and financial performance; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management of the Group is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Kazakhstan;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

These consolidated financial statements for the years ended December 31, 2009 and 2008 were authorized for issue on August 31, 2010 by management of JSC "National Company "Kazakhstan Temir Zholy".

On behalf of management of the Group:

A.U. Mamin **President**	**K.K. Alpysbayev** **Vice-President of Economics and Finance**	**N. Kh. Abilova** **Chief Accountant**
August 31, 2010	August 31, 2010	August 31, 2010

Deloitte, LLP
Almaty Financial District
Building «B»
36, Al Farabi ave.
Almaty, 050000
Republic of Kazakhstan

Tel: +7 (727) 258 13 40
Fax: +7 (727) 258 13 41
almaty@deloitte.kz
www.deloitte.kz

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 (jointly the "Group"), which comprise the consolidated statements of financial position as at December 31, 2009 and 2008, and the consolidated statements of comprehensive income, of changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes to these consolidated financial statements (the "consolidated financial statements").

Management's responsibility for the consolidated financial statements

Management of the Group is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 auditors consider 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 on these consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2009 and 2008, and its consolidated financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte, LLP

Tatyana Gutova
Engagement Partner
Qualified auditor
Qualification certificate No.0000314
dated December 23, 1996,
the Republic of Kazakhstan

Deloitte, LLP
State license on auditing in the Republic of Kazakhstan No.0000015, type MFU-2,
issued by the Ministry of Finance of the Republic of Kazakhstan dated September 13, 2006

Nurlan Bekenov
General Director
Deloitte, LLP

August 31, 2010

JSC "National Company "Kazakhstan Temir Zholy"

Consolidated statements of financial position
as at December 31, 2009 and 2008
(in thousands of tenge)

	Notes	December 31, 2009	December 31, 2008	January 1, 2008
ASSETS				
Non-current assets				
Property, plant and equipment	4	833,599,921	779,165,048	694,369,000
Intangible assets	5	4,488,144	3,066,079	2,573,764
Investments in associates	6	2,467,654	2,436,557	1,573,677
Other non-current assets	7	9,941,969	6,702,873	11,519,631
Total non-current assets		850,497,688	791,370,557	710,036,072
Current assets				
Inventories	8	20,942,968	22,670,443	20,049,882
Trade accounts receivable	9	6,062,863	6,266,474	4,316,160
Other financial assets	10	17,706,980	15,521,590	70,902,625
Prepaid income tax		8,436,108	9,323,192	3,032,007
Other current assets	11	38,490,712	32,638,076	21,586,806
Cash and cash equivalents	12	52,442,441	49,164,450	26,369,694
Restricted cash	14	233,714	46,735	46,820
Total current assets		144,315,786	135,630,960	146,303,994
Total assets		994,813,474	927,001,517	856,340,066
LIABILITIES AND EQUITY				
Equity				
Share capital	13	486,220,457	484,642,457	484,642,457
Additional paid-in capital	13	20,254,432	21,589,270	21,486,783
Foreign currency translation reserve		(83,546)	(389,810)	(132,339)
Retained earnings		154,611,850	138,011,329	76,685,100
Total equity		661,003,193	643,853,246	582,682,001

JSC "National Company "Kazakhstan Temir Zholy"

Consolidated statements of financial position (continued)
as at December 31, 2009 and 2008
(in thousands of tenge)

	Notes	**December 31, 2009**	December 31, 2008	January 1, 2008
Non-current liabilities				
Borrowings	14	31,841,262	27,122,082	20,076,188
Debt securities issued	15	117,706,342	95,625,642	95,075,588
Finance lease liabilities	16	5,268,051	4,647,097	3,947,108
Employee benefit obligations	17	12,595,946	12,638,917	12,527,242
Deferred income tax liability	18	45,760,039	35,595,809	58,091,733
Other non-current liabilities		-	1,010,287	2,358,220
Total non-current liabilities		213,171,640	176,639,834	192,076,079
Current liabilities				
Short-term borrowings	14	4,860,026	-	481,381
Current portion of borrowings	14	11,339,472	3,669,819	3,353,573
Current portion of debt securities issued	15	1,092,377	886,801	868,055
Current portion of finance lease liabilities	16	476,428	216,324	616,512
Current portion of employee benefit obligations	17	979,120	896,645	673,447
Trade accounts payable	19	43,642,693	50,699,814	30,508,552
Income tax payable		80,898	90,605	107,908
Other taxes payable	20	8,204,631	6,676,597	3,511,302
Other current liabilities	21	49,962,996	43,371,832	41,461,256
Total current liabilities		120,638,641	106,508,437	81,581,986
Total liabilities		333,810,281	283,148,271	273,658,065
Total equity and liabilities		994,813,474	927,001,517	856,340,066

The notes on pages 10 through 60 form an integral part of the consolidated financial statements. The independent auditors' report on the consolidated financial statements is on pages 2 and 3.

A.U. Mamin **President**	**K.K. Alpysbayev** **Vice-President, of Economics and Finance**	**N. Kh. Abilova** **Chief Accountant**
August 31, 2010	August 31, 2010	August 31, 2010

JSC "National Company "Kazakhstan Temir Zholy"

Consolidated statements of comprehensive income
for the years ended December 31, 2009 and 2008
(in thousands of tenge)

	Notes	2009	2008
Revenue			
Freight transportation		407,411,457	416,517,032
Passenger transportation		46,647,095	42,523,391
Government grants		10,058,412	7,300,236
Other revenue	22	16,876,206	17,422,701
Total revenue		480,993,170	483,763,360
Cost of sales	23	(368,960,223)	(377,182,960)
Gross profit		112,032,947	106,580,400
General and administrative expenses	24	(49,822,762)	(58,989,733)
(Loss)/recovery of loss from impairment of property, plant and equipment	4	(1,409,623)	644,755
Other income and expenses		555,331	1,481,305
Finance income	25	2,661,506	7,181,578
Finance costs	26	(9,673,490)	(8,885,933)
Foreign exchange loss		(21,881,928)	(1,555,529)
Share of (loss)/profit of associates	6	(90,039)	862,880
Profit before taxation		32,371,942	47,319,723
Income tax (expense)/benefit	18	(12,883,155)	16,562,026
Profit for the year		19,488,787	63,881,749
Other comprehensive gain/(loss):			
Foreign currency translation gain/(loss)		306,264	(257,471)
Other comprehensive gain/(loss) for the year		306,264	(257,471)
Comprehensive income for the year		19,795,051	63,624,278

The notes on pages 10 through 60 form an integral part of the consolidated financial statements. The independent auditors' report on the consolidated financial statements is on pages 2 and 3.

A.U. Mamin **President**	**K.K. Alpysbayev** **Vice-President of Economics and Finance**	**N. Kh. Abilova** **Chief Accountant**
August 31, 2010	August 31, 2010	August 31, 2010

JSC "National Company "Kazakhstan Temir Zholy"

Consolidated statements of cash flows
for the years ended December 31, 2009 and 2008
(in thousands of tenge)

	Notes	2009	2008
Cash flows from operating activities:			
Profit before taxation		32,371,942	47,319,723
Adjustments for:			
Depreciation and amortization	4, 5	47,850,299	48,146,260
Finance costs	26	9,673,490	8,885,933
Allowance for impairment of value added tax recoverable	7, 24	1,465,167	980,196
Accrued penalties		52,922	1,808,000
Loss/(recovery of loss) from impairment of property, plant and equipment	4	1,409,623	(644,755)
Loss/(gain) on disposal of property, plant, and equipment and other fixed assets		5,806	(436,547)
Finance income	25	(2,661,506)	(7,181,578)
Defined benefit plan actuarial liability	17, 23, 24	954,856	1,188,822
Share of loss/(profit) of associates	6	90,039	(862,880)
(Recovery)/accrual of allowance for obsolete and slow-moving inventories	8	(316,531)	144,065
Allowance for doubtful debts	7, 9, 11, 24	2,067,730	3,735,467
Unused vacation provision	23, 24	439,871	1,288,160
Foreign exchange loss		25,317,850	1,555,529
Other		(1,062,929)	460,215
Operating income before changes in working capital changes		117,658,629	106,386,610
Decrease/(increase) in trade accounts receivable		540,437	(2,864,376)
Increase in inventories		(1,777,654)	(784,024)
Increase in other current assets (including increase in non-current VAT recoverable)		(6,794,217)	(19,391,327)
(Decrease)/increase in trade accounts payable		(6,596,196)	19,456,575
Increase in other taxes payable		1,641,758	1,571,801
Increase in other current liabilities		5,919,895	621,104
Decrease in employee benefit obligations	17	(915,352)	(853,949)
Decrease in other non-current liabilities		(1,010,287)	(1,347,933)
Cash generated from operations		108,667,013	102,794,481
Interest paid		(10,206,556)	(7,446,991)
Income tax paid		(1,625,271)	(5,303,721)
Net cash flows from operating activities		96,835,186	90,043,769

JSC "National Company "Kazakhstan Temir Zholy"

Consolidated statements of cash flows (continued)
for the years ended December 31, 2009 and 2008
(in thousands of tenge)

	Notes	2009	2008
Cash flows from investing activities:			
Purchase of property, plant and equipment		(101,283,773)	(129,845,103)
Proceeds from disposal of property, plant, and equipment and other fixed assets		-	736,611
Purchase of intangible assets		(14,866)	(540,260)
Advances for the construction of residential properties		(1,150,031)	-
Purchase of investments		(1,699,136)	-
Interest received		2,719,810	8,007,179
Purchase of short-term investments		(20,902,951)	(68,308,200)
Proceeds from sale of short-term investments		20,200,103	121,698,900
Net cash flows used in investing activities		(102,130,844)	(68,250,873)
Cash flows from financing activities:			
Receipt of payment for unpaid share capital	13	1,578,000	-
Increase in borrowing		14,715,303	10,317,995
Repayments of borrowings		(4,583,542)	(5,169,288)
Dividends paid		(2,888,266)	(2,555,520)
Repayments of finance lease liabilities		(124,792)	(1,641,078)
Net cash flows from financing activities		8,696,703	952,109
Net (decrease)/increase in cash and cash equivalents		3,401,045	22,745,005
Cash and cash equivalents at the beginning of the year	12	49,164,450	26,369,694
Effect of foreign exchange rates on cash and cash equivalents		(123,054)	49,751
Cash and cash equivalents at the end of the year	12	52,442,441	49,164,450

The Group had the following non-cash transactions during the year ended December 31, 2009:

- Purchase of assets under finance leases totaling 1,565,960 thousand tenge (2008: 1,380,990 thousand tenge) (Note 16);
- Capital contributions in the form of land and investments as described in Note 13.

The notes on pages 10 through 60 form an integral part of the consolidated financial statements. The independent auditors' report on the consolidated financial statements is on pages 2 and 3.

A.U. Mamin **President**	**K.K. Alpysbayev** **Vice-President of Economics and Finance**	**N. Kh. Abilova** **Chief Accountant**
August 31, 2010	August 31, 2010	August 31, 2010

JSC "National Company "Kazakhstan Temir Zholy"

Consolidated statements of changes in equity
for the years ended December 31, 2009 and 2008
(in thousands of tenge)

	Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total equity
As at January 1, 2008	484,642,457	21,486,783	(132,339)	76,685,100	582,682,001
Profit for the year	-	-	-	63,881,749	63,881,749
Other comprehensive loss for the year	-	-	(257,471)	-	(257,471)
Comprehensive income for the year	-	-	(257,471)	63,881,749	63,624,278
Contribution to share capital	-	102,487	-	-	102,487
Dividends declared	-	-	-	(2,555,520)	(2,555,520)
As at December 31, 2008	484,642,457	21,589,270	(389,810)	138,011,329	643,853,246
Profit for the year	-	-	-	19,488,787	19,488,787
Other comprehensive income for the year	-	-	306,264	-	306,264
Comprehensive income for the year	-	-	306,264	19,488,787	19,795,051
Contribution to share capital (Note 13)	1,578,000	6,462	-	-	1,584,462
Dividends declared	-	-	-	(2,888,266)	(2,888,266)
Distribution (Notes 6 and 13)	-	(1,341,300)	-	-	(1,341,300)
As at December 31, 2009	486,220,457	20,254,432	(83,546)	154,611,850	661,003,193

The notes on pages 10 through 60 form an integral part of the consolidated financial statements. The independent auditors' report on the consolidated financial statements is on pages 2 and 3.

A.U. Mamin
President

August 31, 2010

K.K. Alpysbayev
Vice-President of Economics and Finance

August 31, 2010

N. Kh. Abilova
Chief Accountant

August 31, 2010

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: 98 (44), Pobeda st., Astana, 010000, the Republic of Kazakhstan.

The Government represented by JSC "National welfare fund "Samruk-Kazyna" (the Ministry of Transportation and Communication of the Republic of Kazakhstan before June 8, 2006; JSC "Kazakhstan Holding for the Management of State Assets "Samruk" before October 17, 2008) is the sole shareholder of the Company (the "Shareholder").

The Government controls the structure of the Group and establishes the long-term structure of the railway operations in Kazakhstan. Since 1997, the Government has been in the process of restructuring the rail system in Kazakhstan which included the establishment of the Group, the disposal of certain repair services businesses out of the Group, the segregation of the passenger and cargo transportation and the associated rail tariffs and the introduction of Government subsidies for passenger travel. The Government, through the Group, is continuing to restructure the railway transport in Kazakhstan and has developed long-term development strategy through 2020 that includes a significant investment in the railway assets.

The Group operates a Government regulated nationwide railway system providing freight transportation, railway passenger transportation services and maintenance of railway infrastructure within the Republic of Kazakhstan. As part of the regulation of the rail industry in Kazakhstan, the Government sets the tariffs which the Group charges its cargo and passenger customers, and also partially subsidizes certain passenger transportation activities through government grants. These regulated tariffs differ based on the type of transportation provided, and further for cargo transportation depending on the type of directions: domestic (national), international export-import and international transit.

The Group's operations in 2008 and 2009 have been impacted by the global economic downturn that began to unfold in 2007 and worsened significantly in August 2008. This global economic downturn resulted in decreased global spending and global industrial production has slowed, which in turn had a direct impact on the amount of cargo that is shipped via railways. This resulted in a reduction in revenue in late 2008 and early 2009, which was partially offset by a decrease in the price of certain commodities, such as fuel, during that period. During the second half of 2009, the Group saw a moderate increase in cargo volume and revenues which continued throughout the first half of 2010. In addition, during the first half of 2010 the Group received permission to increase freight transportation tariffs an average by 17.6% and passenger transportation tariffs by 10% and there was an increase in the amount of Government subsidies provided to the Group.

In addition, the Group's profits were impacted by the devaluation of the Kazakhstan Tenge compared to the US Dollar from an exchange of approximately 120 Kazakhstan Tenge to 1 US Dollar in 2008 to approximately 150 Kazakhstan Tenge to 1 US Dollar in 2009. During 2009, approximately 85% of the Group's borrowings were denominated in US Dollars, which as a consequence of the devaluation of the Tenge resulted in foreign exchange losses during the year. These losses were partially offset by gains on monetary assets held in US Dollars.

In the process of implementation of major investment projects the Group has historically been financed by capital from the Government and debt financing. As of the date of this report, approximately 90,005,048 thousand tenge of this debt is due within one year including 66,357,000 thousand tenge (450,000 thousand US Dollars) that matures in May 2011.At June 30, 2010 the Group has total current liabilities in excess of total current assets of 34,194,233 thousand tenge. The Group has assessed its cash needs including the financing of operations, its obligations and its expansion and based on this assessment believes it will have adequate cash flows from operations to finance its obligations while continuing to finance its operations. As part of this analysis the Group has considered its plans to optimize operating activates including its ability to improve its cash flows by increasing freight and passenger transportation tariffs and by cutting operating costs. The Group also changed the financing structure and intends to finance its investment projects through financing from its shareholder and through new long-term borrowings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments.

Adoption of new and revised standards

Standards and Interpretations adopted during the current year

The Group adopted the following new and revised Standards and Interpretations during the current year:

- IAS 1 (as revised in 2007) "Presentation of Financial Statements" – IAS 1 (2007) introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements;
- Amendments to IFRS 7 "Financial Instruments: Disclosures", improving Disclosures about Financial Instruments – the amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk;
- IFRS 8 "Operating Segments";
- IAS 23 (as revised in 2007) "Borrowing Costs";
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" regarding reclassifications of financial assets;
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible Hedged Items";
- IAS 16 "Property, plant and equipment" – amendment;
- IAS 19 "Employee benefits" – amendment;
- IAS 20 "Government grants and disclosure of government assistance" – amendment;
- IAS 27 "Consolidated and separate financial statements" – amendment;
- IAS 28 "Investments in associates" – amendment;
- IAS 32 "Financial Instruments: presentation" – amendment;
- IAS 34 "Interim financial reporting" – amendment;
- IAS 36 "Impairment of assets" – amendment;

(in thousands of tenge unless otherwise stated)

- IAS 38 “Intangible assets” – amendment;
- IFRIC 18 “Transfers of assets from customers”.

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 International Financial Reporting Standard. These amendments were related to certain expressions and issues regarding presentation of consolidated financial statements, issues of recognition and appraisal. The improvements have led to a number of changes in the detail of the Group’s accounting policies – some of which are changes in terminology only, and some of which are substantive, but have had no material effect on amounts reported.

The adoption of the above standards had no impact on the results of operations or financial position.

Standards and Interpretations in issue to be adopted in future periods.

At the date of authorization of these consolidated financial statements the following Interpretations and Standards were in issue but not yet effective:

	Effective for annual periods beginning on or after
IAS 27 Revised – “Consolidated and Separate Financial Statements”	July 1, 2009
IAS 24 “Related party disclosure” – revision	January 1, 2011
IFRS 3 (Revised) “Business combinations”	July 1, 2009
IFRS 9 “ Financial instruments”	January 1, 2013
IFRIC 14 “IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction”	January 1, 2011
IFRIC 16 “Hedges of a net investment in a foreign operation”	July 1, 2009
IFRIC 17 “Distributions of non-cash assets to owners”	July 1, 2009
IFRIC 19 “Extinguishing financial liabilities with equity”	July 1, 2010

Improvements to IFRSs (April 2009) – in April 2009, within an annual initiative aimed at the general improvement of the effective International Financial Reporting Standards, the IFRS Committee issued amendments to 25 existing standards. These improvements are intended to deal with non-urgent, minor amendments to Standards. The new version of the above standards and interpretations is effective for reporting periods starting on or after July 1, 2009 and January 1, 2010.

Improvements to IFRS (May 2010) – in May 2010, within an annual initiative aimed at the general improvement of the effective International Financial Reporting Standards, the IFRS Committee issued amendments to 7 existing standards. These improvements are intended to deal with non-urgent, minor amendments to Standards. The new version of the above standards and interpretations is effective for reporting periods starting on or after July 1, 2010 and January 1, 2011.

Management of the Group anticipates, with the exception of the improvements to IFRS issued in May 2010, that all of the above Standards and Interpretations will be adopted in the Group’s consolidated financial statements for the period commencing its effective dates and that the adoption of those Standards and Interpretations will have no material impact on the consolidated financial statements of the Group in the period of initial application. Management of the Group anticipates that the improvements to IFRS issued in May 2010 will be adopted in the Group’s consolidated financial statements for the period commencing January 1, 2011 and the adoption of those improvements will have no material impact on the consolidated financial statements of the Group in the period of initial application

Critical accounting judgments and estimates

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of property, plant and equipment

At the end of each reporting period the Group reviews the carrying amounts of its property, plant and equipment 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 expectations of growth in the railway industry, estimates of future cash flows, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate any impairment exists.

If any such indication exists, the recoverable amount of the asset is estimated and compared to the carrying amount of the asset. If the carrying amount exceeds the recoverable amount an impairment is recorded. The recoverable amount is the greater of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate 14.30% (2008: 12.19%) that management believes reflects current market assessment of the time value of money and the risks specific to the assets. A change in the estimated recoverable amount could result in an impairment, or reversal of an impairment, in future periods.

