

# WEEK OF STOCK MARKET OF KAZAKHSTAN

## July 5 - 11

1 US dollar = **146.70** tenge at official rate for the end of the period  
 1 US dollar = **146.72** tenge at weighted average rate of the Exchange for the end of the period

### YIELD OF STOCK EXCHANGE INSTRUMENTS

Following is the table that allows to compare investment attractiveness of the financial instruments, which were regularly traded or quoted at Kazakhstan stock exchange (KASE) during July 5 - 11. In parentheses – figures of previous period. Instruments are given in ascending order, based on their attractiveness within specified groups.

#### Investment attractiveness of stock exchange instruments from July 5 through 11

Financial instrument	Currency	Yield, % APR	Volume of deals, mln KZT	Volume of deals, mln USD
<b>Instruments denominated in national currency, tenge</b>				
MEOKAM, MEAKAM	KZT	9.31,(10.11)	1,893.0,(1,787.7)	12,899.0,(12,178.5)
CS repo	KZT	*9.06,(*8.90)	1,365.7,(183.2)	9,306.6,(1,248.8)
MEKKAM, notes	KZT	*5.59,(*5.60)	185.3,(563.1)	1,262.6,(3,836.3)
GB repo	KZT	*4.46,(*3.78)	10,585.8,(5,806.6)	72,128.2,(39,557.2)
<b>Instruments indexed to the US dollar</b>				
VITAb2	USD	13.54,(13.54)	0,(0)	0,(0)
SMGZb1	USD	13.00,(13.00)	0,(0)	0,(0)
CCBNb1	USD	11.12,(11.13)	0,(0)	0,(0)
HSBkb	USD	11.00,(11.21)	0,(151.9)	0,(1,036.9)
KZASb1	USD	11.00,(11.20)	0,(0)	0,(0)
TEBNb	USD	10.87,(7.75)	15.4,(0)	104.7,(0)
ASF1b1	USD	10.50,(10.50)	480.4,(735.9)	3,276.6,(5,019.5)
KARMb1	USD	10.34,(10.35)	0,(0)	0,(0)
BTASb1	USD	9.20,(9.20)	0,(0)	0,(0)
KZTOb	USD	9.10,(10.19)	121.9,(99.1)	831.0,(676.6)
SYRGb1	USD	8.50,(8.50)	0,(0)	0,(0)
KZOLb	USD	8.86,(8.32)	74.1,(0)	505.0,(0)
RGBRb2	USD	7.45,(12.50)	0,(12.2)	0,(83.3)
ATFBb	USD	7.35,(7.70)	0,(1.5)	0,(10.3)
KKGBb	USD	5.02,(5.03)	0,(0)	0,(0)
<b>Instruments denominated in US dollars</b>				
KKGBe2	USD	9.20,(9.20)	0,(0)	0,(0)
VKU	USD	8.34,(8.35)	117.7,(265.7)	803.1,(1,810.2)
Euronotes-4	USD	7.20,(7.28)	835.1,(1,981.8)	5,690.2,(13,501.0)
Euronotes-3	USD	7.02,(7.04)	787.9,(713.9)	5,369.0,(4,863.3)
Euronotes-2	USD	6.01,(6.09)	614.0,(1,215.9)	4,183.7,(8,283.0)

**Notes:** Yields of ASF1b1, KZTOb, KZOLb and TEbNb are calculated as average of the deals.  
 Yields of other corporate bonds are calculated as average of offer bids.

Tenge devaluation rate is estimated at weighted average rate of the main session of KASE in the week by a trend of **negative 3.80% APR** (tenge firmed against dollar).

The yields, shown here, do not incorporate overhead expenses that are inevitable when conducting operations and fixing profits (commission and tax collections, membership fees etc). Marked by a star are the instruments with less than a year circulation term. Weighted average effective yields are given for them. The yields of all bonds with more than a year maturity term are calculated on a semiannual basis.

### INDICATORS OF INTERBANK DEPOSIT MARKET

Indicators of Kazakhstan interbank deposit market  
 as of July 11, 4:00 PM ALT and changes during the week

Term	Currency	Rate	Trend
1 week	KZT	8.25	+0.42
2 weeks	KZT	9.00	+0.33
1 month	KZT	9.75	+0.25
2 months	KZT	10.63	+0.30
3 months	KZT	11.25	-0.08

During the period the rates of money market were generally inclined to growth. It was most clear on the shortest deposits, and to the least degree – on long. The reason for such movements of the rates is a gradual decline in the liquidity as a result of budgetary payments by the results of previous quarter. However, in general, no deficit of tenge was observed on the market.

## THE CORPORATE SECURITIES SECTOR (CS)

During observed period 23 deals amounting to **\$5,002.3 th.** (KZT733.6m) were made **in purchase and sale sector** of the securities on trade floors of the KASE. Relative to previous period (\$7,008.7 th., KZT1,027.4m, 16 deals) weekly turnover of the sector decreased by 28.6%. Because the initial offering of Astana-finance OJSC bonds continued in the trade system of the KASE on July 5 out of the auction limits, these bonds again became the most traded ones at the Exchange and controlled 65.5% of all turnover of the sector.

By the results of three days (July 3 through 5), 76,500 bonds of Astana-finance OJSC (Astana; KZ2CUY02A356; official list of KASE securities under category "A", ASFIb1; \$100, \$10m, July 02.01 - July 02.03, semiannual coupon at 9.0% APR) have been floated for a total of \$7.650m at face value or **76.5%** of registered emission volume. The volume of ten deals amounted to **\$7,456.2 th.** All deals have been made at a "clean" price of 97.3666% of the face value, which corresponds to a yield to maturity of **10.5000% APR** on a semiannual basis. The bonds were bought by the banks, brokerage-dealing companies and their clients, and Pension Assets Management Companies.

The next most traded instrument after the Astana-finance OJSC bonds were the bonds of NOTC KazTransOil CJSC (16.6%) of the turnover.

Of 32 deals 6 were direct deals, the rest were made by the brokers using the main trade mode of the KASE. The deals were made in 8 instruments, and 5 – for last week.

By the last deals of the period the yields of ASFIb1 TEBNb bonds remained unchanged. The yields of KZTOB fell from 9.26% to 9.10%, KZOLb – from 9.20% to 8.86%. Price of VTBN increased by 1.8%, KZCRp – fell by 0.4%, KZCR – fell by 0.2%, ALKZ – increased by 20.1%.