During the period presented, the Group made the decision to abandon certain construction projects, which resulted in an impairment of these assets. Subsequent to the impairment, the Group changed its decision about certain of these projects and continued the original construction, which resulted in an impairment reversal.

Post-employment benefits

The Group operates a defined benefit pension scheme which has been accounted for in accordance with IAS 19 "Employee Benefits" ("IAS 19"). Application of IAS19 requires the exercise of judgement in relation to various assumptions including future annual minimum pay rises, employer and pensioner demographics, discount rates that approximate rates on state bonds and the expected rate of future annual railway ticket price increases. The Group bases the estimates on historical experience and on discussions with its actuaries. Changes in these estimates could have a significant impact on the Group's profits in future periods. See further information in Note 17.

Allowances

Inventory valuation

The Group establishes an allowance against inventory to reduce it to the lower of cost or net realizable value. In determining the net realizable value, the Group considers inventory movements based on inventory systems physical inventory observation. The Group records an allowance against all identified obsolete and slow-moving inventory in profit and loss at the time of identification. The actual loss experienced on this inventory may differ from actual and 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 outside of the Republic of Kazakhstan. The Group cannot charge VAT onwards to these customers, and accordingly can only receive these amounts through an offset against future VAT liability or collection from the tax authorities. In assessing the recoverability of the VAT receivable, the Group considers information from the internal tax department regarding projected VAT liability, correspondence with government tax authorities, and historical recovery experience in calculating recoverable VAT. The actual amount of VAT recovery could differ materially from the Group's estimate and could materially impact operating results.

Depreciation of property, plant and equipment

Depreciation of our property, plant and equipment is computed using the straight-line method over estimated useful lives. The Group establishes useful lives of its assets including components of major property items, such as locomotives. The estimates of useful lives, residual values and methods of depreciation are reviewed at each financial year end, 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. The amounts of penalties and interest applied are significant in case of additional taxes being imposed by the tax authorities. Penalties generally include 50% of the taxes additionally accrued, and interest is assessed at 22.5% of the amount of taxes not timely settled. As a result, penalties and interest can exceed the amount of additionally accrued taxes.

Because of the uncertainties disclosed above, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued as at December 31, 2009 and 2008. The Group is required to make a number of estimates in determining whether to record a liability for any potential tax exposures. It bases these estimates on the degree of probability to win or to loose tax claims litigations and on the amount of probable settlement. Any difference between these estimates and the actual amount, if any, ultimately paid could have a significant impact on the Group's profits in future periods.

Principles of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries listed in Note 28. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The purchase method of accounting is used for acquired businesses. All intercompany transactions, balances, and unrealized gains and losses on transactions between Group companies were eliminated upon consolidation.

Functional and presentation currency

The Group's consolidated financial statements are presented in the currency of the economic environment in which the individual entities operate (its functional currency). For the purposes of these consolidated financial statements the consolidated results of activities and consolidated financial position of the Group are expressed in Kazakhstan tenge ("tenge" or "KZT"), which is the functional currency of the Company and its subsidiaries and presentation currency for these consolidated financial statements.

(in thousands of tenge unless otherwise stated)

The tenge is not a fully convertible currency outside the Republic of Kazakhstan. Transactions in foreign currencies are recorded at the market rate ruling at the date of the transaction using market rates, fixed by Kazakhstan Stock Exchange (“KASE”). For foreign currencies which are not quoted by KASE, the exchange rates are calculated by the National Bank of Kazakhstan using the cross-rates to the US Dollar (“USD” or “US$”) in accordance with the quotations received from “REUTERS”.

Monetary assets and liabilities, denominated in foreign currencies, are translated to tenge at the exchange rate effective at the date of the consolidated statement of financial position with all differences arising from a change in exchange rates subsequent to the date of a transaction recognized against profit. 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 financial statements of the Group’s branch in Russia, which has a ruble functional currency, are translated to tenge in consolidation. The assets and liabilities are translated at the rate of exchange ruling at the reporting date and the profit and loss items are translated at the weighted-average exchange rates for the years ending December 31. The exchange rate differences arising on the translation are recorded directly to other comprehensive income. Upon disposal of a foreign operation, the deferred cumulative amount related to a specific foreign operation is recognized in profits and losses.

The following table summarizes the foreign currency exchange rates for tenge at:

	December 31, 2009	**December 31, 2008**	**January 1, 2008**
US Dollar	148.36	120.77	120.30
Swiss Franc	143.01	114.43	106.84
Russian Ruble	4.92	4.11	4.92

Weighted-average tenge exchange rates for the years ended December 31 were as follows:

	2009	**2008**
US Dollar	147.50	120.30
Swiss Franc	136.20	111.49
Russian Ruble	4.66	4.86

Recognition of financial instruments

The Group recognizes financial assets and liabilities on its consolidated statements of financial position when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received; including or net of any transaction costs incurred and subsequently recorded at either fair value or amortized cost.

Fair value is generally determined by reference to official market quotes. When market quotes are not available, the fair value is determined using generally accepted valuation methods such as discounted future cash flows based on observable market inputs.

Amortized cost is calculated using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" ("FVTPL"), "held-to-maturity" investments, and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, cash in transit, cash on hand and short-term deposits with an original maturity of three months or less.

Held-to-maturity investments

Held-to-maturity investments are debt securities with fixed or determinable payments. Any such investments that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis. Discount amortization during the maturity period is recorded as interest income recognized on an effective yield basis.

Loans and receivables

Trade receivables are recognized and carried at the original invoice amount less an allowance for any uncollectible amounts. An estimate of allowance for doubtful debts is made when collection of the full amount is no longer probable. The allowance for doubtful debts is accrued by the Group when accounts receivable is not collected within contractual terms. The allowance for doubtful debts is reviewed periodically, and as adjustments become necessary, they are reported in the consolidated statement of comprehensive income in the period in which they become known. Doubtful debts are written-off when identified against an allowance previously recognized.

Other financial assets

Other financial assets are non-derivative financial assets such as receivables from employees, bank deposits, and advance payments to suppliers with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method less any impairment.

Impairment of financial assets

Financial assets, except for assets stated at fair value through profit or loss are assessed for evidence of impairment at each reporting date. The 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: a change in supposed future cash flows on the investment, significant financial difficulty of the issuer or counterparty, breach of contract terms, creditor providing preferential conditions, in connection with borrower's financial difficulties, it becoming probable that the borrower will enter bankruptcy, collapse of active market for the financial asset. For financial assets stated at amortized cost the amount of impairment represents the difference between the carrying value of an asset and present value of the estimated future cash flows discounted at initially 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, when the carrying value is decreased by use of the allowance for doubtful debts.

If in the subsequent period the amount of the impairment loss is decreased and the decrease can be objectively related to the event occurring after recognition of impairment, then the previously recognized impairment loss is reversed in profit or losses to the extent to which the carrying value of the investment at the date of reverse does not exceed the amount of amortized value, if impairment had not been recognized.

Financial liabilities

Financial liabilities represent contractual obligations and are recorded when the Group becomes contractually liable.

Trade and other accounts payable

Trade and other accounts payable are initially measured at fair value and subsequently revalued at amortized cost using effective interest rate 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 net 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 of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability (or a part of financial liability) is derecognized when the obligation under the liability is discharged, cancelled or expires.

Inventories

Inventories largely comprises of items that are used in the operation of the railway lines and railway vehicles and are not held for trading purposes.

Inventories are valued at the lower of cost or net realizable value. Costs comprise of charges incurred to bring inventory to its present location and condition for its intended use. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. Inventory is valued on the weighted-average cost basis.

Property, plant and equipment

Property, plant and equipment are stated at their initial cost or deemed cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended use.

The cost of assets constructed by the Group includes the cost of all materials used in construction, direct labor on the project, finance costs that are directly attributable to the project, and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalized as soon as an asset is ready for its intended use.

At times the Group will enter into a finance lease for equipment to be installed on a project. While that equipment is being prepared for installation it is not in use and therefore is recorded in capital construction in progress. Once ready for use, the equipment is transferred to the relevant asset category to which it relates and accounted for as described in this policy.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income in the year the asset is derecognized.

Subsequent expenditure

Track renewals and major capital replacements

Expenditures relating to track renewals and major capital repairs, which comprises primarily the replacement of railway tracks and locomotive engines, 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 analysed for possibility of future benefits and, if determined to provide future benefit, are valued at the lower of cost and net realizable value and transferred to inventories or property, plant and equipment, as applicable. The excess of the carrying value of the replaced assets over their net realizable values is recognized as an expense in the consolidated statement of comprehensive income. All property determined to not provide future economic benefit is expensed immediately in profit or loss.

Repairs and maintenance

Expenditures which enhance the flow of the future economic benefits provided by use of an item of property, plant and equipment, and which are directed towards improvement of an item's condition and extension of its useful life and/or advancement of its production capacity are recognized in the carrying amount of the item and are amortized on a straight-line basis over the estimated useful life of the item. All other subsequent expenditures, such as general repair and maintenance expenditures, are charged to expenses when incurred.

(in thousands of tenge unless otherwise stated)

Depreciation

Property, plant and equipment, excluding land and construction in process, are depreciated on a straight-line basis over the estimated useful lives of the assets, as the Group believes that the wear and tear on each category of assets is spread evenly over the useful life. The estimated useful lives used by the Group in all reporting periods presented are as follows (in years):

Buildings and construction	20-45
Rail track infrastructure:	
Land improvement	80
Railway tracks and infrastructure	20-45
Engineering constructions, pipelines	20-45
Cable, electrical and telecommunication networks	10-25
Transport, machinery, equipment and other:	
Wagons, cisterns, railcars and snow-blowers	18-32
Locomotives	15-36
Locomotive engines of locomotives	7
Machine tools, cranes and tractors	15-35
Transportation equipment	10-15
Office furniture and equipment	5-15

Land and construction in process are not depreciated. Construction in process is transferred to the appropriate asset category upon completion and then depreciated as described above.

Impairment of property, plant and equipment

At each reporting date the Group reviews the carrying amounts of its property, plant and equipment 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 selling price 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 14.3% (2008: 12.19%) 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 against profit. 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.

Advances to construction companies

The Group currently has a program under which contracts the building of residential properties that are subsequently sold to its employees. This program was established when the Group moved administrative offices from Almaty to Astana. These residential properties are sold to select employees at 20 to 30% of the actual cost and the Group records the difference as compensation expense. The Group recognizes this expense in the period of the advance, which is generally within one year of the completion of the construction.

VAT receivable

VAT receivable is generated on sales to customers outside of Kazakhstan where the Group incurs VAT costs (through fuel and other operating costs) but does not legally have the right to charge VAT to the customer. All VAT expense on such transactions can be legally used to offset VAT payable to the Kazakhstan tax authorities. At the end of each reporting period an analysis is performed by the Company's tax department, in conjunction with the Kazakhstan tax authorities, to determine the amount that is expected to be used in the upcoming 12 months to offset future VAT liabilities. The amount expected to be recovered within 12 months is recorded in Other Current Assets. The Group estimates the amount of the non-current asset that it believes it will recover and establishes an allowance against the remaining balance.

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 1 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.

Investments in associates

The Group's investments in its associates 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. The investment in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associates.

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 in 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 through profit or loss.

All other borrowing costs are recognized in the consolidated statement of comprehensive income in the period in which they are incurred.

Employee benefits

Defined benefit scheme

In accordance with the Labor Union Agreement the Group provides certain benefits to its employees upon their retirement ("Defined Benefit Scheme"). Pursuant to this agreement, the Group provides the following benefits under an unfunded scheme:

- one-time retirement grant;
- annual financial support to pensioners;
- free train passenger tickets;
- funeral aid; and
- financial assistance on denture treatment.

The obligation and cost of benefits under the Defined Benefit Scheme are determined using the projected unit credit method. This method considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The cost of providing benefits is charged to the consolidated statement of comprehensive income, so as to attribute the total benefit cost over the service lives of employees in accordance with the benefit formula of the plan. This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit obligation.

The Group recognizes actuarial gains and losses arising from the reassessment of the employee benefit liability in the period they are identified as compensation expense.

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. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in 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.

Recognition of revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

In respect of services related to transportation, revenue is recognized by reference to the stage of completion of the transportation at the reporting date provided that the stage of completion of the transportation and the amount of revenue can be measured reliably. The extent of completion of the cargo transportation process is calculated as percent 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” when received. Upon commencement of the services, the amount related to that service is reclassified to deferred income under the “Other current liabilities” caption in the consolidated statement of financial position. Deferred income is credited to revenue, as the service is provided.

Income relating to services for use of wagons is recognized in the period of use of the Group’s wagons.

Government grants

The Group is eligible for a subsidy for a portion of the costs of transporting passengers on socially important routes within the Republic of Kazakhstan, as defined by the Government of the Republic of Kazakhstan, in the form of government grants. The Group, along with other rail 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 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 not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in the consolidated statement of comprehensive income in the period in which the transportation is provided to the passengers at the reduced tariffs set by the Government.

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 financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes relate to the same taxable entity and the same taxation authority.

Current and deferred income tax are recognised as an expense or benefit in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Leases

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expenses in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Finance leases

The Group recognizes finance leases as assets and liabilities in consolidated statement of financial position at amounts equal at the commencement of the lease term to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine it; 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 less than that period. If the period of lease is less than the amortization period of similar fixed assets, the leased asset is amortized based on the lease period.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Reclassifications

In 2009, the Group revised its method for presentation of income and expenses from classification by "nature of expense" to classification based on "function of expense". The Group has modified the prior year information to present it in a manner consistent with the 2009 presentation.

Certain changes in classification were made in consolidated financial statements for the year ended December 31, 2008 to conform with the presentation of the consolidated financial statements for the year ended December 31, 2009. These reclassifications are presented as follows:

	Before the change	**After the change**	**Change**
	December 31, 2008	**December 31, 2008**	**December 31, 2008**
In thousands tenge			
Consolidated statement of cash flows:			
Unrealized foreign exchange loss/(gain)	3,012,827	1,555,529	(1,457,298)
Increase in trade accounts payable	17,999,277	19,456,575	1,457,298

(in thousands of tenge unless otherwise stated)

3. SEGMENT INFORMATION

The Group has adopted IFRS 8 "Operating Segments" with effect from January 1, 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker of the Group, determined to be the Shareholder due to that entity's significant influence over the Group, to allocate resources to the segments and to assess their performance. Amounts reported for the prior year have been restated to conform to the requirements of IFRS 8.

The Group's segments are based on information contained in reports that are regularly reviewed by the Shareholder and which are used to make decisions about the allocation of financial resources and to assess segment performance, are cargo transportation and passenger transportation. The Group allocates all administrative and finance costs and income taxes to these segments. The unallocated results primarily represent the results of the Group's repair services, sales of scrap inventory, and sales of electricity that are not regularly reviewed by the chief operating decision maker.

The Group monitors multiple measures of profitability such as profit before tax, profit after tax and gross profit. However, profit after tax is the measure used for the purpose of resource allocation and assessment of segment performance.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in the Note 2.

	For the year ended December 31, 2009			
Key operating measures	**Cargo transportation**	**Passenger transportation**	**Unallocated results**	**Total**
Revenue	409,267,482	57,051,544	14,674,144	480,993,170
Cost of sales	(293,869,200)	(65,317,708)	(9,773,315)	(368,960,223)
General and administrative expenses	(39,596,033)	(8,597,312)	(1,629,417)	(49,822,762)
Finance income	2,650,959	10,547	-	2,661,506
Finance costs	(9,673,490)	-	-	(9,673,490)
Foreign exchange (loss)/gain	(22,483,736)	601,808	-	(21,881,928)
Loss from impairment of property, plant and equipment	(1,315,243)	(94,380)	-	(1,409,623)
Share of loss of associates	(90,039)	-	-	(90,039)
Other income and expenses	(283,160)	838,491	-	555,331
Income tax expense	(10,067,647)	(2,161,226)	(654,282)	(12,883,155)
Profit/(loss) for the year	34,539,893	(17,668,236)	2,617,130	19,488,787
Other key segment information				
Capital expenditures for property, plant and equipment	97,949,463	11,205,408	1,945,592	111,100,463
Depreciation of property, plant and equipment	37,963,381	9,081,198	6,200	47,050,779
Revenue from transactions with other operating segments of the same entity	178,328,987	19,365,983	27,751,923	225,446,893

	For the year ended December 31, 2008			
Key operating measures	**Cargo transportation**	**Passenger transportation**	**Unallocated results**	**Total**
Revenue	418,338,097	50,036,664	15,388,599	483,763,360
Cost of sales	(309,174,322)	(57,641,369)	(10,367,269)	(377,182,960)
General and administrative expenses	(45,693,801)	(10,312,124)	(2,983,808)	(58,989,733)
Finance income	7,141,803	39,775	-	7,181,578
Finance costs	(8,885,933)	-	-	(8,885,933)
Foreign exchange loss	(1,399,551)	(155,978)	-	(1,555,529)
Recovery of loss from impairment of property, plant and equipment	636,396	8,359	-	644,755
Share of profit of associates	862,880	-	-	862,880
Other income and expenses	1,481,305	-	-	1,481,305
Income tax benefit	12,211,536	4,350,490	-	16,562,026
Profit/(loss) for the year	75,518,410	(13,674,183)	2,037,522	63,881,749
Other key segment information				
Capital expenditures for property, plant and equipment	118,463,846	14,984,429	1,931,561	135,379,836
Depreciation of property, plant and equipment	38,800,606	8,658,019	4,041	47,462,666
Revenue from transactions with other operating segments of the same entity	190,876,151	8,820,308	29,379,777	229,076,236

(in thousands of tenge unless otherwise stated)

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	2009	2008
Kazakhstan	471,891,024	475,731,955
Russia	3,356,091	4,468,923
Uzbekistan	3,031,053	1,620,428
China	1,543,910	804,685
Turkmenistan	1,171,092	1,137,369
	480,993,170	483,763,360

Substantially all of the Group's non-current assets are in Kazakhstan.

4. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the year ended December 31, 2009 was as follows:

	Land	Buildings and construc-tions	Railway infrastruc-ture	Machinery and equipment	Railway transport	Other transport	Other	Capital construction in progress	Total
Historical cost:									
As at January 1, 2009	745,646	35,122,178	416,055,194	101,764,066	316,399,507	9,444,788	6,841,153	53,369,155	939,741,687
Additions	6,462	104,874	219,263	3,736,483	2,375,177	229,452	364,301	104,064,451	111,100,463
Transfers	13,875	30,460,406	17,710,512	11,866,018	24,065,593	(109,146)	445,190	(84,452,448)	-
Disposals	-	(197,840)	(57,458)	(1,160,594)	(1,066,088)	(40,046)	(79,626)	(132,131)	(2,733,783)
Transfer to inventory	-	-	(6,334,830)	(8,737)	(3,681)	(514)	(1,925)	-	(6,349,687)
Transfer to intangible assets	-	-	-	-	-	-	-	(2,201,795)	(2,201,795)
As at December 31, 2009	765,983	65,489,618	427,592,681	116,197,236	341,770,508	9,524,534	7,569,093	70,647,232	1,039,556,885
Accumulated depreciation and impairment:									
As at January 1, 2009	-	(6,132,891)	(42,858,999)	(21,237,308)	(86,582,820)	(1,176,193)	(1,525,881)	(1,062,547)	(160,576,639)
Charge for the year	-	(1,470,845)	(13,643,999)	(8,453,998)	(21,654,610)	(1,046,624)	(780,703)	-	(47,050,779)
Impairment	-	(30,388)	-	(55,783)	935	122	1,851	(1,326,360)	(1,409,623)
Other	-	17,281	-	-	-	-	-	(976,649)	(959,368)
Transfers	-	76,337	(132,195)	98,812	(85,812)	44,106	(1,248)	-	-
Disposals	-	197,629	4,576	870,810	574,222	24,226	68,199	-	1,739,662
Transfer to inventory	-	-	2,292,104	3,280	3,681	514	204	-	2,299,783
As at December 31, 2009	-	(7,342,877)	(54,338,513)	(28,774,187)	(107,744,404)	(2,153,849)	(2,237,578)	(3,365,556)	(205,956,964)
Net book value:									
As at December 31, 2009	765,983	58,146,741	373,254,168	87,423,049	234,026,104	7,370,685	5,331,515	67,281,676	833,599,921

(in thousands of tenge unless otherwise stated)

The movement of property, plant and equipment for the year ended December 31, 2008 was as follows:

	Land	Buildings and constructions	Railway infrastructure	Machinery and equipment	Railway transport	Other transport	Other	Capital construction in progress	Total
Historical cost:									
As at January 1, 2008	626,237	33,198,543	399,619,386	85,763,454	262,882,398	3,878,255	4,208,656	26,942,578	817,119,507
Additions	103,518	414,876	253,248	3,387,615	32,877,712	2,331,641	1,843,175	94,168,051	135,379,836
Transfers	15,891	1,783,184	23,159,860	13,512,351	24,168,360	3,304,520	1,053,483	(66,997,649)	-
Transfer to non-current assets	-	-	-	-	(944,799)	-	-	-	(944,799)
Disposals	-	(274,425)	(369,082)	(898,878)	(2,584,164)	(69,628)	(264,161)	(56,245)	(4,516,583)
Transfer to inventory	-	-	(6,608,218)	(476)	-	-	-	-	(6,608,694)
Transfer to intangible assets	-	-	-	-	-	-	-	(687,580)	(687,580)
As at December 31, 2008.	745,646	35,122,178	416,055,194	101,764,066	316,399,507	9,444,788	6,841,153	53,369,155	939,741,687
Accumulated depreciation and impairment:									
As at January 1, 2008	-	(4,775,718)	(32,153,946)	(15,221,806)	(68,104,963)	(523,141)	(980,932)	(990,001)	(122,750,507)
Charge for the year	-	(1,282,447)	(15,592,277)	(7,459,548)	(21,798,668)	(732,808)	(596,918)	-	(47,462,666)
Impairment	-	(188,039)	72,605	104,442	172,003	426	(10,718)	494,036	644,755
Other	-	(65,534)	-	-	-	-	-	(566,582)	(632,116)
Transfers	-	(23,187)	(21,500)	480,265	(268,490)	24,577	(191,665)	-	-
Transfer from non-current assets	-	-	-	-	927,220	-	-	-	927,220
Disposals	-	202,034	208,503	858,863	2,490,078	54,753	254,352	-	4,068,583
Transfer to inventory	-		4,627,616	476	-	-	-	-	4,628,092
As at December 31, 2008.	-	(6,132,891)	(42,858,999)	(21,237,308)	(86,582,820)	(1,176,193)	(1,525,881)	(1,062,547)	(160,576,639)
Net book value:									
As at December 31, 2008	745,646	28,989,287	373,196,195	80,526,758	229,816,687	8,268,595	5,315,272	52,306,608	779,165,048
As at January 1, 2008	626,237	28,422,825	367,465,440	70,541,648	194,777,435	3,355,114	3,227,724	25,952,577	694,369,000

The Group's assets include assets related to the "Khromtau-Altynsarin" railway, which connects the western and northern parts of the Republic of Kazakhstan and thus locks the railway infrastructure of the Republic of Kazakhstan into one network. The Group participated in a project to develop this railway, which consisted of two sections: "Khromtau-Aiteke Bi" ("first part") and "Aiteke Bi-Altynsarin" ("second part"). The construction of this railway was initiated by the Ministry of Transportation and Communication of the Republic of Kazakhstan and was financed 64% by the Government from the state budget with the remainder financed by the Group.

The first part of the Project was completed in 2006 and the second part – in 2007. The Group has recognized the full construction cost, including 21,013,822 thousand tenge financed by the Government, as railway assets. The assets financed by the Group and those financed by the Government cannot be physically separated. The Group does not have legal title to the assets financed by the Government, however it has recognized these assets as (a) the Ministry of Finance has communicated to the Group that it intends to contribute the assets to the Group, (b) the Group has full right of access and use of these assets at no cost, (c) these assets, along with those financed by the Group were part of a single project to expand the railway, and (d) the Group is responsible for maintenance of these assets. Subsequent to year end, the Group has received notice from a division of the Government challenging the recognition of these assets (see Note 27). As disclosed in the Notes 27 and 31, at the date of approval of these consolidated financial statements, approval of this transaction was granted by the required authorities and only awaits approval from the prime minister of Kazakhstan ("Prime Minister") to be finalised. Management of the Company do not expect the Prime Minster to reject the proposal.

(in thousands of tenge unless otherwise stated)

As at December 31, 2009, 2008 and January 1, 2008, property, plant and equipment of the Group with the carrying value of 39,777,528 thousand tenge 43,017,107 thousand tenge and 46,084,316 thousand tenge, respectively, was pledged as security for a portion of the Group's borrowings (Note 14).

As at December 31, 2009, 2008 and January 1, 2008, the cost of fully depreciated property, plant and equipment amounted to 172,489,980 thousand tenge, 118,354,710 thousand tenge and 101,493,472 thousand tenge, respectively.

As at December 31, 2009 the carrying value of fixed assets under finance lease included in equipment and capital construction in progress amounted to 7,369,941 thousand tenge (December 31, 2008: 7,329,359 thousand tenge; January 1, 2008: 5,292,380 thousand tenge).

5. INTANGIBLE ASSETS

The movement of intangible assets for the year ended December 31, 2009 is as follows:

	Licenses	Software	Other	Total
Cost:				
As at January 1, 2009	539,021	3,458,132	670,267	4,667,420
Additions	161,494	1,993,779	93,142	2,248,415
Disposals	-	(90,581)	-	(90,581)
As at December 31, 2009	700,515	5,361,330	763,409	6,825,254
Accumulated amortization:				
As at January 1, 2009	(235,548)	(1,285,529)	(80,264)	(1,601,341)
Charge for the year	(138,686)	(652,339)	(8,495)	(799,520)
Disposals	-	63,751	-	63,751
As at December 31, 2009	(374,234)	(1,874,117)	(88,759)	(2,337,110)
Net book value as at December 31, 2009	326,281	3,487,213	674,650	4,488,144

The movement of intangible assets for the year ended December 31, 2008 is as follows:

	Licenses	Software	Other	Total
Cost:				
As at January 1, 2008	492,271	2,574,352	425,371	3,491,994
Additions	48,036	934,907	244,896	1,227,839
Disposals	(1,286)	(51,127)	-	(52,413)
As at December 31, 2008	539,021	3,458,132	670,267	4,667,420
Accumulated amortization:				
As at January 1, 2008	(15,364)	(886,735)	(16,131)	(918,230)
Charge for the year	(220,667)	(398,794)	(64,133)	(683,594)
Disposals	483	-	-	483
As at December 31, 2008	(235,548)	(1,285,529)	(80,264)	(1,601,341)
Net book value as at December 31, 2008	303,473	2,172,603	590,003	3,066,079
Net book value as at January 1, 2008	476,907	1,687,617	409,240	2,573,764

As at December 31, 2009 the net book value of fully amortized intangible assets, represented by software used by the Group in the operations, which were still in use amounted to 409,691 thousand tenge (December 31, 2008: 346,166 thousand tenge; January 1, 2008: 252,040 thousand tenge).

(in thousands of tenge unless otherwise stated)

6. INVESTMENTS IN ASSOCIATES

Investments in associates comprised the following as at December 31 2009, 2008 and January 1, 2008:

Associate company	Nature of activities	December 31, 2009 Carrying value	December 31, 2009 % of share capital held	December 31, 2008 Carrying value	December 31, 2008 % of share capital held	January 1, 2008 Carrying value	January 1, 2008 % of share capital held
JSC "Kedentransservice"	Transportation and customs clearance service	1,832,224	33.00	1,884,870	33.00	1,267,117	33.00
JSC "Temirzhol zhondeu"	Repair of railway lines	529,035	23.43	531,245	23.43	268,714	23.43
Other		106,395	-	20,442	-	37,846	-
		2,467,654		2,436,557		1,573,677	

During 2009 the Group purchased 37.03% of share in JSC "Doszhan Temir Zholy" by the decision of its Shareholder for 1,578,000 thousand tenge, which is included in other above. The estimated value at the date of transfer was nil. The difference between the amount paid and the value of the shares acquired is reflected as a distribution in the consolidated statement of changes in equity.

As at December 31 and for the year then ended, summary financial information for the Group's investments in associates is as follows:

	December 31, 2009	December 31, 2008	January 1, 2008
Total assets	47,354,567	17,057,602	15,064,296
Total liabilities	(40,196,539)	(9,037,620)	(10,001,976)
Net assets	7,158,028	8,019,982	5,062,320
Group's share of net assets of associates	2,119,978	2,436,557	1,573,677

	2009	2008
Total revenue	12,976,872	17,338,202
Total net loss	(274,620)	2,957,662
Group's share of net (loss)/profit of associates	(90,039)	862,880

(in thousands of tenge unless otherwise stated)

7. OTHER NON-CURRENT ASSETS

Other non-current assets comprised the following as at December 31, 2009, 2008 and January 1, 2008:

	December 31, 2009	December 31, 2008	January 1, 2008
Advances to suppliers for property, plant and equipment	8,732,217	6,777,912	10,662,225
Advance payment on residential properties less impairment	1,506,126	927,266	780,667
VAT receivable	15,513,721	12,939,249	11,959,053
Other	297,982	297,982	297,982
	26,050,046	20,942,409	23,699,927
Less: allowance for advances to suppliers for property, plant and equipment	(1,703,661)	(1,300,287)	(221,243)
Less: allowance for unrecoverable VAT receivable	(14,404,416)	(12,939,249)	(11,959,053)
	9,941,969	6,702,873	11,519,631

The movement in the allowance for advances to suppliers for property, plant and equipment for the years ended December 31, is as follows:

	2009	2008
Allowance for advances to suppliers for property, plant and equipment at the beginning of the year	(1,300,287)	(221,243)
Accrued during the year	(525,539)	(1,088,067)
Written off during the year against the allowance previously recorded	122,165	9,023
Allowance for advances to suppliers for property, plant and equipment at the end of the year	(1,703,661)	(1,300,287)

The movement in the allowance for unrecoverable VAT receivable for the years ended December 31, were as follows:

	2009	2008
Allowance for unrecoverable VAT receivable at the beginning of the year	(12,939,249)	(11,959,053)
Accrued for the year	(1,465,167)	(980,196)
Allowance for unrecoverable VAT receivable at the end of the year	(14,404,416)	(12,939,249)

(in thousands of tenge unless otherwise stated)

8. INVENTORIES

Inventories comprised the following as at December 31, 2009, 2008 and January 1, 2008:

	December 31, 2009	December 31, 2008	January 1, 2008
Materials and supplies	11,203,901	11,520,215	9,799,240
Spare parts	8,307,800	9,282,768	7,922,562
Fuel	1,178,485	1,341,862	1,393,860
Upper railway components	744,969	1,899,769	2,575,132
Construction components	640,806	693,142	600,702
Others	996,028	1,047,037	741,643
Less: Allowance for obsolete and slow-moving inventories	(2,129,021)	(3,114,350)	(2,983,257)
	20,942,968	22,670,443	20,049,882

The movements in the allowance for obsolete and slow-moving inventories were as follows for the years ended December 31:

	2009	2008
Allowance for obsolete and slow-moving inventories at the beginning of the year	(3,114,350)	(2,983,257)
Recovered/(accrued) during the year	316,531	(144,065)
Written off during the year	668,798	12,972
Allowance for obsolete and slow-moving inventories at the end of the year	(2,129,021)	(3,114,350)

9. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following as at December 31, 2009, 2008 and January 1, 2008:

	December 31, 2009	December 31, 2008	January 1, 2008
Trade accounts receivable	10,841,881	13,816,998	11,173,845
Less: Allowance for doubtful debts	(4,779,018)	(7,550,524)	(6,857,685)
	6,062,863	6,266,474	4,316,160

As at December 31, 2009 eight customers represented 55% of the Group’s trade accounts receivable (December 31, 2008: eight customers – 50%; January 1, 2008: eight customers – 45%).

The movements in the allowance for doubtful debts were as follows for the years ended December 31:

	2009	2008
Allowance for doubtful debts at the beginning of the year	(7,550,524)	(6,857,685)
Accrued during the year	(1,300,392)	(1,215,522)
Written off during the year against the allowance previously recorded	4,071,898	522,683
Allowance for doubtful debts at the end of the year	(4,779,018)	(7,550,524)

(in thousands of tenge unless otherwise stated)

The Group held claims outstanding on certain customer receivables who filed for bankruptcy prior to 2007, which had been fully provided against in prior periods. During 2009, the three years statute of limitations expired on these claims they were therefore written off.

As at December 31, 2009, 2008 and January 1, 2008, the Group's trade accounts receivable were denominated in various currencies as follows:

	December 31, 2009	December 31, 2008	January 1, 2008
Tenge	2,190,235	2,704,721	2,966,806
Swiss Francs	3,771,321	3,383,185	1,239,426
US Dollars	100,842	173,537	83,166
Russian Rubles	465	5,031	26,762
	6,062,863	6,266,474	4,316,160

10. OTHER FINANCIAL ASSETS

As at December 31, 2009, 2008 and January 1, 2008, other financial assets represent bank deposits with original maturity of 3 to 12 months:

	December 31, 2009		December 31, 2008		January 1, 2008	
	Interest rate	**Amount**	Interest rate	Amount	Interest rate	Amount
JSC "Bank Centercredit"	3.40-5.00%	2,953,440	7.40%	1,000,000	-	-
JSC SB "Sberbank of Russia"	4.00%	4,410,729	7.50-8.00%	7,589,260	-	-
JSC "Halyk Bank of Kazakhstan" (Note 29)	5.00-7.00%	10,173,176	6.70%	3,000,000	9.00%-10.00%	16,000,000
JSC "Kazkommertsbank"	-	-	6.50%	2,656,940	8.20%-9.70%	20,425,456
JSC SB "RBS (Kazakhstan)"	-	-	5.50%	1,000,000	10.00%	9,000,000
JSC "BTA Bank "	-	-	9.40%	20,000	8.20% - 9.70%	23,231,444
		17,537,345		15,266,200		68,656,900
Accrued interest receivable		169,635		255,390		2,245,725
		17,706,980		15,521,590		70,902,625

As at December 31, 2009, 2008 and January 1, 2008, other financial assets were denominated in the following currencies:

	December 31, 2009	December 31, 2008	January 1, 2008
Tenge	3,396,240	8,155,632	51,828,551
US Dollars	14,310,740	7,365,958	19,074,074
	17,706,980	15,521,590	70,902,625

(in thousands of tenge unless otherwise stated)

11. OTHER CURRENT ASSETS

Other current assets comprised the following as at December 31, 2009, 2008 and January 1, 2008:

	December 31, 2009	December 31, 2008	January 1, 2008
VAT recoverable	23,943,495	24,037,145	15,053,333
Short-term advances paid	2,788,346	2,888,928	5,161,125
Prepaid expense	465,729	672,953	298,845
Other taxes prepaid	10,769,143	2,776,024	584,230
Claims	1,115,164	689,643	356,522
Transfers to institutions	292,069	327,289	-
Other	2,979,677	5,969,543	3,494,954
	42,353,623	37,361,525	24,949,009
Less: Allowance for doubtful debts	(3,862,911)	(4,723,449)	(3,362,203)
	38,490,712	32,638,076	21,586,806

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 other current assets were as follows for the years ended December 31:

	2009	2008
Allowance for doubtful debts at the beginning of the year	(4,723,449)	(3,362,203)
Accrued during the year	(241,799)	(1,431,878)
Written off during the year against the allowance previously recorded	1,102,337	70,632
Allowance for doubtful debts at the end of the year	(3,862,911)	(4,723,449)

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following as at December 31, 2009, 2008 and January 1, 2008:

	December 31, 2009	December 31, 2008	January 1, 2008
Short-term bank deposits in tenge	12,739,418	32,039,964	17,060,775
Short-term bank deposits in US Dollars	15,081,169	8,566,664	1,102,798
Short-term bank deposits in Euro	723,656	608,368	2,671,704
Cash in current accounts in tenge	16,044,725	7,421,769	4,153,527
Cash in current accounts in US Dollars	6,196,743	117,119	629,386
Cash in current accounts in Euro	1,389,909	367,039	647,882
Cash in bank in other currency	244,456	21,955	57,860
Petty cash	22,365	21,572	45,762
	52,442,441	49,164,450	26,369,694

Cash in bank accounts earns interest at floating rates based on daily bank deposit rates ranging from 0.50% to 9.00% per annum (2008: from 0.50% to 9.00% per annum; 2007: from 0.50% to 5.00% per annum).

Short-term 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 0.50% to 11.25% per annum (2008: from 0.50% to 11.25% per annum; 2007: from 2.00% to 14.00% per annum).

As at December 31, 2009 the Group's deposits with the maturity of less than three months and cash in current accounts, which are in banks that are related parties of the Group, amounted to 20,237,436 thousand tenge and 8,402,860 thousand tenge, respectively (December 31, 2008: deposits with the maturity of less than three months - 9,500,000 thousand tenge and cash on current accounts – 1,440,701 thousand tenge; January 1, 2008: nil tenge) (Note 29).

13. EQUITY

The share capital consists of the following at December 31:

	Number of shares authorized	Number of Shares issued and paid	Par value, in tenge	Share capital, in thousands of tenge
As at December 31, 2007 and 2008	502,040,458	484,642,457	1,000	484,642,457
Shares paid		1,578,000		
As at December 31, 2009	502,040,458	486,220,457	1,000	486,220,457

The Company's share capital was established through a series of share issuances in exchange for either cash or property, plant and equipment. The shareholder is entitled to dividends, a part of the Company's property in case of its liquidation, and preference in purchasing the Company's shares or other securities convertible to the Company's shares.

During 2009, the shareholder contributed 1,578,000 thousand tenge to the Company in exchange for shares. According to the decree of the shareholder, the Group used this money to purchase a 37.03% of investment in JSC "Doszhan Temir Zholy" for 1,578,000 thousand tenge. The shares had a fair value of nil at the date of transfer.

In addition, during the year ended December 31, 2007 the Government contributed certain assets to the Group. As there were no shares legally issued in connection with the contribution, these contributions have been reflected as additional paid in capital. The asset contributions include certain assets for which legal title has not yet transferred to the Group (Notes 4, 27 and 31)

(in thousands of tenge unless otherwise stated)

14. BORROWINGS

Borrowings, including accrued interest, comprised the following as at December 31, 2009, 2008 and January 1, 2008:

	Currency	Maturity date	Interest rate	December 31, 2009	December 31, 2008	January 1, 2008
Short-term borrowings:						
Citibank Kazakhstan loans:						
Loan 1	US Dollars	February 1, 2008	3- month LIBOR for USD denominated deposits + 1.60%	-	-	481,381
Loan 2	US Dollars	June 29,2010	1- month LIBOR for USD denominated deposits + 4.5%	4,458,526	-	-
Alfa Bank Kazakhstan	Tenge	June 1, 2010	15%	401,500	-	-
				4,860,026	-	481,381
Long-term borrowings:						
ABN Amro Bank N.V. loans:						
Loan 1	US Dollars	April 15, 2012	6-month LIBOR for USD denominated deposits + 0.13%	1,407,309	1,581,740	2,033,798
Loan 2	US Dollars	May 15, 2014	3-month LIBOR for USD denominated deposits + 0.07%	8,152,320	8,234,143	9,907,599
Loan 3	US Dollars	December 20, 2009	6-month LIBOR for USD denominated deposits + 0.15%	-	227,155	452,312
Loan 4	US Dollars	August 4, 2011	6-month LIBOR for USD denominated deposits + 1.20%	21,064,094	9,300,167	-
Japan Bank for International Cooperation ("JBIC")	Japanese Yen	December 20, 2020	3.00%	6,865,284	6,233,415	5,397,253
Instituto de Credito Oficial ("ICO")	US Dollars	July 9, 2021	2.50%	3,950,158	3,349,541	3,336,507
Development Bank of Kazakhstan (Note 29)	US Dollars	June 4, 2013	9.80%	1,314,034	1,375,286	1,674,489
ATF Bank	US Dollars	April 10, 2012	4.26-9.29%	427,535	490,454	627,803
				43,180,734	30,791,901	23,429,761
Less: Current portion of long-term borrowings				(11,339,472)	(3,669,819)	(3,353,573)
				31,841,262	27,122,082	20,076,188

The bank loans disclosed above are repayable as follows:

	December 31, 2009	December 31, 2008	January 1, 2008
1 to 2 years	18,095,230	6,411,736	3,330,144
2 to 3 years	3,796,442	9,471,646	3,235,838
3 to 4 years	2,713,864	3,070,621	3,235,838
4 to 5 years	1,217,973	2,200,869	2,955,858
Over 5 years	6,017,753	5,967,210	7,318,510
	31,841,262	27,122,082	20,076,188

Citibank Kazakhstan

Loan 1. In April 2007 the Group entered into a loan of 4,000 thousand US Dollars (495,360 thousand tenge), under corporate guarantee of the Group. The loan was payable on October 10, 2007. The loan was extended to February 1, 2008 and was repaid on January 31, 2008.