**The index** KASE\_Shares rose by 0.1351 (1.63%) during the week, at **104.0629** on July 11 closing. This change is mainly explained by an increase in bids of Bank TuranAlem OJSC (0.2%) and VALUT-TRANZIT BANK OJSC common shares (10.1%).

The dynamics of the indexes of corporate bonds market (changes during the week are in parentheses) is as follows: **KASE\_BY – 11.21 (+0.18%)**, KASE\_BP – 115.57 (+0.15%), KASE\_BC – 104.98 (-0.05%). Last week KASE\_BY index decreased by 1.97%. The change in KASE\_BY index reflects local increase of index on the background of its general decline in previous 2.5 months at the same speed.

On July 11, 2001 **the capitalization of the companies**, whose shares are traded on the securities exchange market of Kazakhstan, equaled **\$813.9m** or KZT119.4bn at tenge to dollar rate of the Exchange, effective on that date. The figure fell by \$7.9m relative to previous period due to the decrease in KZCR, and especially ALKZ values (see above).

**The capitalization of corporate bonds market of the Exchange by their best ask prices**, that are regularly put out by the market-makers of these securities in the trade system of the Exchange, was fixed at **\$309.4m** as of July 11, or KZT46,401.3m. In nominal value (total face value of the bonds that were entered into trade lists of KASE) is estimated at **\$308.0m** as of this check date, or KZT45,189.8m. Growth in the capitalization parameters of this market segment by \$31.0m is explained by the admittance of Kazakhstan Temir Joly NSE and AtMMG OJSC coupon bonds into the trade lists of the KASE (see below).

Data on the deals, bid and offer information in purchase and sale sector of the securities, as well as description of trade codes are given in the tables.

### Results of the trades in shares from July 5 - 11

USD per share, unless otherwise specified

Issuer	Securities	Close	WA price	Volume	Best bid	Best offer
Almaty Kus OJSC	ALKS			0	0.1540	0.3080
Almaty Kus OJSC	ALKSp			0	0.0900	0.1700
Aliuminii Kazakhstana OJSC	ALKZ	*0.5451	*0.5451	776	*0.5451	*0.5451
Astana-finance OJSC	ASFI	10.0000		0	5.0000	10.0000
AMB OJSC	ATFBp	6.8700		0	6.8100	6.8800
Bank TuranAlem OJSC	BTAS	73.0700		0	72.0000	72.5000
Bank CenterCredit OJSC	CCBN	1.1596		0	1.1587	1.3620
Halyk Bank of Kazakhstan OJSC	HSBK	0.8324		0	0.6100	1.2200
KAZKOMMERTSBANK OJSC	KKGB	0.4500		0	0.2500	0.5000
TNC Kazchrome OJSC	KZCR	*6.8140	*6.8140	200	*6.8140	*6.8140
TNC Kazchrome OJSC	KZCRp	*2.3850	*2.3850	1,249	*2.3850	*2.3850
Kazakhtelecom	KZTK	12.0000		0	12.0000	16.5000
Kazakhtelecom	KZTKp	11.5500		0	11.5000	12.0000
Raushan OJSC	RAUS			0		4.1500
SAUR OJSC	SAYR			0		0.3400
SHNOS OJSC	SYRG	1.6300		0	1.3000	
TEMIRBANK OJSC	TEBN	1.0950		0	1.3600	6.8100
TEMIRBANK OJSC	TEBNp			0	1.3600	6.8100
ULBA JSC	ULBAp	*10.2200		0	*10.2300	*10.2200
UKTMK OJSC	UTMK	35.0000		0	22.0000	44.0000
UKTMK OJSC	UTMKp	28.0000		0		40.0000

To be continued on the page 3

## Results of the trades in bonds from July 5 - 11

yield for the buyer in % APR till maturity, unless otherwise specified

Issuer	Code	Currency	Last	WA	Volume, th. USD	Best bid	Best offer
VALUT-TRANZIT BANK OJSC	VTBN		2.5480	2.5480	110,000	2.5480	2.5480
VALUT-TRANZIT BANK OJSC	VTBNp		2.3033		0	1.5676	2.9147
Astana-finance OJSC	ASFib1	USD	10.5008	10.4994	3,276.62	10.4504	10.5000
AMB OJSC	ATFBb	USD	7.7025		0	7.4255	7.1782
Bank TuranAlem OJSC	BTASb1	USD	11.5000		0	10.0223	9.1966
Bank CenterCredit OJSC	CCBNb1	USD	11.6998		0	11.9938	11.1222
Halyk Bank of Kazakhstan OJSC	HSBKb	USD	11.0000		0	13.4947	8.4976
Karazhanbasmunai OJSC	KARMb1	USD	10.2001		0	11.7141	10.3356
KAZKOMMERTSBANK OJSC	KKGBb	USD	6.9962		0	10.0156	5.0550
KAZKOMMERTSBANK OJSC	KKGBe2	USD			0	11.1966	9.2035
DAGOK Kustanaiasbest OJSC	KZASb1	USD	11.7958		0	11.9953	10.9991
NOC Kazakhoil CJSC	KZOLb	USD	8.8601	8.8601	505.01	8.8601	8.8601
NOTC KazTransOil CJSC	KZTOb	USD	*9.1017	9.2485	830.98	9.0374	10.5009
RG Brands OJSC	RGBRb2	USD	12.4999		0	7.8618	12.0000
SHAHARMUNAIGAS OJSC	SMGZb1	USD			0	18.9953	13.0008
SHNOS OJSC	SYRGb1	USD			0	11.9960	8.5010
Temirbank OJSC	TEBNb	USD	10.8690	10.8690	104.68	7.1671	7.1671
VITA LLP	VITAb2	USD	14.0093		0	14.4760	13.5416

Notes: bid and ask prices are given for the period; if no deals were made during reporting period (volume =0), the last price of successful trades will be given; marked by a star are indicative quotations in Quotation trade system of KASE unlike the bids submitted in regular trade mode, or the price of direct deals.

**In CS repo sector** 19 deals were made for a total of \$9,306.6 th. (KZT1,365.7m). Of this number, 11 deals (\$5,047.5 th.) were repo opening deals and 8 (\$4,259.1 th.) – closing deals. Last week volume of deals reached \$1,848.0 th. (KZT271.0m).

On July 11 evening 22 CS repos in tenge and U.S. dollars were opened on the trade floor of the Exchange for a total of **\$10,658.0 th.** Common and preferred shares of VALUT-TRANZIT BANK OJSC, common shares of Bank TuranAlem OJSC, common shares of Bank CenterCredit OJSC, preferred shares of Kazakhtelecom, bonds of VITA LLP were used as the object of repo deals. The terms vary from 5 to 91 days, and rates from 6.09% to 14.96% APR for tenge denominated repos, and 5 to 91 days, 6.09 to 14.73% APR for USD denominated repos.

**Total of 42 deals** amounting to **\$14308.9 th. (KZT2,099.3m)** were made in securities **on trade floors of KASE** during last week (purchase and sale and repo sector). A week ago volume of 24 deals was \$8,856.7 th. (KZT1,298.4m).

### Changes in KASE trade lists

**From On July 10, 2001**, by the decision of the Board of the KASE, and based on the decision of the Exchange council **second issue inscribed coupon bonds of Kazakhstan Temir Joly NSE** (Astana; KZ2EUY03A368) are admitted to the official list of the KASE securities under category “A”. The securities were assigned a trade code TMJLb2. The quotation accuracy in the KASE trade system is set at four decimal places. The market-maker status of the bonds at the KASE was given to financial consultant of the issue – Fondovyi servis CJSC (Almaty). Minimum volume of mandatory quotations – 30 bonds. More detailed information is given in a special issue of the agency IRBIS devoted to the issuer and his securities (see below).

**From July 10, 2001**, by the decision of the Board of KASE, and based of the decision of the Exchange council, **first issue inscribed coupon bonds of Atyraumunaigasgeologya OJSC** (Atyrau; KZ2C4AUC1A24) are admitted to official list of KASE securities under category “B”. The securities were assigned a trade code AMGGb1. The quotation accuracy in the trade system of KASE is set at four decimal places. The trades in these bonds will start at KASE on July 10, 2001. More detailed information is given in a special issue of the agency IRBIS devoted to the issuer and his securities (see below).

### SECTOR OF GOVERNMENT SECURITIES (GS)

**In GS purchase and sale sector** of KASE total volume of 98 deals equaled **KZT4,433.1m**. Last week the turnover did not exceed KZT6,528.1m with 114 deals made. In the opinion of IRBIS analysts, significant decline in the volumes of deals in the sector was caused by an outflow of the bank's money to make currency transactions and budgetary payments, and the money of pension funds – to make deposits, as well as by a general decline in the liquidity on the financial market. Besides, decline in the proportion of the deals made at the Exchange within total volume of deals on the GS secondary market of the country had a certain impact on it.

No principal changes in the turnover structure were observed. Traders became active in working with MEOKAM, and the euronotes got out of their focus.

Parameters of stock exchange transactions in GS from July 5 - 11

(in parentheses are comparable figures of the previous period)

Days till maturity	Yield to maturity for a buyer, % APR.				Volume, mln tenge discounted	Number of deals
	min	max	last deal	weighted average		
<b>Discounted GS: MEKKAM-12, notes</b>				<b>4.2% (8.6%) of purchase and sale sector's turnover</b>		
29 - 36	5.60	5.60	5.60	5.05 ( -)	10.0	1
43 - 56	5.22	5.57	5.28	5.32 (5.32)	164.2	9
64 - 91	6.20	6.20	6.20	5.44 (5.44)	11.2	1
Total					185.3 (563.1)	11 (13)
<b>Coupon GS, KZT denominated: MEOKAM-24, 36, MEAKAM-120</b>				<b>42.7% (27.4%) of purchase and sale sector's turnover</b>		
338 - 646	7.40	12.08	7.45	8.88 (8.62)	1,320.7	29
797 - 1,007	8.51	10.18	8.51	9.84 (9.77)	385.6	17
2,335 - 2,335	11.29	11.29	11.29	11.29 (11.02)	186.7	2
Total					1,893.0 (1,787.7)	48 (43)
<b>Coupon GS, USD denominated: VKU-36</b>				<b>2.7% (4.1%) of purchase and sale sector's turnover</b>		
1,078	8.34	8.34	8.34	8.34 (8.35)	117.7	1
Total					117.7 (265.7)	1 (9)
<b>Euronotes of Kazakhstan, USD</b>				<b>50.4% (59.9%) of purchase and sale sector's turnover</b>		
*441 - 447	5.90	6.10	6.10	6.01 (6.09)	835.1	10
**1,177 - 1,183	6.90	7.06	6.91	7.02 (7.04)	787.9	11
***2,100 - 2,106	7.18	7.24	7.19	7.20 (7.28)	614.0	17
Total					2,237.0 (3,911.6)	38 (49)
<b>SUBTOTAL</b>					<b>4,433.1 (6,528.1)</b>	<b>98 (114)</b>

Notes: for euronotes (\* - second issue, \*\* - third issue, \*\*\* - fourth issue) volumes of the deals are calculated at weighted average USD/KZT rate of the Exchange.

By the results of the week the dynamics of the KASE indexes that indicate the condition of the market of Kazakhstani sovereign debt at the Exchange is as follows (in parentheses - weekly changes): **KASE\_EY** – equaled **7.00 (-0.37%)**; **KASE\_EP** – 127.58 (+0.18%); **KASE\_EC** – 112.86 (+0.02%). Last week **KASE\_EY** decreased by 0.76%. No principal changes were observed here, indexes are almost stable.

**In GS repo sector 114 deals for a total of KZT10,585.3m** were made during the period. Of this number 63 deals (for KZT5,710.8m) were repo opening deals and 51 (KZT4,874.5m) were repo closing deals. Last period the turnover of this sector of the market reached KZT13,363.0m. After closing of the trades on July 11 total amount of opened repo equaled **KZT4,659.6m**. Current weighted average rates as of July 11 (% APR) equaled: for 1 day – 3.27; for 2 days – 5.35; for 7 days – 5.49; for 10 days – 4.89; for 14 days – 6.90; for 21 days – 6.28; for 22 days – 6.28; for 24 days – 6.49; for 27 days – 6.48; for 28 days – 6.48; for 29 days – 6.52; for 30 days – 6.18.

**Total of 212 deals** amounting to **KZT15,018.3m** were made in GS **on trade floors of KASE** during last week (purchase and sale and repo sector). A week ago volume of 232 deals was KZT19,891.1m. This week **the proportion of the stock market turnover** in total volume of deals on Kazakhstani secondary market for GS for comparable operations equaled **82.1%**, for last week it was 88.1%.