Loan 2. On November 30, 2009 the Group entered into a 30,000 US Dollar short-term loan agreement with Citibank Kazakhstan for general corporate objectives of JSC “Locomotive”, which is guaranteed by the Company. As at December 31, 2009 the full amount is outstanding. Interest is paid monthly; principal is paid upon maturity.

Alfa Bank Kazakhstan

On December 11, 2009 the Group entered into 650,000 thousand tenge credit line agreement with JSC SB Alfa Bank Kazakhstan to provide additional working capital to the Company’s subsidiary, JSC “Transtelecom”. As at December 31, 2009 the Group has 250,000 thousands tenge available borrowings under this facility. Interest is paid monthly. Repayment of principal amount starts after the fourth month.

ABN Amro Bank N.V.

Loan 1. In December 2003 the Group entered into a loan agreement with ABN Amro Bank N.V. to finance the purchase of locomotive modernization kits from a supplier. The loan is repayable in 16 semi-annual installments starting from October 15, 2004. The effective interest rate was 6.98% for the year ended December 31, 2009 (December 31, 2008: 7.43%). As at December 31, 2009 locomotives owned by JSC “Locomotive”, subsidiary of the Company, with the carrying value of 6,329,304 thousand tenge (December 31, 2008: 6,899,470 thousand tenge; January 1, 2008: 7,461,197 thousand tenge) were pledged as a security for this loan agreement. Under the provision of the loan agreement the Group is obliged to comply with certain non-financial covenants stated in the agreement. The Group may, if it provides ABN Amro Bank N.V. and Export-Import Bank of the United States with at least thirty business days prior notice, prepay all or any part of the loan (which should reduce the loan amount by a minimum of 2 million US Dollars). Interest is accrued on any prepayment made, but without a premium or penalty. The loan is guaranteed by the Export-Import Bank of the United States, the Company, JSC “Locomotive” and JSC “Kaztemirtrans”.

Loan 2. On November 1, 2004, the Group entered into a loan agreement with ABN Amro Bank N.V. to finance the purchase of locomotive modernization kits from a supplier.

The funds under the loan agreement are provided in tranches as follows:

- 1st tranche of 18,506 thousand US Dollars (2,402,611 thousand tenge at the exchange rate as at the date of withdrawal) was withdrawn by the Group on February 8, 2005.
- 2nd tranche of 20,795 thousand US Dollars (2,808,921 thousand tenge at the exchange rate as at the date of withdrawal) was withdrawn by the Group on June 28, 2005.
- 3rd tranche of 16,602 thousand US Dollars (2,226,285 thousand tenge at the exchange rate as at the date of withdrawal) was withdrawn by the Group on September 21, 2005.
- 4th tranche of 15,664 thousand US Dollars (2,101,754 thousand tenge at the exchange rate as at the date of withdrawal) was withdrawn by the Group on December 7, 2005.
- 5th tranche consisted of two parts of 16,892 thousand US Dollars and 7,883 thousand US Dollars (2,260,302 thousand tenge and 1,012,555 thousand tenge at the exchange rates as at the dates of withdrawal) and was withdrawn by the Group on January 6, 2006 and March 31, 2006, respectively.
- 6th tranche consisted of two parts of 7,883 thousand US Dollars and 7,883 thousand US Dollars (954,695 thousand tenge and 935,303 thousand tenge at the exchange rates as at the dates of withdrawal) and was withdrawn by the Group on June 5, 2006 and June 22, 2006, respectively.

The loan is repayable in 32 quarterly installments starting from May 15, 2005. The effective interest rate was 3.12% for the year ended December 31, 2009 (December 31, 2008: 5.84%). As at December 31, 2009 locomotives owned by JSC "Locomotive", subsidiary of the Company, with the carrying value of 28,367,114 thousand tenge (December 31, 2008: 30,567,085 thousand tenge; January 1, 2008: 32,645,422 thousand tenge) were pledged as a security for this loan. Under the provision of the loan agreement the Group is obliged to comply with certain non-financial covenants stated in the agreement. The Group may, if it provides ABN Amro Bank N.V. and the Export-Import Bank of the United States with at least thirty business days prior notice, prepay all or any part of the loan (being an amount that reduces the amount of the loan by a minimum amount of 2 million US Dollars). Any prepayment shall be made with accrued interest on the amount prepaid without premium or penalty. Loan maturity date is May 15, 2014. The loan is guaranteed by the Export-Import Bank of the United States, JSC "Locomotive" and JSC "Kaztemirtrans".

Loan 3. The Group entered into a loan agreement with ABN Amro Bank N.V. to finance the construction of a fiber-optic telecommunication line between Almaty and Astana. The loan is repayable in 10 semi-annual installments starting from June 20, 2005 and had an effective interest of 5.36% for the year ended December 31, 2009 (December 31, 2008: 7.77%). The loan was fully repaid on December 20, 2009.

Loan 4. In August 2008 the Group entered into a loan agreement with ABN Amro Bank N.V. to finance the project of "construction of locomotive assembly plant in Astana". The loan is repayable in three equal semi-annual installments starting from August 2010. The effective interest rate was 2.68% for the year ended December 31, 2009 (December 31, 2008: 4.99%). The Group may, if it provides ABN Amro Bank N.V. with at least fifteen business days prior notice, repay all or some part of the loan (in case of partial repayments, the amount should be not less than 10 million US Dollars and multiple of 5 million US Dollars). Any repayment shall include the amount of accrued interest on the repayment amount without premium or penalty. The loan is secured by the guarantees of the Company, JSC "Locomotive" and JSC "Kaztemirtrans".

The loans from ABN Amro Bank N.V. require the Group to maintain certain covenants both financial and non-financial.

JBIC

In accordance with the agreement signed between the Governments of the Republic of Kazakhstan and Japan, the Group received a loan from JBIC to develop its railways network. The JBIC loan is repayable through Eximbank Kazakhstan. The loan is repayable in 37 equal semi-annual instalments starting from December 2002 and will be fully repaid by December 2020. The loan attracts interest at 3.00% per annum on the outstanding balance of the principal. During the year ended December 31, 2009 the JBIC loan effective interest rate approximated 3.67% (2008: 3.25%).

ICO

The Group entered into a loan agreement with the Instituto de Credito Oficial ("ICO"), the Financial Agent of the Government of the Kingdom of Spain, based on a memorandum on mutual financial co-operation between the Governments of the Republic of Kazakhstan and Spain. The Government of the Republic of Kazakhstan, acting through the Ministry of Finance, issued a guarantee in favour of ICO. This guarantee was provided in accordance with the Resolution of the Government of the Republic of Kazakhstan "On the raising of a non-state external loan by Republican State Enterprise "Kazakhstan Temir Zholy", which is guaranteed by the Government of the Republic of Kazakhstan". The loan is repayable in 25 equal semi-annual installments starting from July 2009. The Group may, if it provides ICO with at least twenty five business days prior notice, prepay the all or any part of the loan (being an amount that reduces the amount of the loan by a minimum amount of 100 thousand US Dollars).

(in thousands of tenge unless otherwise stated)

The loan is secured with two passenger trains consisting of 22 wagons each produced by "Patentes Talgo S.A." with the carrying value of 3,239,259 thousand tenge as at December 31, 2009 (December 31, 2008: 3,403,744 thousand tenge; January 1, 2008: 3,568,228 thousand tenge). These assets are owned by JSC "Passenger Transportation", subsidiary of the Company. As at December 31, 2009, 2008 and January 1, 2008 cash of 233,714 thousand tenge, 46,735 thousand tenge and 46,820 thousand tenge, respectively, was held in a reserve account for repayment of this loan.

Development Bank of Kazakhstan

The Development Bank of Kazakhstan provided the Group with a loan to finance the construction of a fiber-optic telecommunication line between Almaty and Astana. The loan has an interest rate of 9.80% per annum and is repayable in 15 equal semi-annual installments starting from June 2006. The fiber-optic line with the carrying value of 1,380,767 thousand tenge as at December 31, 2009 (December 31, 2008: 1,767,002 thousand tenge; January 1, 2008: 2,231,478 thousand tenge) was pledged as collateral for this loan. Loan maturity date is June 4, 2013.

ATF Bank

ATF Bank provided a loan to the Group for the purpose of financing the purchase of locomotive modernization kits of 5,450 thousand US Dollars (655,575 thousand tenge) for the term of 5 years. The loan is payable in 19 equal quarterly installments, starting November 20, 2007. The effective interest rate was 4.26% during the year ended December 31, 2009 (December 31, 2008: 9.29%). As at December 31, 2009 13 locomotives with the carrying value of 461,084 thousand tenge (December 31, 2008: 379,806 thousand tenge; January 1, 2008: 177,991 thousand tenge) owned by the JSC "Locomotive Service Center", the Group's subsidiary, were pledged under the loan agreement.

15. DEBT SECURITIES ISSUED

The Group's debt securities issued as at December 31, 2009, 2008 and January 1, 2008 were as follows:

	Maturity date	**Interest rate, per annum**	**December 31, 2009**	December 31, 2008	January 1, 2008
Eurobonds issued at price					
99.300% - tranche 1	May 11, 2011	6.50%	66,762,001	54,346,501	54,135,000
98.292% - tranche 2	May 11, 2016	7.00%	51,925,999	42,269,499	42,105,000
			118,688,000	96,616,000	96,240,000
Discount on debt securities issued			(981,658)	(990,358)	(1,164,412)
Long-term portion of Eurobonds issued			117,706,342	95,625,642	95,075,588
Accrued interest on debt securities issued			1,092,377	886,801	868,055
Total Eurobonds issued			118,798,719	96,512,443	95,943,643

On May 11, 2006 "Kazakhstan Temir Zholy Finance B.V." (the "Issuer"), a subsidiary of JSC "Kaztemirtrans", issued two tranches of Eurobonds totalling 800,000 thousand US Dollars. The Eurobonds are guaranteed by the Company and its subsidiaries: JSC "Kaztemirtrans" and JSC "Locomotive" (the "Guarantors").

Interest is payable semi annually on May 11 and November 11. The Eurobonds contain certain non-financial covenants that place certain limitations on the Group including, but not limited to limitation on change of business and disposal of property and limitations on merger and consolidation with other legal entities. In the case of any payment default, or any of default as defined by the Eurobond indenture, investors are entitled to require repayment of Eurobonds. As at December 31, 2009 the Group was in compliance with all covenants.

(in thousands of tenge unless otherwise stated)

16. FINANCE LEASE LIABILITIES

The Group's finance lease liabilities as at December 31, 2009, 2008 and January 1, 2008 were as follows:

	Minimum lease payments			Present value of minimum lease payments		
	December 31, 2009	December 31, 2008	January 1, 2008	**December 31, 2009**	December 31, 2008	January 1, 2008
Payables under finance lease						
Within one year	1,337,899	1,246,035	1,508,259	476,428	216,324	616,512
From two to five years inclusive	4,739,611	7,502,934	6,904,104	1,725,767	1,776,099	2,466,040
After five years	5,039,461	6,869,625	2,853,587	3,542,284	2,870,998	1,481,068
Net minimum lease liabilities	11,116,971	15,618,594	11,265,950	5,744,479	4,863,421	4,563,620
Less future finance charges	(5,372,492)	(10,755,173)	(6,702,330)	-	-	-
Present value of lease payments	5,744,479	4,863,421	4,563,620	5,744,479	4,863,421	4,563,620
Less liability payable during 12 months				(476,428)	(216,324)	(616,512)
Amount payable after 12 months				5,268,051	4,647,097	3,947,108

In 2004 the Group 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 receives telecommunication equipment in installments until the end of 2008. In 2009, 2008 and 2007 the Group received telecommunication equipment for 853,108 thousand tenge, 352,152 thousand tenge and 718,059 thousand tenge and as at December 31, 2009, 2008 and January 1, 2008 made lease payments of 3,776,252 thousand tenge, 3,807,224 thousand tenge and 3,307,672 thousand tenge, respectively. In 2008 changes were made to the minimal rental payment schedule, which impacted the interest rate and the cost of equipment rented.

On December 11, 2008 the Group 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 the carrying value of 1,028,838 thousand tenge and initial direct acquisition payment of 12,549 thousand tenge. In 2009 the Group received the residual 150 cistern wagons with the carrying value of 712,852 thousand tenge.

All lease liabilities are denominated in tenge.

17. EMPLOYEE BENEFIT OBLIGATIONS

State contribution scheme

The Group pays social tax based on the current statutory requirements of the Republic of Kazakhstan. Social tax and payroll are expensed as incurred. The social tax charges in 2009 and 2008 were 15,781,086 thousand tenge and 14,458,959 thousand tenge, respectively (Notes 23 and 24).

The Group also withholds and contributes 10% from the salaries of its employees as the employee's contribution to their cumulative pension funds. According to legislation of the Republic of Kazakhstan, pension contributions are the responsibility of employees, and the Group has no current or future obligations to make payments to employees following their retirement, apart from those stipulated by the Labor Union Agreement.

(in thousands of tenge unless otherwise stated)

Defined benefits scheme

Employee benefit obligations under this scheme are payable in accordance with the Labor Union Agreement concluded between the Group and its employees for 2009-2011.

The total liability for the Group’s Defined Benefit Scheme comprised the following as at December 31, 2009, 2008 and January 1, 2008:

	December 31, 2009	December 31, 2008	January 1, 2008
Present value of defined benefit obligation	13,575,066	13,535,562	13,200,689
Liability falling due within one year	(979,120)	(896,645)	(673,447)
Liability falling due after one year	12,595,946	12,638,917	12,527,242

A reconciliation of the present value of the defined benefit obligation with specified payments is as follows for the years ended December 31:

	2009	2008
Total liability taken over at the beginning of the year	13,535,562	13,200,689
Current service cost	857,000	933,000
Past service cost	-	124,529
Interest cost	1,247,000	1,210,000
Benefit paid during the year	(915,352)	(853,949)
Actuarial gain recognized during the year	(1,599,490)	(2,333,994)
Unrecognized past service cost	450,346	1,255,287
Total liability at the end of the year	13,575,066	13,535,562

Actuarial gain recognized for the years ended December 31, 2009 and 2008 primarily resulted from changes in the Labor Union Agreement, differences between the actual annual salary increase compared to the estimated annual increase, and demographic changes.

The total service cost, including current service, past service cost, interest cost, unrecognized past service cost and actuarial gain and loss for the year in amount of 954,856 thousand tenge and 1,188,822 thousand tenge recognized during 2009 and 2008, respectively, was recorded in the consolidated statement of comprehensive income within cost of sales (Note 23) and general and administrative expenses (Note 24).

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:

	2009	2008	2007
Discount rate	6.50%	6.50%	6.00%
The expected rate of future annual material assistance increases	5.50%	5.50%	5.50%
The expected rate of future annual minimum salary increases	5.50%	5.50%	5.50%
The expected rate of future annual railway ticket price increases	4.50%	4.50%	4.50%

The Defined Benefit Scheme is unfunded.

(in thousands of tenge unless otherwise stated)

18. INCOME TAX

The entities based in Kazakhstan are subject to income tax on taxable profit as determined under the laws of the Republic of Kazakhstan. The tax rate was 30% in 2008. Due to changes in tax legislation of the Republic of Kazakhstan approved in late 2008 and November 2009, the tax rate decreased from 30% to 20% in 2009 and will decrease from 20% to 17.5% in 2013 and to 15% in 2014 and subsequent years.

Income tax expense comprised the following for the years ended December 31:

	2009	2008
Current income tax expense	2,482,225	5,933,898
Deferred income tax expense/(benefit)	10,400,930	(22,495,924)
	12,883,155	(16,562,026)

A reconciliation of income tax expense applicable to profit before income tax 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:

	2009	2008
Profit before taxation	32,371,942	47,319,723
Statutory tax rate	20%	30%
Theoretical tax expense at the statutory rate	6,474,388	14,195,917
Tax effect of expenses/(gains) that are not deductible/(not taxable) for tax purposes:		
Government grants	-	(2,190,071)
Additional accrual of income tax related to previous years	409,294	1,385,701
Non-deductible expenses	2,223,268	3,493,975
Other	(394,198)	1,699,843
Effect of unused tax losses not recognised as deferred tax assets	4,367,237	(148,306)
Effect of change in tax rates	(196,834)	(34,999,085)
Income tax expense/(benefit) reported in the consolidated financial statements	12,883,155	(16,562,026)

(in thousands of tenge unless otherwise stated)

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 consolidated financial statements, are as at follows at December 31, 2009, 2008 and January 1, 2008:

	December 31, 2009	December 31, 2008	January 1, 2008
Deferred tax assets:			
Tax losses carried forward	5,443,867	5,570,981	5,830,834
Differences in accounts receivable	716,853	1,045,090	2,057,306
Allowance for obsolete and slow-moving inventories	425,804	622,870	894,977
Unused vacation provision	1,350,406	1,262,432	1,507,200
Deferred income	-	64,614	152,540
Provision for impairment of investments	236,700	-	-
Accrued liabilities	219,504	207,742	580,125
	8,393,134	8,773,729	11,022,982
Deferred tax liabilities:			
Property, plant and equipment, non-current assets classified as held for sale and other non-current assets	(54,153,173)	(44,369,538)	(69,114,715)
	(54,153,173)	(44,369,538)	(69,114,715)
Total net deferred tax liabilities	(45,760,039)	(35,595,809)	(58,091,733)

	2009	2008
Net deferred income tax liability as at the beginning of the year	(35,595,809)	(58,091,733)
Recorded in profits and losses	(10,400,930)	22,495,924
Recorded in the consolidated statement of changes in equity	236,700	-
Net deferred income tax liability as at the end of the year	(45,760,039)	(35,595,809)

Certain deferred tax assets that mainly arise as a result of tax losses carried forward, relate to those of the Company's subsidiaries that consistently incur losses. In management's opinion, it is not probable that there will be sufficient taxable income available in the future against which the deductible temporary differences giving rise to the deferred tax asset above can be utilized. On this basis the Group has not recognized net operating losses of 7,444,531 thousand tenge as at December 31, 2009 (December 31, 2008: 6,546,984 thousand tenge; January 1, 2008: 13,038,979 thousand tenge).

Due to changes in tax legislation of the Republic of Kazakhstan, effective from January 1, 2010, tax losses carried forward, incurred after January 1, 2009, in the Republic of Kazakhstan expire for tax purposes ten years after the date they are incurred. Tax losses carried forward, incurred before January 1, 2009, in the Republic of Kazakhstan expire for tax purposes three years from the date they are incurred. Therefore, the majority of the tax losses carried forward by the Group as at December 31, 2009, expire for tax purposes in 2010-2011.