## INFORMATION ON COMPANIES

**RG Brands OJSC** (Almaty; production and selling natural juices) sent official information to the Kazakhstan Stock Exchange (KASE) that **on July 9, 2001** it paid out the first coupon to the holders of its second issue bonds (KZ72KAT51A39, official list of KASE securities under category “A”, RGBRb2; \$100; \$4m; Jan 08.01 - Jan 08.03; semiannual coupon at 13% APR). The payment amount equals \$260 th. in Kazakhstani tenges, which is **KZT38,142,000.00** at the rate of the National Bank of Kazakhstan, effective on this day (KZT146.70 per dollar). Since the settlement date (July 8, 2001) was a week-end, the payment has been made on the next business day, as it has been described in issue terms of the bonds.

## KASE NEWS

**On July 10** the KASE opened **test trades** in automatic repo sector. The trades are held in the trade system of the KASE from 11:30AM to 5:00PM Almaty time. Due to this, till the end of this week the traders may familiarize themselves in this sector of the market and start a real trades next week. Additional information will be provided about the beginning of a real trades.

Depending on the structure of the automatic repo market, which will be set by the Board of the KASE, repo deals can be concluded in the trade system for several fixed terms. When submitting bids, repo rate will be used as a price of financial instrument, which is the return of the transaction, expressed in APR and calculated on the basis of the difference between closing and opening values of the repo and its term. The opening value, expressed in the currency used to make a deal, is used as a quantity. The party that made a purchase deal in automatic repo sector is a seller of financial instruments – the object of repo deal when opening deal is concluded. Respectively, party that made a deal to sell in automatic repo sector is a buyer of financial instruments – the object of repo deal when opening deal is concluded. Calculation of a necessary quantity of

financial instruments needed to conclude an opening deal will be made automatically at prices set in the trade system, so as to ensure that value equivalent of financial instruments on opening deal is equal or exceeds the opening value. Calculation methods of financial instrument prices will be defined by Risk Committee of the KASE. The Board of the Exchange will regulate the structure and activity of the Committee.

When making a deal in automatic repo sector the opening value is defined as the total fixed at conclusion of repo deal, while the closing price – as the price of the value of opening repo deal plus the return on a repo deal, which is calculated using the following formula: opening value is multiplied by the return fixed at striking a repo deal, divided by 365 and multiplied by the repo term. Repo term is the number of calendar days between repo opening and closing dates. It should be noted that opening and closing values are automatically corrected by the trade system of the Exchange based on the method developed by the KASE to keep correct records of securities movements in back-offices of the trade participants.

On automatic repo market deals will be concluded using both methods: uninterrupted counter auction and direct quotations.

Commission fee at automatic repo sector will be **0.25%** of the total return of a concluded deal. Total return is defined as the product of number of securities used in the deal and the difference between closing and opening prices of the repo. Commission fee will be collected both from the seller and buyer, as well as both in opening and closing of repo. If repo term is changed (repo prolongation), total return is calculated according actual execution period of repo closing deal.

Now the trade participants can make repo rates at KASE using the government securities (GS) and corporate securities (CS). The trades are conducted by submitting bids by the participants in the trade system of the KASE on certain financial instrument, which is used as an object of repo deal. When this method is used, the direct quotations method is used. The bid contains the title of the counteragent based on the coding adopted at the KASE, trade code number, direction (purchasing or selling) of opening deal, opening or closing price, number of financial instruments and repo closing date. The opening and closing value of the repo is calculated as the product of the price and the number of financial instruments fixed on the deal striking moment.

After the opening of automatic repo sector the participants of the trades at the Exchange will be able to make repo deals both in this sector and using the old methods.

**On July 11, 01** Central Depository of Securities CJSC (CD) informed the KASE of completing the settlements of accounts on the repayment of the **coupon bonds of local executive body of Atyrau region** (KZ7041007A10, KASE trade code - ARU012.001; July.07, 00 - July.07, 01; \$4,550.0 th.; \$100; semiannual coupon at 11.99% APR) in complete volume. As the CD informs, total repayment amount of face value bonds equaled **4,555,000.00 U.S. dollars**, or **KZT668,218,500.00** at servicing exchange rate (KZT146.70 per dollar). Along with the repayment of the principal amount the bond holders received the last coupon amounting to **KZT36,718,606,58** (250,297.25 U.S. dollars).

The bonds with the state status were launched at the auction of the Exchange on July 07, 00, at the face value. The coupon rate was the object of the trades, which was set at **10.99% APR**. Fondovyi service CJSC (Almaty) was financial consultant of issuer. Kazakhstan Legal Group LLP realized legal expertise of the project. The proportion of satisfied bids made by the pension funds equaled 37.3% of all the issue, that of the banks - 61.5%, and from the clients of the banks - 0.4%.

No deals were made in ARU012.001 during the circulation time of these bonds at purchase-sale sector. Traders used bonds as the repo object. Totally two deals with 26,250 bonds were made and amounted KZT398.5 m (under opening volume) According to CD no deal has been made at over - the counter.

The bonds of Atyrau region is the fourth municipal loan repaid fully on GB market of Kazakhstan. Presently, there is one issue of municipal bonds in circulation - the bonds of executive body of Eastern-Kazakhstani region.

**Prepared by the agency "IRBIS"**

## Second issue bonds of Kazakhstan Temir Joly NSE were admitted to the KASE official listing under category “A”

Special issue based on the information of Kazakhstan Temir Joly NSE, Kazakhstan Stock Exchange (KASE), and agency IRBIS

From July 10, 2001, by the decision of the Board of the KASE, and based on the decision of the Exchange council, second issue inscribed coupon bonds of Kazakhstan Temir Joly NSE (Astana) are admitted to the official list of the KASE securities under category “A”.

### BOND ISSUE INFORMATION

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Type of the securities:	Inscribed coupon bonds, indexed by the change in the exchange rate of tenge to U.S. dollar
National identification number:	KZ2EUY03A368
Number in the state register:	A36
Registrar:	Kazregistr LLP (Almaty)
Date of registration:	July 6 01
Face value, USD:	100.00
Issue volume, USD:	30,000,000
Issue volume, bonds:	300,000
Circulation starts on:	July 10, 01
Floation term:	3 years from circulation starting date
Circulation term:	3 years
Maturity:	July 10, 04
Interest:	8.0% APR
Interest payment days:	January 10 and July 10
Time basis for coupon calculations:	30/360
Fixing date of the register for coupon payments:	30 days till settlement date
Dates when the register is fixed for coupon payments:	December 10 and June 10
Fixing date of the register for the maturity:	30 days till settlement date
Date when the register is fixed for the maturity:	June 10, 04
Servicing of the issue:	in tenge at official rate of the National Bank of Kazakhstan, effective on the day preceding the payment date
Financial consultant of the issue:	Fondovyi servis CJSC (Almaty)
Initial placement agent:	Fondovyi servis CJSC
Admittance date to the KASE trade lists:	July 10, 01
Date of the first trades:	to be announced
KASE trade code:	TMJLb2
Price deviation accuracy:	4 decimal points
Market-makers at the KASE:	Fondovyi servis CJSC
Minimum volume of mandatory quotations:	30 bonds

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If any coupon payment or maturity dates of the bonds falls on week-end or holiday, then the coupon or the principal is paid on the next business day. The bondholder has no rights to require coupon accrual or any other compensation for such payment delays.