(in thousands of tenge unless otherwise stated)

19. TRADE ACCOUNTS PAYABLE

Trade accounts payable comprised the following as at December 31, 2009, 2008 and January 1, 2008:

	December 31, 2009	December 31, 2008	January 1, 2008
Accounts payable for services	19,543,281	25,418,367	17,495,749
Accounts payable for inventory	16,157,588	16,926,391	5,638,551
Accounts payable for property, plant and equipment	6,436,853	7,535,400	6,814,210
Other accounts payable	1,504,971	819,656	560,042
	43,642,693	50,699,814	30,508,552

As at December 31, 2009, 2008 and January 1, 2008 trade accounts payable were denominated in various currencies as follows:

	December 31, 2009	**December 31, 2008**	**January 1, 2008**
Tenge	39,323,365	46,517,536	27,113,113
Swiss Francs	2,942,017	2,165,695	2,015,024
US Dollars	1,014,695	1,433,637	243,692
Other currencies	362,616	582,946	1,136,723
	43,642,693	50,699,814	30,508,552

20. OTHER TAXES PAYABLE

Other taxes payable comprised the following as at December 31, 2009, 2008 and January 1, 2008:

	December 31, 2009	**December 31,** 2008	January 1, 2008
VAT	1,857,325	293,791	280,985
Social tax	762,421	843,714	1,153,539
Personal income tax	1,500,085	1,543,818	1,308,510
Property tax	228,745	134,602	55,394
Social contribution	387,974	300,344	241,154
Withholding tax from non-residents	1,174,000	1,174,000	-
Fines and penalties on income tax from non-residents	1,126,123	1,126,123	-
Fines and penalties on corporate income tax	776,308	776,308	-
Other	391,650	483,897	471,720
	8,204,631	6,676,597	3,511,302

In 2008 various tax audits of the Group were conducted by the Kazakhstan governmental tax authorities. These audits remain open between the Group and the Government (Note 27). During 2008 the Group has recorded a tax liability of 1,174,000 thousand tenge related to withholding tax from non-resident, a liability of 1,902,431 thousand tenge related to the estimate amount of fines and penalties and a liability of 852,274 thousand tenge related to other taxes.

(in thousands of tenge unless otherwise stated)

21. OTHER CURRENT LIABILITIES

Other current liabilities comprised the following as at December 31, 2009, 2008 and January 1, 2008:

	December 31, 2009	**December 31,** 2008	January 1, 2008
Advances received from customers	27,996,456	22,674,489	21,771,064
Deferred income	3,440,142	2,162,704	2,879,727
Salaries payable	7,422,998	8,055,034	7,791,858
Unused vacations provision	6,752,032	6,312,161	5,024,001
Obligatory pension contributions	2,048,989	2,146,132	1,776,336
Other current liabilities	2,302,379	2,021,312	2,218,270
	49,962,996	43,371,832	41,461,256

As at December 31, 2009, 2008 and January 1, 2008 current salaries payable and other current liabilities were primarily payable in tenge.

22. OTHER REVENUE

Other revenue for the years ended December 31 comprised the following:

	2009	2008
Revenue from the sale of goods and provision of services to third parties	14,674,144	15,388,599
Penalties received	2,202,062	2,034,102
	16,876,206	17,422,701

Revenue from the sale of goods and provision of services to third parties represents primarily the sale of inventory and old property, plant and equipment as scrap to other third party railways, repair services provided to third parties and the sales of electricity and other services to third parties

Penalties received represents revenue earned on the assessment of penalties on late pickup of cargo cars.

23. COST OF SALES

Cost of sales for the years ended December 31 comprised the following:

	2009	2008
Personnel costs, including short-term provisions	128,038,953	119,642,835
Services	60,230,911	59,337,408
Fuels and lubricants	52,864,686	67,407,942
Depreciation and amortization	46,343,637	46,926,697
Materials and supplies	40,706,919	39,475,987
Wagon usage fee	17,488,694	18,040,101
Electricity	15,429,343	16,645,447
Operating lease expenses	2,746,587	3,701,879
Professional services	1,876,339	1,718,470
Business trip expenses	1,456,444	1,355,446
Employee benefit expenses (Note 17)	806,248	1,008,441
Personnel training	453,204	537,085
Other	518,258	1,385,222
	368,960,223	377,182,960

(in thousands of tenge unless otherwise stated)

Personnel costs, including short-term provisions, for the years ended December 31 comprised the following:

	2009	2008
Personnel costs	113,979,977	105,913,040
Social tax (Note 17)	13,687,718	12,624,448
Unused vacation provision expense	371,258	1,105,347
	128,038,953	119,642,835

24. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended December 31 comprised the following:

	2009	2008
Personnel costs, including short-term provisions	21,401,017	21,115,696
Property tax and other taxes	9,656,700	15,354,376
Charities and sponsorship	5,369,444	3,812,880
Allowances for doubtful debts (Note 7, 9, 11)	2,067,730	3,735,467
Professional services	1,577,467	1,588,691
Depreciation and amortization	1,506,662	1,219,563
Allowance for impairment of value added tax recoverable (Note 7)	1,465,167	980,196
Operating lease expenses	997,132	1,289,388
Business trip expenses and representative expenses	857,171	1,123,552
Bank services	655,471	543,128
Social activities	570,295	918,695
Consulting, audit and legal services	546,698	821,488
Advertising expenses	544,943	835,146
Materials	522,880	631,276
Services	371,197	847,789
Employee benefit expenses (Note 17)	148,608	180,381
Other expenses	1,564,180	3,992,021
	49,822,762	58,989,733

Personnel costs, including short-term provisions, for the years ended December 31 comprised the following:

	2009	2008
Personnel costs	19,239,036	19,098,372
Social tax (Note 17)	2,093,368	1,834,511
Unused vacation provision expense	68,613	182,813
	21,401,017	21,115,696

(in thousands of tenge unless otherwise stated)

25. FINANCE INCOME

Finance income for the years ended December 31 comprised the following:

	2009	2008
Interest income on short-term investments and bank deposits	2,625,882	7,139,216
Other finance income	35,624	42,362
	2,661,506	7,181,578

For the years ended December 31, 2009 and 2008 the Group's finance income included interest income on short-term investments and bank deposits of 1,825,625 thousand tenge and 1,475,959 thousand tenge, respectively, placed with related parties (Note 29).

26. FINANCE COSTS

Finance costs for the years ended December 31 comprised the following:

	2009	2008
Interest expenses on debt securities issued	7,928,125	6,466,125
Interest expenses on loans	1,182,441	1,207,682
Finance lease charge	329,338	1,034,217
Amortization of discount on debt securities issued	233,586	177,909
	9,673,490	8,885,933

27. FINANCIAL AND CONTINGENT LIABILITIES

Capital and operating lease commitments

Capital commitments

As at December 31, 2009, the Group had committed to contracts for the construction of the Company's administrative building in Astana, capital repair of railway, project implementation of automatic system of electricity record keeping, activities related to expansion of "Dostyk" station, construction of locomotive assembly plant on Sorokovaya station, purchase of shunting locomotives and cargo wagons totalling 99,912,134 thousand tenge (2008: 56,610,197 thousand tenge).

Operating lease commitments

As at December 31 the operating lease commitments of 1,274,870 thousand tenge (2008: 1,642,794 thousand tenge), which are all due within one year.

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 or consolidated results of operations.

Kazakhstan taxation contingencies

Kazakhstan legislative acts and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are quite usual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan laws, decrees and related regulations are severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes additionally accrued. Interest is assessed at 22.5%. As a result, penalties and interest can result in amounts that are multiples of any incorrectly reported taxes resulting in an understatement.

During 2007 and 2008, the tax authorities conducted tax audit of the Group for the years ended between 2003 and 2006. As a result of these audits the tax authorities have assessed additional taxes, including fines and penalties of 14,270,347 thousand tenge. The Group has challenged the assessment as it believes the claim to groundless, and intends to appeal the results in a court. The Group has established a tax liability of 3,928,705 thousand tenge, which represents the amount the Group believes is probable will be paid to settle this liability. This liability is recorded within taxes payable, in Note 20.

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, 2009. 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.

Legal ownership of railway assets

As discussed in Note 4, the Group participated in construction of "Khromtau-Altynsarin" railway, which connects the western and northern parts of the Republic of Kazakhstan and thus locks the railway infrastructure of the Republic of Kazakhstan into one network. The construction of this railway was initiated by the Ministry of Transportation and Communication of the Republic of Kazakhstan with 64% of the construction financed from the governmental budget and the remainder by the Group. The total amount of assets financed by the Government under this project was 21,013,822 thousand tenge. Upon completion of the construction, the Group recorded the full amount of the construction as railway assets in its consolidated statement of financial position. The recognition of the assets was based on fact the Ministry of Transportation and Communication had committed to the transfer of these assets to the Group.

During April 2010, the Group received notice from the government that the recognition of these assets represented a breach of the Republic of Kazakhstan accounting and financial reporting guidelines as these are not legally assets of the Group. Later, the Group has reconfirmed with the state property Committee under the Ministry of Finance, and received confirmation, that these assets are to be transferred to the Group as a contribution to share capital. As a result, the Group believes that recognition of these assets continues to be appropriate. As disclosed in the Note 31, at the date of approval of these consolidated financial statements, approval of this transaction was granted by the required authorities and only awaits approval from the prime minister of Kazakhstan ("Prime Minister") to be finalised. Management of the Company expects the Prime Minister to approve the legal transfer of the assets.

Other contingencies

In April 2009 the Group entered into an agreement with a lessor under which the Group decreased the amount of equipment leased resulting in a reduction in the total rent from 19.3 billion tenge to 14.5 billion tenge. This agreement also included a change in the payment schedule, an obligation of the parties not to request payment of penalties and to repay to the Group any payments made prior to January 1, 2009.

In December 2009, the lessor brought an action against the Group to annul the option under the agreement due to the Group’s non-compliance with the original payment schedule from December 2007 onwards. The lessor asserted that the Group’s non-compliance with the payment schedule lead to a tight financial position for the lessor and the lessor’s inability to fulfill its obligations before the banks and other creditors and that the additional agreement was signed on the terms extremely unfavorable for the lessor.

On December 30, 2009 the court of the first instance made a decision to nullify the said additional agreement. In February and April 2010 the appeal and cassation of the Group was also dismissed. A counterclaim on violations of the terms of delivery by the lessor was filed by the Group and the appeal for revision of the case is planned to be filed to the Supreme Court of the Republic of Kazakhstan. The management of the Group believes that the counterclaim and appeal will most probably be satisfied, since the court did not consider the issue of the ratio of paid lease payments made by the Group and liabilities of the lessor before the bank and creditors. If the additional agreement is nullified, the total lease payments should be increased from 14.5 billion tenge to 19.3 billion tenge. As per the Group’s estimates, based on the initial lease agreement, the related penalties can also be 4.9 billion tenge to 8 billion tenge, however, since the lessor did not charge penalties previously and the lessor delayed the delivery of the equipment, the management of the Group believes that charging these penalties is unlikely, as such, no provisions were made in these consolidated financial statements in respect to possible liabilities.

(in thousands of tenge unless otherwise stated)

28. SUBSIDIARIES

Subsidiary	Nature of activities	Country of Residence	Percentage holding, % 2009	2008	2007
1. JSC “Kaztemirtrans”	Operation of cargo wagons	Kazakhstan	100	100	100
2. JSC “Passenger Transportation”	Passenger transportation	Kazakhstan	100	100	100
3. JSC “Locomotive”	Locomotive haul services	Kazakhstan	100	100	100
4. JSC “Remwagon”	Repair of wagons	Kazakhstan	100	100	100
5. JSC “Temirzholsu”	Utilities	Kazakhstan	100	100	100
6. JSC “Temirzholzhilu”	Utilities	Kazakhstan	100	100	100
7. JSC “Remlocomotive”	Repair of locomotives	Kazakhstan	100	100	100
8. JSC “Almaty Wagon Repair Plant”	Repair of wagons	Kazakhstan	100	100	100
9. OJSC “Zheldorremmash”	Repair of locomotives	Kazakhstan	100	100	100
10. JSC “Locomotive Service Center”	Repair of locomotives	Kazakhstan	100	100	100
11. JSC “Kaztransservice”	Transit cargo transportation	Kazakhstan	100	100	100
12. JSC “Transtelecom”	Communication services	Kazakhstan	100	100	100
13. OJSC “Zheldorvodoteplosnabzhenie”	Utilities	Kazakhstan	100	100	100
14. LLP “Lesozashita”	Protection of railway transportation property from unfavorable weather conditions	Kazakhstan	100	100	100
15. JSC “Center of Transport Service”	Operating of local railway lines	Kazakhstan	100	100	100
16. JSC “Militarized Railway Guard”	Security services	Kazakhstan	100	100	100
17. “Kazakhstan Temir Zholy Finance B.V.”	Financial services	Kingdom of Netherlands	100	100	100
18. LLP “Kazykurt Yug”	Flushing and steaming of wagons	Kazakhstan	100	100	100
19. LLP “Ertys service”	Flushing and steaming of wagons	Kazakhstan	100	100	100
20. LLP “Akzhaiyk Zapad 2006”	Flushing and steaming of wagons	Kazakhstan	100	100	100
21. JSC “Locomotive kurastyru zauyty”	Assembly of locomotives	Kazakhstan	100	100	100

As at December 31, 2009 the following subsidiaries of the Company were in the process of liquidation: OJSC “Zheldorvodoteplosnabzhenie”, OJSC “Zheldorremmash”, JSC “Remwagon” and LLP ”Akzhaiyk Zapad 2006”.

(in thousands of tenge unless otherwise stated)

29. RELATED PARTIES TRANSACTIONS

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Also parties under common control with the Group are considered to be related. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The Group's policy with respect to the approval of transactions with related parties is that the transaction should be approved by the Management by a majority of votes but not less than three quarters of the elected members. If the Management Board is not available to approve the transaction, then a majority of the members of the Board of Directors who are not interested in the transaction may vote to approve the transaction. If all members of the Board are interested, then a majority of the independent directors may vote to approve the transaction. If the independent directors are not available to approve the transaction, then the sole shareholder may approve it.

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, 2009, 2008 and January 1, 2008, not outlined elsewhere in these notes, are detailed below.

Amounts due to and from related parties (profit oriented state-owned entities), recorded within trade accounts payable and trade accounts receivable, as well as the transactions with related parties (commercial organization, fully controlled by the government) as at December 31, 2009, 2008 and January 1, 2008 were as follows:

	Due from related party			**Due to related party**		
Company name	**December 31, 2009**	December 31, 2008	January 1, 2008	**December 31, 2009**	December 31, 2008	January 1, 2008
JSC "National company "KazMunaiGas"	27,242	744	850	339,702	458,430	352,169
JSC "Kazpost"	83,317	81,875	101,101	-	1,139	324
JSC "Kazakhtelecom"	-	-	-	61,494	43,232	58,523
JSC "National nuclear company "Kazatomprom"	-	-	-	45,725	28,090	-
JSC "National company "Kazakhstan engineering"	-	-	-	47,353	312,203	47,895
JSC "Samruk-Energo"	22,542	11,972	2,021	-	278,002	-
JSC "Air Astana"	-	1,009	-	4,371	6,812	1,581
JSC "KOREM"	-	-	-	1,666	-	-
JSC "Repair Corporation "Kamkor"	-	-	-	4,962,446	4,134,621	4,924,081
LLP JV "Betpak Dala"	-	-	-	2,218	2,244	-
LLP JV "Katco"	-	-	-	11,130	3,644	-
JSC "International airport Atyrau"	-	-	-	1,331	-	-
JSC "GSM Kazakhstan JSC "Kazakhtelecom"	19,811	17,705	-	-	1,071	-
JSC "Development Bank of Kazakhstan"	-	-	-	-	224,758	-
JSC Astana Finance	-	-	-	1,962,860	-	-
Other	364	-	23	2,301	1,970	1,344
	153,276	113,305	103,995	7,442,597	5,496,216	5,385,917

(in thousands of tenge unless otherwise stated)

Transactions with related parties (profit oriented state-owned entities) were as follows for the years ended December 31:

	Sales of services		Purchases of services	
Company name	**2009**	2008	**2009**	2008
JSC “National company “KazMunaiGas”	4,632,207	8,910,726	355,554	48,197
JSC “Kazpost”	603,155	521,890	135,658	94,880
JSC “Kazakhtelecom”	384,299	231,256	518,454	871,569
JSC “National nuclear company “Kazatomprom”	413,374	344,295	59,305	73,696
JSC “National company “Kazakhstan engineering”	44,005	5,520	2,250,034	1,052,450
JSC “Samruk-Energo”	104,672	16,292,634	190,596	241,397
JSC “Air Astana”	60,728	18,044	-	1,082
JSC “Repair Corporation “Kamkor”	1,807,111	1,317,973	44,247,565	48,759,706
JSC “GSM Kazakhstan JSC “Kazakhtelecom”	384,299	184,206	518,454	4,043
JSC “Development Bank of Kazakhstan”	-	4,622	1,302	165,761
Other	47,561	24,575	20,455	-
	8,481,411	27,855,741	48,297,377	51,312,781

The services provided by related parties, primarily, include repair works and other costs of providing services. The services provided to related parties include, primarily, cargo transportation services. Sales to and purchases from related parties are at prices intended to be consistent with market rates. Outstanding balances at year-end are unsecured and interest free with settlement is made in cash. There have been no guarantees provided or received for any related party receivables or payables.

At December 31, 2009, 2008 and January 1, 2008 there is no provision against any of the receivables from related parties.

In addition to services related to operating activities, the Group has various related party transactions related to its investments and financing including the following:

(a) At December 31, 2009, 2008 and January 1, 2008, 3,950,158 thousand tenge 3,349,541 thousand tenge and 3,336,507 thousand tenge, respectively, of the Group’s borrowings were guaranteed by the Government of the Republic of Kazakhstan;

(b) At December 31, 2009, 2008 and January 1, 2008, the Group has loans of 1,314,034 thousand tenge, 1,375,286 thousand tenge and 1,674,489 thousand tenge, respectively, from related party, the Development Bank of Kazakhstan;

(in thousands of tenge unless otherwise stated)

(c) The Group has deposited money with JSC “Halyk Bank of Kazakhstan”, JSC “Kazkommertsbank”, JSC “BTA Bank” and JSC “Alliance Bank” as at December 31. The Group recognized finance income from these bank deposits in the amount of 1,825,625 thousand tenge and 1,475,959 thousand tenge during the years ended December 31, 2009 and 2008, respectively. JSC “Halyk Bank of Kazakhstan” is the Group’s related party since 2008. JSC “Kazkommertsbank”, JSC “BTA Bank” and JSC “Alliance Bank” are the Group’s related parties since 2009. The deposits with these banks at December 31 consists of the following:

	2009	2008	2007
JSC “Halyk Bank of Kazakhstan”			
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 12)	7,546,779	10,940,701	-
Deposits with maturity period of 3 to 12 months (Note 10)	10,173,176	3,000,000	-
JSC “Kazkommertsbank”			
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 12)	20,787,238	-	-
Deposits with maturity period of 3 to 12 months (Note 10)	-	-	-
JSC “BTA Bank”			
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 12)	300,824	-	-
Deposits with maturity period of 3 to 12 months (Note 10)	-	-	-
JSC “Alliance Bank”			
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 12)	5,455	-	-
Deposits with maturity period of 3 to 12 months (Note 10)	-	-	-

Amounts due to and from associates as at December 31, and transactions with associates for the years then ended are as follows:

	2009	2008	2007
Due			
From associates	-	8,567	89,516
To associates	921,397	2,182,288	1,736,956
Transactions with associates			
Sales	1,596,461	1,240,354	2,034,052
Purchases	5,374,853	3,074,021	11,396,485

The transactions entered into with associates primarily related to repair services and are entered into at terms consistent with that of third parties.