The issuer can buy the bonds on open market at any time, or by any other means at any price. All bonds, repaid or bought this way, will mature and can not be reissued or sold.

Based on the issuer's information, the funds, raised by the bond issue, are to be used by Kazakhstan Temir Joly NSE to restore working capital, develop information technology, purchase industrial equipment, construction and major overhaul.

### INITIAL OFFERING OF THE BONDS

The auction for offering of the bonds was held **on July 12, 2001**. Whole issue volume at \$30m, at face value, was placed at the auction. The auction was held in the trade system of the KASE from 11:30AM to 2:00PM Almaty time. The bonds purchased at the auction are to be paid by the buyers till 4:00PM Almaty time on July 13, 2001 at KZT146.70 per U.S. dollar. Only competitive bids had been accepted at the auction. The bids had been satisfied at a single price – cut-off price.

Total of 13 bids were made from 7 members of the Exchange to buy 149,650 bonds for a total of \$14,461,875.72, or KZT2,121,557,168.37 at current official rate. The demand reached 49.9% of announced issue volume expressed at face value. Clean prices (excluding accumulated interest, which is 0.066667% on the payment date) in submitted bids varied from 90.1600% (12.0114% APR) to 97.4401% (8.9944% APR). Weighted average clean price in all submitted bids equaled 96.6014% (9.3348% APR). Within total demand 75.7% of bids has been made by Pension Assets Management Companies, 13.4% – from second tier banks, 10.7% – clients of brokerage-dealing companies, and 0.2% – by the brokerage-dealing companies themselves.

By the results of the auction, the issuer cut-off the bids at clean price of **97.4275%** of the face value, which corresponds to **8.9994% APR** on a semiannual basis. At this price four bids have been satisfied submitted from 3 members of the Exchange to buy 95,300 bonds for a total of **\$9,291,194.09**. By the results of the auction, **31.8%** of total issue has been placed. Actual volume of funds raised equaled **KZT1,363,018,172.02**. It is said that 82.9% of the bonds has been purchased by using pension assets, 0.3% – by brokerage-dealing companies, 16.8% – by brokers' clients.

The additional offering of the bonds in the trade system of the KASE, by using the main trade mode (uninterrupted counter auction mode) will open on July 12 at 3:00PM Almaty time. From this time the traders can buy the bonds as if they did it on secondary market. Additional offering will be held on July 13 also. During the additional offering no commission will be collected by the Exchange, as none had been collected during initial offering.

## **REVIEW OF PREVIOUS BONDS ISSUE**

By the decision of the Board of KASE, from June 25, 01 first issue discounted inscribed bonds of Kazakhstan Temir Joly NSE (KZ2EUY03A368, \$100, \$30m., July 10, 01 - July 10, 04, semiannual coupon 8,0% APR) were removed from the trade lists of the Exchange due to their maturity. They were traded in official list of KASE securities, under category "A". Those bonds were admitted in KASE list of securities on June 23, 2000. 43 deals were made (including initial floatation at auction) and amounted \$21.3 m (234.5 th. bonds) including secondary circulation in sale-purchase sector – 32 deals were made and totaled \$7.8 m (84.5 th. bonds) during the whole period of circulation. TMJLb income (in dollars) at the secondary market verified from 6.00 to 11.50% APR by the repayment. The cost of last deal corresponded to income 6.36% APR.

Brokers used bonds at exchange as the object for repo deals. The only opening deal with 500 bonds amounted KZT7.1 m during the whole period of circulation.

In the frame of two auctions the initial floatation of the whole first issue of Kazakhstan Temir Joly NSE were made. Weighted average rate equaled 11.4889% APR (dollar terms). Actual yield in TMJLb in tenge (bonds are serviced in tenge) estimated by IRBIS equals 14.46023% APR, based upon real tenge rate to dollar on floatation dates and face value payment date.

According to the official notification of issuer the bonds' repayment were made on June 25, 01, at the exchange rate of the morning (main) session of the KASE, effective on that date (KZT146.52 per dollar), which amounted to KZT2,197,800,000, or \$15m. The payment agent of the bonds is Bank TuranAlem OJSC (Almaty). So the bond loan has been served and meets terms of bonds issue.

Following information about Kazakhstan Temir Joly NSE (Astana) was mainly borrowed from the conclusion of Kazakhstan Stock Exchange (KASE) Listing commission, which is devoted to the admittance of second issue inscribed coupon bonds of the company to the official list of the KASE securities under category "A". The information has not been checked by the agency IRBIS. The management of Kazakhstan Temir Joly NSE is liable for the reliability of the information presented by the KASE Listing commission.

## **GENERAL INFORMATION**

Date of initial state registration – February 12, 1997. Legal status – National State Enterprise. Legal and actual address – 98, Pobeda Ave., Astana, 473000, Kazakhstan. Number of employees as of December 31, 2000 – 125,525.

Kazakhstan Temir Joly NSE is a single monopoly on the railroad market in Kazakhstan is a united property complex consisting of railroads, signaling, communication, power facilities, stations, division points, engines, cargo and passenger cars, containers and other fixed assets, which have common working regime, as well as subdivisions, that provide the functioning of the railroad transportation through central dispatching service.

Announced authorized capita of Kazakhstan Temir Joly NSE is KZT971,382.0 th. as of April 1, 2001. All authorized capital is paid.

The company has following divisions: structural divisions of central unit (departments, independent administrations, and departments); 9 state subsidiaries and their branches; structural divisions with the status of Kazakhstan Temir Joly NSE subsidiaries.

Main goals of the company are set as follows:

- providing cargo and passenger transportation to the economy and the population;
- ensure safety of train movements and conservation of transported cargo;
- ensure safety of passengers;
- maintaining and development of inventory and technical bases;
- quick management of the railroad maintenance, development of train movement schedules, usage norms of rolling stock and transpiration plans, organizing direct and mixed transportation using different vehicle modes;
- provide international economic relations of Kazakhstan, exports and imports of goods.

## **HISTORY**

Kazakhstan Temir Joly NSE was established by merging republican state enterprises – Administration of Almaty railroads, Administration of Tselinnaya railroads, Administration of West Kazakhstan railroads – based

on the decision of the government "On reorganization of the country's railroad companies", dated January 31, 1997.

## LICENSES

Kazakhstan Temir Joly NSE has following licenses: State license #TJ138735 to engage in railroad transportation issued on June 15, 1999. The license terms – activities in transportation of passengers and cargo; permitted work areas – international. Special terms of the license – the owner should: obey the tax, license, transportation laws, meet the sanitary, environmental, fire protection norms and regulations, road safety norms; possess the record keeping document that confirm the compliance with qualification norms set for this type of activity. State license #TJ138736 to engage in railroad transportation issued on June 15, 1999. The license terms – activities in transportation of dangerous cargo; permitted work areas – international. Special terms of the license – the owner should: obey the tax, license, transportation laws, meet the sanitary, environmental, fire protection norms and regulations, road safety norms; possess the record keeping document that confirm the compliance with qualification norms set for this type of activity.

## CREDIT RATINGS

Based on the data of IRBIS, Kazakhstan Temir Joly NSE has following credit ratings: from Standard&Poor's – "BB-" on local and foreign currency borrowings (the rating was raised on July 10, 2001); from Moody's Investors Service – indicative long-term "B1" rating with positive forecast (obtained in January 2001).

## ACTIVITIES

Operating activities of Kazakhstan Temir Joly NSE are divided into three components: cargo transportation, passenger traffic and other activities.

### Cargo transportation

In terms of cargo turnover the railroad transportation holds the first place in Kazakhstan: it accounts for more than 71% of all cargo turnover – compared with 28.4% of pipelines, 0.5% automobile and 0.1% of sea and air transportation. Most of the company's cargo transportation falls on the mining industry, where about 30 enterprises create more than 80% of all cargo transportation. The volume of cargo loading at Kazakhstan Temir Joly NSE decreased from 129.9m tons in 1998 to 124.0m tons in 1999, then grew back to 156.3m tons in 2000. After the improvement of the economy in Kazakhstan and in other countries, the demand for cargo transportation increased. General growth of cargo transportation increased by 26% relative to 1999.

In 2000 volumes of exports transported by railroads equaled 40.3% of total transportation. Railroad transportation is still a sole practical mode of transportation for coal, ore, and metals. About 80% of cargo transported by Kazakhstan Temir Joly NSE is coal, ferrous and non-ferrous metals, crude oil and oil products.

In coal industry the major cargo consignors are the enterprises of Karagandy and Ekibastuz coal mines, where 80% of all coal production of Kazakhstan is located. Main consumers of Karagandy coking coal are Ispat-Karmet OJSC, Russian metallurgical plants, Karagandy and Bishkek thermal-power plants. About 67% of the coal extracted at Ekibastuz coal mine is consumed within the country, and the rest is exported to Russia. The economic growth taking shape in Russia and Kazakhstan, considering existing residual reserves of coal in Kazakhstani fields, give thoughts of future growth of coal transportation in next ten years.

In oil industry the major consumers of Kazakhstan Temir Joly NSE are Tengizchevroil LLP and SHNOS OJSC. Oil and oil products are the second category of cargo based on their weight in total transportation in 1998 and 1999 and third in 2000, accounting for 11.0%, 12.3% and 11.6%, respectively. The transportation volumes of oil and oil products were steadily growing from 14.5m tons in 1998 to 15.3m tons in 1999 and 18.5m tons in 2000. Most of the oil produced by Tengizchevroil LLP is exported, with the most of it transported by railroad. Thus, 7.3m tons (66.3%) out of 11.0m tons of oil extracted in 2000 was transported by railroad. In 2001 expected 3.5-4.0m ton decrease in transportation volumes of oil extracted at Tengiz will be approximately compensated by the oil supplies from CNPC-Aktobemunaigas OJSC and others. It is planned that cargo transportation within the country and on export routes will reach 17-17.5m tons in 2002. It is expected that increase in demand of the China and on domestic market will compensate for the most of the oil transportation losses to be incurred as a result of introduction of Caspian pipeline.

In mining industry Kazakhstan Temir Joly NSE services transportation flows between ore producers (SSGPO OJSC, Donskoi and Lisakovsk GOK) and its consumers (Ispat-Karmet OJSC, Magnitogorsk, Kusbass, Novolipetsk metallurgical combines). In non-ferrous metal industry the main cargo consignors are Corporation Kazakhmys OJSC, Kazzinc OJSC, Aliuminii Kazakhstan OJSC and TNC Kazchrome enterprises. In 2000 volume of metal ore transportation reached 12.9m tons.

### Passenger traffic

Railroad transportation accounts for more than 50% of passenger traffic, against 36% of automobile and 12% air transportation.



Total passenger traffic on Kazakhstani railroads, which was tend to decline in 1998 and 1999, increased by 17.2% in 2000. It was the result of an increase in the number of routes in suburban directions. In 2000 passenger traffic equaled 10.2bn passenger-kilometers against 8.7bn in 1999. Total number of passengers declined from 21.6m people in 1998 to 18.9m in 1999, or 12.3%. However, as the economic growth is observed in the region and the growth of public income in late 1999 and 2000 passenger traffic increased. Total number of passengers equaled 21.3m in 2000, a 12.7% increase relative to 1999.

### **Secondary economic activities**

Most of the secondary activities of the company are conducted at the enterprises, which are the part of Kazakhstan Temir Joly NSE. This income item will increase in the future, as the company plans to engage in the activities such as major overhaul of the railroads, car repairs, cargo security and other services at the first stage of railroad industry restructure, in order to introduce competition in this industry.

### **TARIFF POLICY**

When transporting cargo on Kazakhstani railroads following tariffs are used:

- “Tariffs on exports-imports of cargo railroad transportation”, introduced on July 1, 1999 and calculated in Swiss francs for interstate transportation;
- rates of Price-current #10-01, effective from 1989 (domestic cargo transportation). These tariffs are 2 or more times lower than international transit tariffs;
- rates of “Tariff policy of Kazakhstani railroads for cargo transportation in international directions for a freight year” for international directions, which are adopted annually by the Tariff Conference of railroad administrations (transporters) of the Tariff Agreement of CIS countries (rates are calculated in Swiss francs). These rates are based on two tariffs: International railroad transit tariff (IRT) and United transit tariff (UTT).