Compensation of key management personnel of the Group

Key management personnel comprise members of the Group’s Management Board and Board of Directors, totaling 26 persons as at December 31, 2009 (2008: 27 persons). Compensation to key management personnel for the years ended December 31 was as follows:

	2009	2008
Salaries	211,162	222,170
Income tax	22,990	24,347
Social tax	25,594	17,611
Pension deductions	21,567	19,639
Social deductions	1,401	887
Termination benefit	1,163	-
Total	283,877	284,654

(in thousands of tenge unless otherwise stated)

30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments consist of loans, cash and cash equivalents, and short-term investments as well as accounts receivable and accounts payable. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and credit risk. The Group further monitors the market risk and liquidity risk arising from all financial instruments.

Capital risk management

The Group manages capital insufficiency risk to ensure that the Group can continue as a going concern with maximum increase in profits for the founders by optimizing the balance of debt and equity.

The Group's capital structure includes share capital, unpaid capital, additional paid-in capital, foreign currency translation reserve and retained earnings.

Significant accounting policies

The significant accounting policies and adopted methods, including criteria of recognition, evaluation basis and the basis on which income and expenses are recognized with respect to each class of financial assets, financial liabilities and equity instruments are disclosed in the 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 the market risk (including currency risk, fair value interest rate risk and price risk), liquidity risk and cash flow interest rate risk. A description of the Group's risk management policies in relation to those risks follows.

Interest rate risk

The interest rate risk to the Group is the risk of changes in market interest rates reducing the overall return on its investments and increasing cash outflow on its borrowings. The Group limits its interest rate risk by monitoring changes in interest rates in the currencies in which its cash and cash equivalents, short-term investments and borrowings are denominated, and by maintaining a balance between its between loans with fixed and floating interest rates.

The Group's exposure to interest risk relates primarily to the Group's long-term and short-term debt. The weighted average effective interest rates were as follows as at December 31:

	December 31, 2009 (% per annum)	December 31, 2008 (% per annum)	January 1, 2008 (% per annum)
Short-term borrowings:			
Tenge	15.00	-	12.50
US Dollars	4.73	-	6.88
Long-term borrowings:			
US Dollars	5.85	6.65	6.87
Japanese Yen	3.67	3.25	3.00

(in thousands of tenge unless otherwise stated)

Interest rate sensitivity analysis

The following table shows the allocation of changes in the interest income, interest rates and net interest income between changes in the volume and changes in the rate. The fluctuations between the volume and the rate were calculated on movement in the average balances and changes in interest rates on average, interest bearing assets and average interest bearing liabilities.

	2009/2008 Change due to increase/(decrease)		Total change	Change in interest rate, %	2008/2007 Change due to increase/(decrease)		Total change	Change in interest rate, %
	Volume	Rate			Volume	Rate		
Interest income:								
Short-term deposits	(701,491)	-	(701,491)	-	1,021,374	-	1,021,374	-
Other financial assets	(3,818,581)	-	(3,818,581)	-	(555,968)	-	(555,968)	-
Finance costs:								
Bank loans	496,929	(522,170)	(25,241)	(1.69%)	(124,861)	(226,370)	(351,231)	(2.16%)
Finance lease	(704,879)	-	(704,879)	-	255,982	-	255,982	-
Debt securities	1,517,677	-	1,517,677	-	(112,278)	-	(112,278)	-

The following table reflects the Group's sensitivity to 1% increase and decrease in the interest rates. The sensitivity analysis is based on an assumption that the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year:

	2009	2008
Bank loans	308,976	196,665

Foreign currency risk

The Group's short-term and long-term debts are denominated in US Dollars and Japanese Yen and in other currencies are recorded in tenge. A change in the tenge value against foreign currencies will result in a foreign exchange gain or loss.

The Group limits foreign currency risk by monitoring changes in exchange rates in the currencies in which its cash, investments and borrowings are denominated. The Group's primary exposure is related to the Group's borrowings, which are primarily denominated in US dollars. The Group maintains a portion of its cash in US dollars in order to partially offset any foreign currency gain or loss on the borrowings.

Foreign currency sensitivity analysis

The Group is mainly exposed to risk of change in USD, Russian ruble, Swiss franc and Japanese yen.

The following table reflects the Group's sensitivity to 10% increase and decrease in the value of tenge with respect to relevant foreign currencies. The sensitivity analysis is based on the amounts outstanding at the end of the period. The sensitivity analysis includes (a) external loans and accounts payable and (b) accounts receivable of the Group, when the loan or accounts payable/receivable are denominated in the currency differing from the currency of the creditor or debtor. The following table indicates changes in financial assets and liabilities, in case of strengthening of tenge by 10% with respect to the relevant currency. The positive figure indicates the increase in profits for the reporting period and negative indicates the decrease in profits. In case of weakening of tenge by 10% with respect to the relevant currency, there will be an equal and opposite effect on profits.

(in thousands of tenge unless otherwise stated)

	Effect of change in the exchange rate as at December 31, 2009					
	US Dollars	**Euro**	**Swiss Francs**	**Russian Rubles**	**Japanese Yen**	**Total effect**
Financial assets;						
Cash and cash equivalents	(2,127,791)	(211,357)	(13,374)	(11,072)	-	(2,363,594)
Other financial assets	(1,431,074)	-	-	-	-	(1,431,074)
Trade accounts receivable	(10,084)	-	(377,132)	(47)	-	(387,263)
						(4,181,931)
Financial liabilities:						
Trade accounts payable	101,470	1,251	294,202	35,011	-	431,934
Loans and accrued interest	4,077,398	-	-	-	686,528	4,763,926
Debt securities	11,879,872	-	-	-	-	11,879,872
						17,075,732
Net effect						12,893,801

	Effect of change in the exchange rate as at December 31, 2008					
	US Dollars	**Euro**	**Swiss Francs**	**Russian Rubles**	**Japanese Yen**	**Total effect**
Financial assets;						
Cash and cash equivalents	(868,378)	(97,541)	(609)	(1,586)	-	(968,114)
Other financial assets	(736,596)	-	-	-	-	(736,596)
Trade accounts receivable	(17,354)	-	(338,319)	(503)	-	(356,176)
						(2,060,886)
Financial liabilities:						
Trade accounts payable	143,364	16,008	216,570	42,287	-	418,229
Loans and accrued interest	2,455,849	-	-	-	623,342	3,079,191
Debt securities	9,651,244	-	-	-	-	9,651,244
						13,148,664
Net effect						11,087,778

The carrying value of financial assets and financial liabilities, denominated in foreign currencies as at December 31 is as follows:

	December 31, 2009	December 31, 2008	January 1, 2008
Financial assets:			
Cash and cash equivalents	23,635,933	9,681,145	5,109,630
Other financial assets	14,310,740	7,365,958	19,074,074
Trade accounts receivable	3,872,628	3,561,753	1,349,354
	41,819,301	20,608,856	25,533,058
Financial liabilities:			
Trade accounts payable	4,319,328	4,182,278	3,395,439
Loans and accrued interest	47,639,260	30,791,901	23,911,142
Debt securities	118,798,719	96,512,443	95,943,643
	170,757,307	131,486,622	123,250,224

(in thousands of tenge unless otherwise stated)

Risk of changes in commodity prices

A significant portion of the Group’s operating expenses are affected by the level of consumer price inflation, particularly in wages and salaries. Despite the fragile nature of the Kazakhstan economy, the National Statistical Agency of the Republic of Kazakhstan has reported that consumer prices increased 31.0% during 2009, after declining 18.6% during 2008. It is difficult to predict the precise effect of changing prices and inflation on future Group operations. 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. The Department of Marketing and Procurement Analysis is responsible for monitoring consumer, commodities and services prices on a regular basis and preparing market research. The research comprises forecast reports in respect of anticipated future movements in commodity and consumer prices which are considered when the Company budgets for purchases of services, fuel and lubricants and other materials for the relevant period. To manage the pricing risks the Company 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 subject commodity or service decrease.

Credit risk

Credit risk arising from the inability of a party to meet the terms of the Group’s financial instrument contracts is generally limited to the amounts, if any, by which the counterparty’s obligations exceed the obligations of the Group to that party. It is the Group’s policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to credit risk is represented by the carrying value of each financial asset. The Group considers that its maximum exposure is reflected by the amount of trade accounts receivable (Note 9) and other current assets (Note 11), net of allowances for doubtful debts recognized at the reporting date.

Concentrations of credit risk may arise from exposures to a single debtor or to groups of debtors having similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions. Credit risk is managed by conducting financial operations with creditworthy counterparties (providers) with an adequate credit history and stable financial position, using mechanisms of prepayment and/or provision of bank guarantees of fulfillment of obligations under concluded contracts. Credit risk in management of temporarily free money of the Group is also managed by establishing limits. The concentration of credit risk can arise in case of several amounts of debt from one counterparty or a group of counterparties with similar conditions of activity, with respect to which there are reasons to expect that changes in economic conditions or other circumstances can equally affect their ability to meet their obligations. The Group is not a guarantor on obligations of third parties.

The maximum exposure to credit risk with regard trade accounts receivable and by geographic regions were as following as at the reporting date:

	December 31, 2009	December 31, 2008	January 1, 2008
Within the country	2,190,764	2,729,221	2,211,757
Outside the country	3,872,099	3,537,253	2,104,403

Procedures are in force to ensure that sales are only made to customers with an appropriate credit history and that an acceptable credit exposure limit is not exceeded. Credit risk is minimized by the fact that the Group operates on a prepayment basis with the majority of its customers. Prepayments are secured by bank guarantees.

The Group does not guarantee the obligations of other parties.

(in thousands of tenge unless otherwise stated)

As at December 31, 2009, 2008 and January 1, 2008 the allocation of trade accounts receivable by the aging was as following:

	December 31, 2009	December 31, 2008	January 1, 2008
Not overdue	2,050,418	2,060,771	364,568
3-6 months overdue	473,098	628,068	795,220
6-12 months overdue	3,539,347	3,577,635	3,156,372
	6,062,863	6,266,474	4,316,160

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 liquidity risk in accordance with requirements of the Sole Shareholder on the risk of liquidity of short-term, mid-term and long-term financing. 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 on a quarterly basis, by observing internal ratios of liquidity and borrowings and coordinating with the Sole Shareholder 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.

(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
2009							
Non-interest bearing:							
Trade accounts payable	-	34,657,241	2,483,762	6,501,690	-	-	43,642,693
Accrued salary	-	7,422,998	-	-	-	-	7,422,998
Other current liabilities	-	2,048,989	-	2,302,379	-	-	4,351,368
Interest bearing:							
ABN Amro Bank N.V (Loan 1)	6-month LIBOR for USD denominated deposits + 0.13%	-	-	611,702	908,927	-	1,520,629
ABN Amro Bank N.V (Loan 2)	3-month LIBOR for USD denominated deposits + 0.07%	-	572,759	1,714,813	6,522,056	-	8,809,628
ABN Amro Bank N.V (Loan 4)	6-month LIBOR for USD denominated deposits + 1.20%	-	-	9,029,947	12,462,719	-	21,492,666
Japan Bank for International Cooperation (“JBIC”)	3.00%	-	-	858,150	3,214,894	4,167,162	8,240,206
Instituto de Credito Oficial (“ICO”)	2.50%	-	-	417,922	1,589,474	2,301,402	4,308,798
Development Bank of Kazakhstan	9.80%	-	-	493,027	1,070,692	-	1,563,719
ATF Bank	4.26%	-	47,084	138,603	263,812	-	449,499
Other borrowings	-	17,158	46,091	4,957,257	-	-	5,020,506
Debt securities	6.50-7.00%	-	-	7,974,350	82,876,109	56,879,908	147,730,367
Finance lease	10.50-18.26%	80,767	276,787	980,345	4,739,611	5,039,461	11,116,971

	Interest rate	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	Greater than 5 years	Total
2008							
Non-interest bearing:							
Trade accounts payable	-	43,279,623	2,241,506	5,178,685	-	-	50,699,814
Accrued salary	-	8,055,034	-	-	-	-	8,055,034
Other current liabilities	-	2,146,132	2,021,199	113	-	-	4,167,444
Interest bearing:							
ABN Amro Bank N.V (Loan 1)	6-month LIBOR for USD denominated deposits + 0.13%	-	-	563,177	1,308,788	-	1,871,965
ABN Amro Bank N.V (Loan 2)	3-month LIBOR for USD denominated deposits + 0.07%	-	510,993	1,516,077	7,222,153	232,385	9,481,608
ABN Amro Bank N.V (Loan 3)	6-month LIBOR for USD denominated deposits + 0.15%	-	-	230,532	-	-	230,532
ABN Amro Bank N.V (Loan 4)	6-month LIBOR for USD denominated deposits + 1.20%	-	173,843	198,167	9,774,230	-	10,146,240
Japan Bank for International Cooperation (“JBIC”)	3.00%	-	-	701,912	2,652,339	4,041,754	7,396,005
Instituto de Credito Oficial (“ICO”)	2.50%	-	-	346,913	1,320,725	2,186,781	3,854,419
Development Bank of Kazakhstan	9.80%	-	-	431,485	1,272,919	-	1,704,404
ATF Bank	9.29%	-	45,902	132,878	390,348	-	569,128
Debt securities	6.50-7.00%	-	-	7,274,178	73,529,818	50,548,786	131,352,782
Finance lease	10.50-18.44%	103,836	207,673	934,526	7,502,934	6,869,625	15,618,594

(in thousands of tenge unless otherwise stated)

The following table reflects expected maturities of Group's financial assets. The table was prepared based on undiscounted contractual terms of financial assets, including interest received on these assets, except when the Company expects the cash flow in a different period.

	Interest rate	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	Greater than 5 years	Indefinite settlement term	Total
2009								
Interest bearing:								
Short-term deposits	5.03%	9,546,739	18,936,536	-	-	-	-	28,483,275
Interest on short-term deposits	5.03%	44,644	101,190	-	-	-	-	145,834
Other financial assets	4.98%	2,853,440	-	14,683,905	-	-	-	17,537,345
Interest on short-term investments	4.98%	37,848	-	392,528	-	-	-	430,376
Cash and cash equivalents	0.50-6.00%	10,359,292	-	-	-	-	-	10,359,292
Non-interest bearing:								
Cash and cash equivalents	-	13,772,620	-	-	-	-	-	13,772,620
Trade accounts receivable	-	260,971	894	5,800,998	-	-	4,779,018	10,841,881
2008								
Interest bearing:								
Short-term deposits	8.48%	15,589,952	25,370,241	-	-	-	-	40,960,193
Interest on short-term deposits	8.48%	167,155	553,192	-	-	-	-	720,347
Other financial assets	7.13%	-	11,589,260	3,676,940	-	-	-	15,266,200
Interest on other financial assets	7.13%	-	346,734	114,483	-	-	-	461,217
Cash on bank accounts	0.50%-9.00%	7,917,547	-	-	-	-	-	7,917,547
Non-interest bearing:								
Cash and cash equivalents		78,642	-	-	-	-	-	78,642
Trade accounts receivable		-	-	6,266,474	-	-	7,550,524	13,816,998

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.

Trade and other receivables and payables

For assets and liabilities maturing within twelve months, the carrying value approximates fair value due to the relatively short-term maturity of these financial instruments.

(in thousands of tenge unless otherwise stated)

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:

	December 31, 2009 (% per annum)	December 31, 2008 (% per annum)	January 1, 2008 (% per annum)
Tenge			
with maturity from 1 to 5 years	14.30	16.00	14.80
with maturity over 5 years	11.80	14.70	15.20
Foreign currencies			
with maturity from 1 to 5 years	11.60	15.50	14.20
with maturity over 5 years	8.60	14.90	14.10

Borrowings

The estimate for loans from banks was made by discounting the scheduled future cash flows of individual loans through estimated maturity using prevailing market rates as at the respective year-end for debt with a similar maturity and credit-rating profile. The Group's bank loans are is mostly provided by international development institutions and foreign banks. As a result, the interest rates attributable to these loans although lower than those obtainable from private commercial institutions in the Republic of Kazakhstan are considered to be the market interest rates for this category of lenders. The fair value of the Eurobonds has been determined based on average prices at which deals have been executed prior as at the reporting date.

As at December 31, 2009, 2008 and January 1, 2008 fair value of financial assets and financial liabilities, except for borrowings, was not significantly different from its cost. Cost and fair value of long-term loans, excluding loans from international development institutions and those backed by governments, and eurobonds as at December 31 is presented as follows:

	December 31, 2009		December 31, 2008		January 1, 2008	
	Carrying amount	**Fair value**	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities						
Borrowings	32,365,292	33,394,004	21,208,945	24,102,350	15,177,382	14,685,081
Eurobonds	118,798,719	115,520,811	96,512,443	61,228,906	95,943,643	93,270,996

The fair value of the loans from development institutions and those backed by the government have not been disclosed as it is not possible to estimate at what rate the Group could make similar borrowings from these parties and the rates from commercial banks would be significantly different. The fair value of these loans would vary significantly if calculated based on rates from commercial banks.

31. EVENTS AFTER THE REPORTING DATE

During February 2010 the Shareholder contributed cash to the share capital of the Company in the amount of 3,880,000 thousand tenge. In accordance with the Law of the Republic of Kazakhstan "On amendments and addendums to the Law of the Republic of Kazakhstan "On the republic 2009 budget" #198-IV dated November 11, 2009 these funds were used to purchase share in capital of JSC "Doszhan Temir Zholy", thereby, increasing the Group's share to 46.02%. After the increase of the share the Group did not imply control over the operating activity of the associate.

In accordance with the Law of the Republic of Kazakhstan "On amendments and addendums to the Law of the Republic of Kazakhstan "On the republic 2010-2012 budget" #259-IV dated March 29, 2010, funds of the republic budget were allocated to construction of the railway "Uzen – state border with Turkmenistan" of 11,100,000 thousand tenge and construction of the railway "Khorgos – Zhetigen" of 18,900,000 thousand tenge. In February 2010 and in July 2010, the Shareholder transferred cash of 31,000,000 thousand tenge to the Company's share capital.

In July 2010 the Ministry of Transport and Communications of the Republic Kazakhstan applied to the Government of the Republic Kazakhstan with the initiative to transfer the assets related to the construction of the Khromtau-Altynsarino railroad (Note 27) to the share capital of the Shareholder for the purpose of subsequent transfer to the Company's share capital. As at the date of approval of the consolidated financial statements, approval of this transaction was granted by the required authorities and only awaits approval from the prime minister of Kazakhstan ("Prime Minister") to be finalized. Management of the Company do not expect the Prime Minster to reject the proposal.

In August 2010, the Shareholder decided to allocate the Company's distributable profit for the year 2009 in the amount of 1,948,879 thousand tenge.

During July and August of 2010 the Group borrowed from the European Bank for Reconstruction and Development 6,449,399 thousand tenge to purchase cargo wagons.

During August of 2010 the Group borrowed from the European Bank for Reconstruction and Development 2,241,265 thousand tenge for construction of fiber-optic communication line.

During July 2010 the Group borrowed from SB JSC "HSBC Bank Kazakhstan" 1,474,700 thousand tenge to finance the Group's working capital.

In August 2010, the Shareholder applied to the Government of Republic of Kazakhstan for the additional financing of the Group from the state budget in the amount of 17.6 billion tenge.

JSC "NATIONAL COMPANY "KAZAKHSTAN TEMIR ZHOLY"

With Review Report of Independent Auditors

Condensed Consolidated Financial Statements (unaudited)
for the six months ended June 30, 2010

JSC "National Company "Kazakhstan Temir Zholy"

Condensed Consolidated Financial Statements
For the six months ended June 30, 2010

Contents

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2010

Management of JSC "National Company "Kazakhstan Temir Zholy" (the "Company") is responsible for the preparation of the condensed consolidated financial statements of the Company and its subsidiaries (jointly the "Group") that present fairly in all material respects the consolidated financial position of the Group as at June 30, 2010, and the consolidated financial results of its operations, cash flows and changes in equity for the six months then ended, in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

In preparing the condensed consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IAS 34 have been followed, subject to any material departures disclosed and explained in the condensed consolidated financial statements;
- providing additional disclosures when compliance with the specific requirements in IAS 34 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the consolidated financial position and financial performance of the Group; and
- preparing the condensed consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management of the Group is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the consolidated financial position of the Group, and which enable them to ensure that the condensed consolidated financial statements of the Group comply with IAS 34;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Kazakhstan;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

These condensed consolidated financial statements for the six months ended June 30, 2010 were authorized for issue on August 31, 2010 by management of JSC "National Company "Kazakhstan Temir Zholy".

On behalf of management of the Group:

A.U. Mamin **President**	**K.K. Alpysbayev** **Vice-President of Economics and Finance**	**N. Kh. Abilova** **Chief Accountant**
August 31, 2010	August 31, 2010	August 31, 2010

Deloitte.

Deloitte, LLP
Almaty Financial District
Building «B»
36, Al Farabi ave.
Almaty, 050000
Republic of Kazakhstan

Tel: +7 (727) 258 13 40
Fax: +7 (727) 258 13 41
almaty@deloitte.kz
www.deloitte.kz

INDEPENDENT AUDITORS' REVIEW REPORT

To the Board of Directors and Shareholder of JSC "National Company "Kazakhstan Temir Zholy":

Introduction

We have reviewed the accompanying condensed consolidated financial information of JSC "National Company "Kazakhstan Temir Zholy" and its subsidiaries (jointly the "Group") as of June 30, 2010 which comprise the condensed consolidated statement of financial position as at June 30, 2010 and the related condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in cash flows, the condensed consolidated statement of changes in equity and the related explanatory notes to the condensed consolidated financial statements for the six months period ended June 30, 2010. Management is responsible for the preparation and fair presentation of this condensed consolidated financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on the accompanying condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated financial information does not present fairly, in all material respects, the financial position of the Group as at June 30, 2010, and of its financial performance and its cash flows for the six month period then ended in accordance with IAS 34.

Deloitte, LLP

"Deloitte" LLP
August 31, 2010

JSC "National Company "Kazakhstan Temir Zholy"

Condensed consolidated statement of financial position
as at June 30, 2010
(in thousands of tenge)

	Notes	June 30, 2010 (unaudited)	December 31, 2009
ASSETS			
Non-current assets			
Property, plant and equipment	4	869,608,040	833,599,921
Intangible assets		4,786,854	4,488,144
Investments in associates		2,530,577	2,467,654
Other non-current assets	5	25,684,335	9,941,969
Total non-current assets		**902,609,806**	**850,497,688**
Current assets			
Inventories	6	24,078,714	20,942,968
Trade accounts receivable		7,233,300	6,062,863
Other financial assets	7	28,479,922	17,706,980
Prepaid income tax		8,003,671	8,436,108
Other current assets	8	37,506,951	38,490,712
Cash and cash equivalents	9	57,881,922	52,442,441
Restricted cash		229,173	233,714
Total current assets		**163,413,653**	**144,315,786**
Total assets		**1,066,023,459**	**994,813,474**
EQUITY AND LIABILITIES			
Equity			
Share capital	10	491,100,457	486,220,457
Additional paid-in capital	10	26,156,432	20,254,432
Foreign currency translation reserve		(68,069)	(83,546)
Retained earnings		195,558,031	154,611,850
Total equity		**712,746,851**	**661,003,193**

JSC "National Company "Kazakhstan Temir Zholy"

Condensed consolidated statement of financial position (continued)
as at June 30, 2010
(in thousands of tenge)

	Notes	June 30, 2010 (unaudited)	December 31, 2009
Non-current liabilities			
Borrowings	11	28,879,211	31,841,262
Debt securities issued		50,890,556	117,706,342
Finance lease liabilities		5,261,266	5,268,051
Employee benefit obligations		13,020,521	12,595,946
Deferred income tax liability		57,617,168	45,760,039
Total non-current liabilities		**155,668,722**	**213,171,640**
Current liabilities			
Short-term borrowings	11	4,423,800	4,860,026
Current portion of borrowings	11	18,250,183	11,339,472
Current portion of debt securities issued		67,331,065	1,092,377
Current portion of finance lease liabilities		532,625	476,428
Current portion of employee benefit obligations		980,039	979,120
Trade accounts payable		46,676,351	43,642,693
Income tax payable		1,391,691	80,898
Other taxes payable		8,419,171	8,204,631
Other current liabilities		49,602,961	49,962,996
Total current liabilities		**197,607,886**	**120,638,641**
Total liabilities		**353,276,608**	**333,810,281**
Total equity and liabilities		**1,066,023,459**	**994,813,474**

The notes on pages 9 through 19 form an integral part of the condensed consolidated financial statements. The independent auditors' report on the condensed consolidated financial statements is on the page 2.

A.U. Mamin **President**	**K.K. Alpysbayev** **Vice-President, of Economics and Finance**	**N. Kh. Abilova** **Chief Accountant**
August 31, 2010	August 31, 2010	August 31, 2010

АО "НК "КТЖ"

JSC "National Company "Kazakhstan Temir Zholy"

Condensed consolidated statement of comprehensive income
for the six months ended June 30, 2010
(in thousands of tenge)

	Notes	June 30, 2010 (unaudited)	June 30, 2009 (unaudited)
Revenue			
Freight transportation		239,391,690	188,518,249
Passenger transportation		22,757,781	21,134,984
Government grants		7,919,777	5,090,636
Other revenue		9,440,734	8,002,671
Total revenue		**279,509,982**	**222,746,540**
Cost of sales	12	(193,189,616)	(171,384,583)
Gross profit		**86,320,366**	**51,361,957**
General and administrative expenses	13	(27,018,312)	(23,073,541)
Recovery of loss from impairment of property, plant and equipment		7,096	8,148
Other income and expenses		259,185	150,113
Finance income		1,345,273	1,672,130
Finance costs	14	(5,302,272)	(5,200,719)
Foreign exchange loss		(151,498)	(24,546,205)
Share of profit of associates		62,923	113,322
Profit before taxation		**55,522,761**	**485,205**
Income tax expense	15	(14,576,580)	(2,014,710)
Profit/(loss) for the period		**40,946,181**	**(1,529,505)**
Other comprehensive income/(loss):			
Foreign currency translation gain		15,477	162,436
Other comprehensive gain/(loss) for the period		**15,477**	**162,436**
Comprehensive income for the period		**40,961,658**	**(1,367,069)**

The notes on pages 9 through 19 form an integral part of the condensed consolidated financial statements. The independent auditors' report on the condensed consolidated financial statements is on the page 2.

A.U. Mamin **President**	**K.K. Alpysbayev** **Vice-President, of Economics and Finance**	**N. Kh. Abilova** **Chief Accountant**
August 31, 2010	August 31, 2010	August 31, 2010

JSC "National Company "Kazakhstan Temir Zholy"

Condensed consolidated statement of cash flows
for the six months ended June 30, 2010
(in thousands of tenge)

	Notes	June 30, 2010 (unaudited)	June 30, 2009 (unaudited)
Cash flows from operating activities:			
Profit before taxation		**55,522,761**	**485,205**
Adjustments for:			
Depreciation and amortization	12, 13	24,730,394	24,493,099
Finance costs	14	5,302,272	5,200,719
Allowance for impairment of value added tax recoverable	13	3,268,428	-
Finance income		(1,345,273)	(1,672,130)
Defined benefit plan actuarial liability		886,011	1,273,609
Recovery of allowance for obsolete and slow-moving inventories		(285,823)	(190,736)
(Recovery)/accrued allowance for doubtful debts		(345,573)	996,672
Accrued/(recovery) unused vacation provision		459,944	(212,197)
Foreign exchange difference		(72,363)	27,768,545
Other		(539,186)	(123,578)
Operating income before changes in working capital changes		**87,581,592**	**58,019,208**
Increase in trade accounts receivable		(1,120,900)	(513,891)
(Increase)/decrease in inventories		(2,899,065)	867,521
Increase in other current assets (including increase in non-current VAT recoverable)		(3,702,287)	(8,626,100)
Increase/(decrease) in trade accounts payable		3,027,114	(14,991,601)
Increase in other taxes payable		1,966,138	469,314
Decrease in other current liabilities		(823,138)	(3,094,281)
Decrease in employee benefit obligations		(460,517)	(470,609)
Cash generated from operations		**83,568,937**	**31,659,561**
Interest paid		(4,834,777)	(5,200,719)
Income tax paid		(589,775)	(1,120,810)
Net cash flows from operating activities		**78,144,385**	**25,338,032**

JSC “National Company “Kazakhstan Temir Zholy”

Condensed consolidated statement of cash flows (continued)
for the six months ended June 30, 2010
(in thousands of tenge)

	Notes	June 30, 2010 (unaudited)	June 30, 2009 (unaudited)
Cash flows from investing activities:			
Purchase of property, plant and equipment		(76,125,787)	(41,725,018)
Purchase of intangible assets		(733,256)	(1,863,683)
Proceeds from sale of other non-current assets		308,268	3,978
Purchase of investments		(3,880,000)	(1,578,000)
Interest received		1,254,150	1,846,847
Purchase of short-term investments		(29,921,640)	(3,319,943)
Proceeds from sale of short-term investments		19,082,415	17,083,860
Net cash flows used in investing activities		**(90,015,850)**	**(29,551,959)**
Cash flows from financing activities:			
Contribution to share capital	10	14,080,000	1,578,000
Proceeds from borrowings	11	6,011,472	6,540,430
Repayments of borrowings	11	(2,566,863)	(2,156,677)
Repayments of finance lease liabilities		(111,204)	-
Net cash flows from financing activities		**17,413,405**	**5,961,753**
Net increase in cash and cash equivalents		**5,541,940**	**1,747,826**
Cash and cash equivalents at the beginning of the period	9	52,442,441	49,164,450
Effect of foreign exchange rates on cash and cash equivalents		(102,459)	127,434
Cash and cash equivalents at the end of the period	9	**57,881,922**	**51,039,710**

The Group had the following non-cash transactions during the six months ended June 30, 2010: property, plant and equipment for 10,859,833 thousand tenge (June 30, 2009: 5,373,277 thousand tenge) was purchased during the period that has not yet been paid.

The notes on pages 9 through 19 form an integral part of the condensed consolidated financial statements. The independent auditors' report on the condensed consolidated financial statements is on the page 2.

A.U. Mamin **President**	**K.K. Alpysbayev** **Vice-President, of Economics and Finance**	**N. Kh. Abilova** **Chief Accountant**
August 31, 2010	August 31, 2010	August 31, 2010

АО "НК "КТЖ"

JSC "National Company "Kazakhstan Temir Zholy"

Condensed consolidated statement of changes in equity
for the six months ended June 30, 2010
(in thousands of tenge)

	Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total equity
As at January 1, 2009	**484,642,457**	**21,589,270**	**(389,810)**	**138,011,329**	**643,853,246**
Loss for the period	-	-	-	(1,529,505)	(1,529,505)
Other comprehensive income for the period	-	-	162,436	-	162,436
Comprehensive income/(loss) for the period	-	-	162,436	(1,529,505)	(1,367,069)
Contributions to share capital	1,578,000	6,462	-	-	1,584,462
As at June 30, 2009 (unaudited)	**486,220,457**	**21,595,732**	**(227,374)**	**136,481,824**	**644,070,639**
As at January 1, 2010	**486,220,457**	**20,254,432**	**(83,546)**	**154,611,850**	**661,003,193**
Profit for the period	-	-	-	40,946,181	40,946,181
Other comprehensive income for the period	-	-	15,477	-	15,477
Comprehensive income for the period	-	-	15,477	40,946,181	40,961,658
Contributions to share capital (Note 10)	4,880,000	9,200,000	-	-	14,080,000
Distribution (Note 10)	-	(3,298,000)	-	-	(3,298,000)
As at June 30, 2010 (unaudited)	**491,100,457**	**26,156,432**	**(68,069)**	**195,558,031**	**712,746,851**

The notes on pages 9 through 19 form an integral part of the condensed consolidated financial statements. The independent auditors' report on the condensed consolidated financial statements is on the page 2.

A.U. Mamin **President**	**K.K. Alpysbayev** **Vice-President, of Economics and Finance**	**N. Kh. Abilova** **Chief Accountant**
August 31, 2010	August 31, 2010	August 31, 2010

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 condensed 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: 98 (44), Pobeda st., Astana, 010000, the Republic of Kazakhstan.

The Government represented by JSC “National welfare fund “Samruk-Kazyna” (the Ministry of Transportation and Communication of the Republic of Kazakhstan before June 8, 2006; JSC “Kazakhstan Holding for the Management of State Assets “Samruk” before October 17, 2008) is the sole shareholder of the Company (the “Shareholder”).

The Government controls the structure of the Group and establishes the long-term structure of the railway operations in the Republic of Kazakhstan. Since 1997, the Government has been in the process of restructuring the rail system in Kazakhstan which included the establishment of the Group, the disposal of certain repair services businesses out of the Group, the segregation of the passenger and cargo transportation and the associated rail tariffs and the introduction of Government subsidies for passenger travel. The Government of the Republic of Kazakhstan, through the Group, is continuing to restructure the railway transport in Kazakhstan and has developed long-term development strategy through 2020 that includes a significant investment in the railway assets.

The Group operates a Government regulated nationwide railway system providing freight transportation, railway passenger transportation services and maintenance of railway infrastructure within the Republic of Kazakhstan. As part of the regulation of the rail industry in Kazakhstan, the Government sets the tariffs which the Group charges its cargo and passenger customers, and also partially subsidizes certain passenger transportation activities through government grants. These regulated tariffs differ based on the type of transportation provided, and further for cargo transportation depending on the type of directions: domestic (national), international export-import and international transit.

The Group’s operations have been impacted over the past two years by the global economic downturn. This global economic downturn resulted in decreased global spending and global industrial production has slowed, which in turn had a direct impact on the amount of cargo that is shipped via railways. From the second half of 2009, the Group saw a moderate increase in cargo volume and revenues with a continued increase throughout the first half of 2010. In addition, during the first half of 2010 the Group received permission to increase freight transportation tariffs by an average of 17.6% and passenger transportation tariffs by 10% and an increase in the amount of Government subsidies provided to the Group.

The Group’s profits in 2009 were also significantly impacted by the devaluation of the Kazakhstan Tenge compared to the US Dollar. At that time, approximately 85% of the Group’s borrowings were denominated in US Dollars resulting in significant foreign exchange losses, which were only partially offset by gains on monetary assets held in US Dollars. The exchange rate of Kazakhstan Tenge to US Dollar remained relatively stable throughout the six months ended June 30, 2010.

In the process of implementation of major investment projects the Group has historically been financed by capital from the Government and debt financing. At June 30, 2010, approximately 90,005,048 thousand tenge of this debt is due within one year including 66,357,000 thousand tenge (450,000 thousand US Dollars) that matures in May 2011. At June 30, 2010 the Group has total current liabilities in excess of total current assets of 34,194,233 thousand tenge. The Group has assessed its cash needs including the financing of operations, its obligations and its expansion and based on this assessment believes it will have adequate cash flows from operations to finance its obligations while continuing to finance its operations. As part of this analysis the Group has considered its plans to optimize operating activates including its ability to improve its cash flows by increasing freight and passenger transportation tariffs and by cutting operating costs. The Group also changed the financing structure and intends to finance its investment projects through financing from its shareholder and through new long-term borrowings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The Group's condensed consolidated financial statements for six months, ended June 30, 2010 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

The condensed consolidated statement of financial position as of June 30, 2010 has been derived from the consolidated statement of financial position included the Group's consolidated financial statements for the year ended December 31, 2009. These condensed consolidated financial statements do not include all of the information and disclosures required in annual consolidated financial statements, and therefore, should be read in conjunction with the Group's annual consolidated financial statements as at December 31, 2009.

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments.

Adoption of new and revised standards

The accounting policies adopted for the preparation of the condensed consolidated financial statements are the same as those applied in preparation of the Group's annual consolidated financial statements for the year ended December 31, 2009, except for the standards and interpretations adopted as at January 1, 2010, which are listed below:

IAS 27 Revised – "Consolidated and Separate Financial Statements"

IAS 24 "Related party disclosure" – revision

IFRS 3 (Revised) "Business combinations"

IFRS 9 " Financial instruments"

IFRIC 14 "IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction"

IFRIC 16 "Hedges of a net investment in a foreign operation"

IFRIC 17 "Distributions of non-cash assets to owners"

IFRIC 19 "Extinguishing financial liabilities with equity"

The adoption of the above standards and interpretations had no impact on the Group's results of operations or financial position.

(in thousands of tenge unless otherwise stated)

3. SEGMENT INFORMATION

The Group's segments are based on information contained in reports that are regularly reviewed by the Shareholder and which are used to make decisions about the allocation of financial resources and to assess segment performance, are cargo transportation and passenger transportation. The Group allocates all administrative and finance costs and income taxes to these segments. The unallocated results primarily represent the results of the Group's repair services, sales of scrap inventory, and sales of electricity that are not regularly reviewed by the chief operating decision maker.

The Group monitors multiple measures of profitability such as profit before tax, profit after tax and gross profit. However, profit after tax is the measure used for the purpose of resource allocation and assessment of segment performance.

	For the six months ended June 30, 2010 (unaudited)			
	Cargo transportation	Passenger transportation	Unallocated results	Total
Key operating measures				
Revenue	240,395,493	30,774,519	8,339,970	279,509,982
Cost of sales	(148,540,143)	(39,858,399)	(4,791,074)	(193,189,616)
General and administrative expenses	(23,545,821)	(3,472,491)	-	(27,018,312)
Finance income	1,320,287	24,986	-	1,345,273
Finance costs	(5,257,900)	(44,372)	-	(5,302,272)
Foreign exchange gain/(loss)	74,432	(225,930)	-	(151,498)
Loss from impairment of property, plant and equipment	1,723	5,373	-	7,096
Share of profit of associates	62,923	-	-	62,923
Other income and expenses	224,931	34,254	-	259,185
Income tax expense	(12,490,149)	(1,376,652)	(709,779)	(14,576,580)
Profit/(loss) for the period	52,245,776	(14,138,712)	2,839,117	40,946,181
Other key segment information				
Capital expenditures for property, plant and equipment	50,725,567	7,218,084	7,144,898	65,088,549
Depreciation of property, plant and equipment	19,106,804	4,516,154	624,497	24,247,455
Revenue from transactions with other operating segments of the same entity	104,182,631	10,929,443	19,170,686	134,282,760

	For the six months ended June 30, 2009 (unaudited)			
	Cargo transportation	Passenger transportation	Unallocated results	Total
Key operating measures				
Revenue	189,398,137	26,430,888	6,917,515	222,746,540
Cost of sales	(129,670,933)	(36,763,270)	(4,950,380)	(171,384,583)
General and administrative expenses	(19,472,878)	(3,600,663)	-	(23,073,541)
Finance income	1,662,206	9,924	-	1,672,130
Finance costs	(5,124,653)	(76,066)	-	(5,200,719)
Foreign exchange loss	(23,206,794)	(1,339,411)	-	(24,546,205)
Recovery of loss from impairment of property, plant and equipment	6,568	1,580	-	8,148
Share of profit of associates	113,322	-	-	113,322
Other income and expenses	64,530	85,583	-	150,113
Income tax expense	(1,206,946)	(414,337)	(393,427)	(2,014,710)
Profit/(loss) for the period	12,562,559	(15,665,772)	1,573,708	(1,529,505)
Other key segment information				
Capital expenditures for property, plant and equipment	41,657,779	4,723,758	620,182	47,001,719
Depreciation of property, plant and equipment	18,781,879	4,591,178	681,610	24,054,667
Revenue from transactions with other operating segments of the same entity	82,998,788	10,095,943	13,824,482	106,919,213

(in thousands of tenge unless otherwise stated)

4. PROPERTY, PLANT AND EQUIPMENT

During the six months period, ended June 30, 2010, the Group purchased cargo and passenger wagons, locomotives and other property, plant and equipment with the aggregate cost of 8,854,308 thousand tenge (2009: 6,461,641 thousand tenge), excluding construction in progress.