Cargo transportation tariffs are differentiated based on many factors such as: the type of the engine and car, workload and capacity, distance, speed etc. Tariff discount system is important for Kazakhstan Temir Joly NSE. Tariffs are set and controlled by the Agency of Kazakhstan for natural monopoly regulation, competition protection and small business support.

As far as passenger tariffs concerned, presently, a united tariffs are used in passenger traffic (in CIS), which are calculated in Swiss francs (Interstate passenger tariffs – ISPT). On domestic routes a discount rate of 0.5 is used for existing interstate tariffs.

Unlike cargo tariffs, where they are set based on expenses, passenger tariffs are set primarily based on the purchasing power of the population and social importance of the traffic.

Based on current antimonopoly law, except for the transit tariffs, which are not regulated by the Antimonopoly committee, cargo and passenger tariffs can be reviewed once in a quarter.

The first increase in tariffs from the establishment of Kazakhstan Temir Joly NSE (January 1997) took place on January 1, 2000, when oil and oil products export tariffs were raised 2 times, except for Aktau port. From April 1, 2000 tariffs for other cargo transportation were raised by 20 to 100% (ferrous and non-ferrous metals, limestone, alcohol and tobacco, cotton, lumber and others).

### **INVENTORY AND TECHNICAL BASE**

#### **Track facilities**

Fixed assets of Kazakhstan Temir Joly NSE track facilities include tracks, industrial constructions, railroads, different machinery and mechanisms, required to offer railroad assistance (such as cleaning, rail polishing, snow cleaning etc). Fixed assets of track facilities are about 50% of the company’s total fixed assets, of which half are the railroads. Total length of main roads is 18,434 km, of which 13,614 km is used, of which 4,698 km – two track roads (35%), 3,725 km powered tracks. Stationary and special tracks have 6,198 km in length. Special roads are safe deadlocks, sideway pits of the trains containing dangerous cargo, connection tracks.

In early 2001 there were 644 track machinery, of which 45% should be written-off in 2001 as a result of their wearout and end of life. Average usage life of the railroads with 57 years of life is 31 years; average wearout degree of man-made constructions and pavements is 37%, track vehicles – 8%. When developing and approving the movement schedule of the trains, a limitation is set for the speed based on defect elements of upper constructions at 10% of all the roads (18,438.4 km).

#### **Fixed assets of engine unit**

Most part of fixed assets of engine unit in late 2000 was made of 1,964 engines, including: 767 trunk diesel engines, 619 electric and 524 maneuver diesel engines. In 1999 the engine fleet decreased by 25.4% as a result of a write-off the engines due to the end of their life, and consisted of 2,631 engines, including: 1,446 trunk diesel engines, 628 electric and 557 maneuver diesel engines, and 87 steam engines. In late 2000 only 1,131 engines were in use (57.6%). Of this number, 833 engines that are out of use, or about 26.0%, are being

restored by the company; 35.8% are in reserve and 2.5% leased. Remaining 35.7% will be used if existing fleet is written-off. It is expected that the engines, which are in reserve, will be sold to competing cargo transporters. Average number of engines, used by the railroads in a day, equaled 389 in 2000 (including 169 electric, 220 diesel engines), which is by 20.9% less than in 1999.

The life of trunk diesel engines is 20 years, electric – 30 to 35 years, maneuver diesel engines – 25 to 30 years.

### **Fixed assets of car fleet**

Fixed assets of car unit of Kazakhstan Temir Joly NSE is made of cargo cars, buildings and equipment.

Cargo cars. Kazakhstan Temir Joly NSE had a total of 85,818 cargo cars as of December 31, 2000, of which 46,686 (54.4%) was in use. Average number of cars used in a day equaled 39,569, or 28.2% more than in similar period of 1999. Between 1998 and 2000 Kazakhstan Temir Joly NSE spent KZT13,495.3m for cargo cars, including the purchase of additional 3,751 cargo cars.

Wearout degree of cargo cars is much more than that of engines: 41% of them is used 20 to 30 years, 8% – more than 30 years.

Passenger cars. As of December 31, 2000 Kazakhstan Temir Joly NSE had 2,085 passenger cars, of which only 1,502 (72%) was in use. The company allocated KZT1,118.3m to restore about 87.3% or 583 passenger cars not in use, and remaining 12.7% is in reserve. Average exploitation length of these cars is less than that of cargo cars, and wearout degree of passenger cars is 12.8%. Life of passenger car is 32 years. Kazakhstan Temir Joly NSE does not plan to allocate funds to passenger cars till 2003, when Passenger transportation unit will be independent and it will become a joint stock company.

### **Power supply system**

By using an electric air contact system 9,942 km was electrified, which is 54% of all roads, including 2,000 km or Karagandy-Astana-Tobol section with more than 33 years of servicing life. Despite the fact that 25% of the network has been in use for more than 30 years, in general they provide a normal power supply.

As of December 31, 2000 Kazakhstan Temir Joly NSE had 1,242 buildings in its power system, including 22 administrative buildings, 69 power districts, 76 contact power units, 75 power stations and 63 pulling substations. Of the total number of building in use, 318 (13.6%) require major overhaul.

### **Signaling and communication**

As of December 31, 2000 automatic blocking was installed on 9,983 km (74.5%) of all the roads in use, which allows to block the trains automatically. Average wearout of the autoblocking units is 93%. Electric centralized switch and signal control is used at the stations, which is 14,575 switches or 75% of total in use.

### **Railroad property**

In late 2000 Kazakhstan Temir Joly NSE had 720 passenger stations in its railroad network and 351 stations providing cargo handling, 38 equipped with distribution facilities. Kazakhstan Temir Joly NSE also has 28 engine houses and 47 service centers, where the trains are filled with fuel and 43 loading and unloading sites, 28 car houses, 81 cargo car servicing centers, 63 train security centers, 167 control points monitoring the malfunctions in the network and 3 washing workshops.

## **REVIEW OF COMPETITION**

Railroad transportation competes with other transportation modes based on regularity of services and safety, and hold the third place after the air and automobile transportation in terms of the delivery time and the third place after the river and pipeline transportation in terms of expenses.

The advantages of the railroad transportation is that it provides regular cargo and passenger transportation irrespective of climate conditions, seasons of the year or time. It has a dense traffic loading capacity at a relatively low cost of both cargo and passenger services, which are regarded as social services. The passenger fare is kept low to provide affordable prices. Offering services on a regular basis provides for the high intensity of bulk cargo shipments to long and mid-range distances. However, maintaining the infrastructure and vehicles is expensive.