During the six months period, ended June 30, 2010, the Group continued the following construction projects:

- "Uzen – state border with Turkmenistan" and "Khorgoz – Zhetigen" railway lines in the amount of 7,036,635 thousand tenge (2009: nil tenge);
- Administrative building in Astana in the amount of 9,843,619 thousand tenge (2009: 4,923,851 thousand tenge);
- Optic fiber line in the amount of 6,742,504 thousand tenge (2009: 66,591 thousand tenge).

The Group also continued construction of other items of capital repair in progress and modernization of the railway infrastructure.

5. OTHER NON-CURRENT ASSETS

Other non-current assets comprised the following as at June 30, 2010 and December 31, 2009:

	June 30, 2010 (unaudited)	**December 31, 2009**
Advances to suppliers for property, plant and equipment	24,645,793	8,732,217
VAT receivable	18,782,149	15,513,721
Other	1,647,948	1,804,108
	45,075,890	26,050,046
Less: allowance for advances to suppliers for property, plant and equipment	(1,718,711)	(1,703,661)
Less: allowance for unrecoverable VAT receivable	(17,672,844)	(14,404,416)
	25,684,335	**9,941,969**

As at June 30, 2010 advances to suppliers for property, plant and equipment comprised the amounts of advances paid for construction of the "Uzen – state border with Turkmenistan" and "Khorgoz – Zhetigen" railway lines in the amount of 9,949,967 thousand tenge (December 31, 2009: nil tenge).

(in thousands of tenge unless otherwise stated)

6. INVENTORIES

Inventories comprised the following as at June 30, 2010 and December 31, 2009:

	June 30, 2010 (unaudited)	**December 31, 2009**
Materials and supplies	11,649,424	11,203,901
Spare parts	9,687,012	8,307,800
Fuel	1,147,898	1,178,485
Upper railway components	2,135,589	744,969
Construction components	695,282	640,806
Others	594,296	996,028
	25,909,501	23,071,989
Less: allowance for obsolete and slow-moving inventories	(1,830,787)	(2,129,021)
	24,078,714	**20,942,968**

7. OTHER FINANCIAL ASSETS

As at June 30, 2010, the Group has placed additional term deposits with an original maturity period of greater than three months and with interest rates ranging from 3.40-7.00% in JSC "Bank Centercredit", JSC "Halyk Bank of Kazakhstan" SB JSC "Sberbank of Russia" and JSC "Kazkommertsbank" in the amount of 10,768,484 thousand tenge. The Group intends to use the term deposits for the future settlement of eurobonds as described in the Note 1.

8. OTHER CURRENT ASSETS

Other current assets comprised the following as at June 30, 2010 and December 31, 2009:

	June 30, 2010 (unaudited)	**December 31, 2009**
VAT recoverable	19,087,178	23,943,495
Short-term advances paid	5,823,597	2,788,346
Prepaid expense	414,291	465,729
Other taxes prepaid	10,732,695	10,769,143
Claims	1,165,435	1,115,164
Transfers to institutions	292,294	292,069
Other	3,972,292	2,979,677
	41,487,782	42,353,623
Less: allowance for doubtful debts	(3,980,831)	(3,862,911)
	37,506,951	**38,490,712**

(in thousands of tenge unless otherwise stated)

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following as at June 30, 2010 and December 31, 2009:

	June 30, 2010 (unaudited)	**December 31, 2009**
Short-term bank deposits	18,797,632	28,544,243
Cash in current bank accounts and petty cash	39,084,290	23,898,198
	57,881,922	52,442,441

10. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

In February 2010, the Shareholder transferred cash in the amount of 14,080,000 thousand tenge to the Company in exchange for shares. As of June 30, 2010, the shares in relation to 4,880,000 thousand tenge were issued with the remainder legally issued subsequent to period end, accordingly the portion not issued until after June 30, 2010 has been recorded as additional paid-in capital at June 30, 2010. The purpose of the contribution was to finance the construction of the "Uzen – state border with Turkmenistan" and "Khorgoz – Zhetigen" railway lines and to provide the Group cash to finance its acquisition of shares in JSC "Doszhan Temir Zholy".

In February 2010, the Group purchased an additional 8.99% of shares in JSC "Doszhan Temir Zholy" increasing its ownership to 46.02%. The Group and JSC "Doszhan Temir Zholy" are under common control and therefore the difference between the price paid and the carrying value of the shares is reflected as a distribution to shareholders in the condensed consolidated statement of changes in equity.

11. BORROWINGS

During the six months period ended June 30, 2010, the Group entered into the following new borrowings:

- SB JSC "HSBC Bank Kazakhstan" provided borrowing to the Group to finance the purchase of eight units of fitting platforms in the amount of 56,240 thousand tenge. Interest on this loan is 14.30% per year. JSC "Locomotive", a wholly owned subsidiary of the Company, provided guarantee under the loan agreement. The loan is repaid quarterly until its full settlement on December 31, 2012.
- Within the credit line agreement with the European Bank for Reconstruction and Development, the Group received a tranche of 5,955,232 thousand tenge. The loan matures in ten years and bears interest at a rate of six months US LIBOR + 3.25%. The repayment of the loan starts three years from the date of issuance and continues semi-annually with full settlement in September 2018.

During the six months period ended June 30, 2010, the Group repaid borrowings in the amount of 2,566,863 thousand tenge (June 30, 2009: 2,156,677 thousand tenge).

(in thousands of tenge unless otherwise stated)

12. COST OF SALES

Cost of sales for the for the six months ended June 30, 2010 and 2009 comprised the following:

	2010 (unaudited)	**2009 (unaudited)**
Personnel costs, including short-term provisions	69,247,164	61,904,662
Services	27,624,293	26,597,069
Fuels and lubricants	30,250,456	25,591,134
Depreciation and amortization	23,832,521	23,695,172
Materials and supplies	20,687,972	15,480,013
Electricity	10,315,242	6,931,892
Wagon usage fee	7,015,054	6,149,945
Operating lease expenses	1,467,798	1,334,812
Business trip expenses	840,590	653,976
Professional services	832,933	1,136,666
Employee benefit expenses	773,576	1,097,978
Personnel training	229,643	170,770
Other	72,374	640,494
	193,189,616	**171,384,583**

13. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the for the six months ended June 30, 2010 and 2009 comprised the following:

	2010 (unaudited)	**2009 (unaudited)**
Personnel costs, including short-term provisions	10,786,021	10,525,835
Property tax and other taxes	6,008,606	4,877,705
Allowance for impairment of value added tax recoverable	3,268,428	-
Charities and sponsorship	3,195,476	2,191,241
Depreciation and amortization	897,873	797,927
Professional services	703,927	325,209
Business trip expenses and representative expenses	552,534	467,681
Consulting, audit and legal services	383,904	287,461
Bank services	337,285	326,421
Materials	316,188	274,882
Services	218,726	81,364
Advertising expenses	205,140	226,892
Other expenses	177,988	826,894
Operating lease expenses	159,128	604,592
Employee benefit expenses	112,435	175,631
Social activities	40,226	87,134
Allowances for doubtful debts	(345,573)	996,672
	27,018,312	**23,073,541**

(in thousands of tenge unless otherwise stated)

14. FINANCE COSTS

Finance costs for the for the six months ended June 30, 2010 and 2009 comprised the following:

	2010 (unaudited)	2009 (unaudited)
Interest expenses on debt securities issued	3,897,567	3,857,116
Interest expenses on loans	777,460	683,211
Finance lease charge	505,560	548,717
Amortization of discount on debt securities issued	121,685	111,675
	5,302,272	**5,200,719**

15. CORPORATE INCOME TAX

The corporate income tax for the six months ended June 30, 2010 was assessed at the annual average effective rate of 26.25%. (June 30, 2009: 23.93%). The primary reason for the increase was a change in estimate in relation the ability to utilize tax carryforward losses prior to the expiration in the second half of 2009 based on a change in tax law.

16. COMMITMENTS AND CONTINGENCIES

Capital commitments

As at June 30, 2010, the Group had committed to contracts for the construction of new railway lines, the Company's administrative building in Astana, capital repair of railway, project implementation of automatic system of electricity record keeping, activities related to expansion of "Dostyk" station, construction of locomotive assembly plant on Sorokovaya station, purchase of shunting locomotives and cargo wagons totalling 162,813,619 thousand tenge. These costs are all expected to be incurred prior to December 31, 2010.

Legal ownership of railway assets

The Group participated in construction of "Khromtau-Altynsarin" railway, which connects the western and northern parts of the Republic of Kazakhstan and thus locks the railway infrastructure of the Republic of Kazakhstan into one network. The construction of this railway was initiated by the Ministry of Transportation and Communication of the Republic of Kazakhstan with 64% of the construction financed from the governmental budget and the remainder by the Group. The total amount of assets financed by the Government under this project was 21,013,822 thousand tenge. Upon completion of the construction, the Group recorded the full amount of the construction as railway assets in its consolidated statement of financial position. The recognition of the assets was based on fact the Ministry of Transportation and Communication had committed to the transfer of these assets to the Group.

In April 2010, the Group received a notice from the Government that the recognition of these assets represented a breach of the Republic of Kazakhstan accounting and financial reporting guidelines as these are not legally assets of the Group. Later, the Group has reconfirmed with the state property Committee under the Ministry of Finance, and received confirmation, that these assets are to be transferred to the Group as a contribution to share capital.

In July 2010, the Ministry of Transport and Communications of the Republic Kazakhstan applied to the Government of the Republic Kazakhstan with the initiative to transfer these assets to the share capital of the Shareholder for the purpose of subsequent transfer to the Company's share capital. As at the date of approval of the accompanying condensed consolidated financial statements, approval of this transaction was granted by the Ministry of Finance of the Republic Kazakhstan, by the Shareholder and the Ministry of Justice of the Republic Kazakhstan. As a result, the Group believes that recognition of these assets continues to be appropriate.

(in thousands of tenge unless otherwise stated)

17. RELATED PARTIES TRANSACTIONS

Amounts due to and from related parties (profit oriented state-owned entities), recorded within trade accounts payable and trade accounts receivable, as well as the transactions with related parties (commercial organization, fully controlled by the Government) as at June 30, 2010 and December 31, 2009 were as follows:

	Due from related party		Due to related party	
Company name	**June 30, 2010 (unaudited)**	**December 31, 2009**	**June 30, 2010 (unaudited)**	**December 31, 2009**
JSC "National company "KazMunaiGas"	405,977	27,242	227,241	339,702
JSC "Kazpost"	83,896	83,317	-	-
JSC "Kazakhtelecom"	-	-	18,046	61,494
JSC "National nuclear company "Kazatomprom"	1,353	-	35,795	45,725
JSC "National company "Kazakhstan engineering"	-	-	431,354	47,353
JSC "Samruk-Energo"	6,655	22,542	9,912	-
JSC "Air Astana"	-	-	4,763	4,371
JSC "KOREM"	-	-	651	1,666
JSC "Repair Corporation "Kamkor"	1,000,739	-	6,217,315	4,962,446
LLP JV "Betpak Dala"	-	-	2,261	2,218
LLP JV "Katco"	-	-	6,127	11,130
JSC "International airport Atyrau"	-	-	1,115	1,331
JSC "GSM Kazakhstan JSC "Kazakhtelecom"	17,788	19,811	605	-
JSC "Astana Finance"	-	-	-	1,962,860
Other	915	364	6,025	2,301
	1,517,323	**153,276**	**6,961,210**	**7,442,597**

Transactions with related parties (profit oriented state-owned entities) were as follows for the six months periods ended June 30, 2010 and 2009:

	Sales of services		Purchases of services	
Company name	**2010 (unaudited)**	**2009 (unaudited)**	**2010 (unaudited)**	**2009 (unaudited)**
JSC "National company "KazMunaiGas"	4,613,505	1,093,924	564,724	27,070
JSC "Kazpost"	358,642	252,040	74,302	38,666
JSC "Kazakhtelecom"	145,107	176,818	288,654	252,686
JSC "National nuclear company "Kazatomprom"	211,087	216,231	4,988	45,509
JSC "National company "Kazakhstan engineering"	47,564	3,259	392,327	8,372
JSC "Samruk-Energo"	61,408	243	112,480	95,107
JSC "Air Astana"	26,234	43,104	-	3
JSC "Repair Corporation "Kamkor"	931,843	725,341	26,437,644	18,580,943
JSC "GSM Kazakhstan JSC "Kazakhtelecom"	111,582	81,913	160	515
JSC "Astana Finance"	442,982	-	-	-
Other	17,368	18,284	32,623	-
	6,967,322	**2,611,157**	**27,907,902**	**19,048,871**

The services provided by related parties, primarily, include repair works and other costs of providing services. The services provided to related parties include, primarily, cargo transportation services. Sales to and purchases from related parties are at prices intended to be consistent with market rates. Outstanding balances at year-end are unsecured and interest free with settlement is made in cash. There have been no guarantees provided or received for any related party receivables or payables.

At June 30, 2010 and December 31, 2009 there is no provision against any of the receivables from related parties.

(in thousands of tenge unless otherwise stated)

In addition to services related to operating activities, the Group has various related party transactions related to its investments and financing including the following:

(a) As at June 30, 2010 and December 31, 2009, 3,761,829 thousand tenge and 3,950,158 thousand tenge, respectively, of the Group's borrowings were guaranteed by the Government of the Republic of Kazakhstan;

(b) As at June 30, 2010 and December 31, 2009, the Group has loans of 1,119,483 thousand tenge and 1,314,034 thousand tenge, respectively, from related party, the Development Bank of Kazakhstan;

(c) The Group has deposited cash on current and deposit accounts with JSC "Halyk Bank of Kazakhstan", JSC "Kazkommertsbank", JSC "BTA Bank", JSC "Alliance Bank" and JSC "Temir Bank" as at June 30, 2010 and December 31, 2009. The Group recognized finance income from these bank current accounts and deposits in the amount of 880,269 thousand tenge and 901,232 thousand tenge during the six months period ended June 30, 2010 and 2009, respectively. JSC "Halyk Bank of Kazakhstan" is the Group's related party since 2008. JSC "Kazkommertsbank", JSC "BTA Bank", JSC "Alliance Bank" and JSC "Temir Bank" are the Group's related parties since 2009. The deposits with these banks at December 31 consists of the following:

	June 30, 2010 (unaudited)	**December 31, 2009**
JSC "Halyk Bank of Kazakhstan"		
Cash on current accounts and on short-term deposits with maturity period of up to three months	11,678,501	7,546,779
Deposits with maturity period of 3 to 12 months	13,974,973	10,173,176
JSC "Kazkommertsbank"		
Cash on current accounts and on short-term deposits with maturity period of up to three months	11,233,158	20,787,238
Deposits with maturity period of 3 to 12 months	2,836,220	-
JSC "BTA Bank"		
Cash on current accounts and on short-term deposits with maturity period of up to three months	153,028	300,824
Deposits with maturity period of 3 to 12 months	-	-
JSC "Alliance Bank"		
Cash on current accounts and on short-term deposits with maturity period of up to three months	4,342	5,455
Deposits with maturity period of 3 to 12 months	-	-
JSC "Temir Bank"		
Cash on current accounts and on short-term deposits with maturity period of up to three months	26,345	-
Deposits with maturity period of 3 to 12 months	-	-

(in thousands of tenge unless otherwise stated)

Amounts due to and from associates as at June 30, 2010 and December 31, 2009, and transactions with associates for the six months period ended June 30, 2010 and 2009 are as follows:

	June 30, 2010 (unaudited)	December 31, 2009
Due		
From associates	5,246,721	-
To associates	1,909,830	921,397

	June 30, 2010 (unaudited)	June 30, 2009 (unaudited)
Transactions with associates		
Sales	836,139	561,934,
Purchases	2,278,091	1,183,111,

The transactions entered into with associates primarily related to repair services and are entered into at terms consistent with that of third parties.

Compensation of key management personnel of the Group

Key management personnel comprise members of the Group's Management Board and Board of Directors, totaling 25 persons for six months period ended June 30, 2010 (2009: 26 persons). Compensation to key management personnel for the six months periods ended June 30, 2010 and 2009 was as follows:

	2010 (unaudited)	2009 (unaudited)
Salaries	92,492	108,439
Income tax	10,260	11,915
Social tax	10,349	12,394
Pension deductions	9,403	11,822
Social deductions	964	709
Termination benefit	-	347
Total	123,468	145,626

18. EVENTS AFTER THE REPORTING DATE

In July 2010, the Shareholder transferred cash of 20,800,000 thousand tenge to the Company's share capital. These funds were allocated by the Shareholder for the construction of the "Uzen – state border with Turkmenistan" and "Khorgoz – Zhetigen" railway lines.

In August 2010, the Shareholder decided to allocate the Company's distributable profit for the year 2009 in the amount of 1,948,879 thousand tenge.

During July and August of 2010, the Group borrowed from the European Bank for Reconstruction and Development 6,449,399 thousand tenge to purchase cargo wagons.

During August of 2010 the Group borrowed from the European Bank for Reconstruction and Development 2,241,265 thousand tenge for construction of fiber-optic communication line.

During July 2010, the Group borrowed from SB JSC "HSBC Bank Kazakhstan" 1,474,700 thousand tenge to finance the Group's working capital.

In August 2010, the Shareholder applied to the Government of Republic of Kazakhstan for the additional financing of the Group from the state budget in the amount of 17.6 billion tenge.

REGISTERED OFFICER OF THE ISSUER

Kazakhstan Temir Zholy Finance B.V.
Prins Bernhardplein 200
1097 JB Amsterdam
The Netherlands

REGISTERED OFFICES OF THE GUARANTORS

JSC National Company Kazakhstan Temir Zholy
6 Kunayev Street, Esil District, Astana
010000, Republic of Kazakhstan

JSC Kaztemirtrans
6 Kunayev Street, Esil District, Astana
010000, Republic of Kazakhstan

JSC Locomotive
6 Kunayev Street, Esil District, Astana
010000, Republic of Kazakhstan

AUDITORS OF THE GUARANTORS

Deloitte LLP
36, Al-Farabi Ave, Almaty Financial District
Building "B", Almaty, 050059
Republic of Kazakhstan

LEGAL ADVISERS

To the Joint Lead Managers as to U.S and English law
White & Case LLP
5 Old Broad Street
London EC2N 1DW
United Kingdom

To the Joint Lead Managers as to Kazakhstan law
White & Case Kazakhstan LLP
64 Amangeldy Street
Almaty 050012
Republic of Kazakhstan

To the Trustee
White & Case LLP
5 Old Broad Street
London EC2N 1DW
United Kingdom

To the Issuer and Guarantors as to Kazakhstan law
Bracewell & Giuliani LLP
57 Amangeldy Street
Almaty 050012
Republic of Kazakhstan

To the Issuer and Guarantors as to English law
Bracewell & Giuliani (UK) LLP
15 Old Bailey
London EC4M 7EF
United Kingdom

To the Issuer and Guarantors as to U.S. law
Bracewell & Giuliani LLP
711 Louisiana Street, Suite 2300
Houston, Texas 77002-2770
United States of America

To the Issuer as to Dutch law
NautaDutilh N.V.
Weena 750
3014 DA Rotterdam
The Netherlands

REGISTRAR

The Bank of New York Mellon (Luxembourg) S.A.
Vertigo Building – Polaris
2-4 rue Eugene Ruppert
L-2453 Luxembourg

PRINCIPAL PAYING AND TRANSFER AGENT

The Bank of New York Mellon
One Canada Square
London E14 5AL
United Kingdom

TRUSTEE

BNY Corporate Trustee Services Limited
One Canada Square
London E14 5AL
United Kingdom

imprima — C103451

Акционерное общество
АО "НК "Казахстан Темір Жолы"

Прошито и пронумеровано в количестве
243 (двести сорок три) листов

Вице-президент по зкономике и финансам

Лепесбаев А.М.