### **Automobile transport**

By the data of the National Statistics Agency, as of January 1, 2001, Kazakhstan had automobile roads with a total length of 85 th. km, but it should noted that most part of these roads are in unsatisfactory condition. However, delivery time of the cargo by automobile transport is much shorter than that of railroad transportation. Thanks to developed network of automobile roads in Kazakhstan, it is possible to deliver the goods from and to the warehouse of the customer. The cost of infrastructure needed to maintain the transportation is much lower than that in railroad transportation. Besides, the automobile transportation is capable of delivering goods in small batches.

The shortages of the automobile transportation are: the dependency on weather conditions, low quality of automobile roads and big expenses on their maintenance, big expenses on fuel and repairworks, limitations on the size of the cargo.

### Pipelines

Pipelines do not depend on weather conditions and are highly automated. Therefore, the transportation cost of the cargo is the lowest among all existing transportation modes. The shortages are the possibility of transporting only the cargo in liquid and gas condition, as well as less developed network of pipelines in the country.

### Air transportation

Air transportation – it is a high speed, distance and big volume of passenger traffic. There are 22 airports in Kazakhstan, of which 14 offer international services. Air transportation directly competes with the railroad transportation in terms of its traffic capacity. Annual turnover of passengers for one plane is 250-270m passenger-kilometers a year against 110-120m passenger-kilometers a year for the high-speed trains. The shortages are the big cost associated with the construction of the infrastructure necessary to provide air transportation. This cost significantly exceeds similar overheads of other transportation modes. There are also limitations on the size and weight of the cargo.

### Sea (river) transportation

With the presence of a small number of sea (river) ports in Kazakhstan (only 8, of which 2 – sea at the Caspian Sea, 6 – river) and high traffic capacity, especially for bulk cargo, sea (river) transportation has significant shortcomings. They are greater delivery time of the cargo compared to railroads, increased fuel consumption depending on the course of the river flow, seasonally of cargo transportation by river transportation.

## STRUCTURE OF INCOME AND EXPENSES

The cargo transportation ratio of aggregate income of Kazakhstan Temir Zholy NSE is approximately 82-85%, the passenger transportation – 9-12% and 4-6% is of other activity. Last year the operating income was KZT123.2bn, higher at 31% against 1999. In 1999 income decreased to 41%.

### Income

In 2000 cargo transportation income increased at 34.7% against 1999 and totaled KZT104.7bn. The decline of cargo transportation income was due to decrease of cargo turnover in 1999 and non perspective discount of rates for significant shippers.

In 1999 the income of transit transportation increased at 10.9% respective to previous year. In 2000 there was a positive dynamic of income of transit cargo transportation and by results of 2000 the income of transit cargo transportation increased at 40.6% respectively to 1999.

#### Comparative data of transportation dynamic in period 1998-2000 (in KZT m if another currency not indicated)

Type of transportation	1998	1999	1999		2000	
			against 1998, %	2000	against 1999, %	2000
Cargo transportation (domestic+export+ import)	61,293.0	52,885.6	86.3	86,987.3	164.5	164.5
Transit cargo transportation	11,049.9	12,259.3	110.9	17,241.2	140.6	140.6
Passenger carriage	10,260.7	8,758.5	85.4	11,650.3	112.4	112.4

In 2000 income of passenger carriage increased at 12.4% against 1999. In 1999 we could observe the decrease if passenger carriage to 43.6% against 1998. The main influence upon the decrease was artificial decline of rates for passenger carriage and the shortage of passenger turnover.

The significant decrease of purchasing power of residents was the main factor influenced the decrease of passenger turnover in 1999 against 1998. The forbid for Kyrgyz and Uzbek transit railways during several weeks reasoned the decrease of turnover as well. It took place due to debts of railways authorities of Kyrgyzstan and Uzbekistan. Since the beginning of 2001 rates for passenger carriage in tenge calculation increased at 7%.

### Operational expenses

Since 1998 the management of Kazakhstan Temir Zholy NSE conducts the program of operational expenses shortage. In 1999 operational expenses of company decreased at 49.5% from KZT88,972.9 m in 1998 to KZT60,624.4 m in 1999. It was due to use of available equipment instead of purchasing a new one. In 2000 operational expenses of Kazakhstan Temir Zholy NSE increased at 19.5% respectively to 1999.

In 2000 over 86% of operational expenses of Kazakhstan Temir Zholy NSE totaled 30.6%—staff expenses, 41.03%—expenses for fuel power and services, 14,54—depreciation expenses

In 2000 expenses for materials and services increased at 59% respective to 1999 after its decrease in 1999 to 65% by 1998. The main factors reasoned the increase of this article in 1998 were growth of expenses for complete repair, prices for material sources, fuel and energy and growth of repairing works caused by new spare parts used in repairing works.

Sharp decrease of expenses in 1999 was caused by stricter control over the budget, 50-70% shortage of complete and engine house repairing works increase of intervals between repairing works of rolling stock, decrease of expenses for materials due to reconstruction of depreciated spare parts, more economic fuel and energy use.

Depreciation. In 2000 expenses for depreciation increased up to KZT7,549.1 m or 1.7% respective to 1999 (KZT7,417.7 m) in 1999 increased up to KZT7,417.7 m or 0.9% by 1998 (KZT7,317.7 m). In 1998 Kazakhstan Temir Zholy NSE realized the program of writing off old and non effecting rolling stocks, equipment and other materials.

## FINANCIAL RATIOS

Kazakhstan Temir Joly NSE presented following financial statements, made in compliance with the Kazakhstani Accounting Standards (KAS): consolidated financial statements (balance sheet, income and cash flow statements) for the year 1998-2000, as well as balance sheet and income and cash flow statements for the first quarter of 2001.

Consolidated balance sheet based on Kazakhstan Temir Joly NSE data, in th. KZT

Article	as of Jan 1.99	as of Jan 1.00	as of Jan 1.01	as of Apr 1.01
<b>Assets</b>	<b>325,134,256</b>	<b>183,553,042</b>	<b>172,910,795</b>	<b>182,003,693</b>
<b>Long-term assets</b>	<b>289,185,034</b>	<b>151,281,604</b>	<b>148,639,436</b>	<b>148,949,358</b>
Fixed assets	271,360,224	129,945,364	129,309,022	128,671,910
Intangible assets	64,174	98,854	139,770	134,226
Incomplete construction	9,813,692	12,968,011	15,631,142	16,446,407
Long-term investments	89,496	96,848	38,032	38,032
Long-term accounts receivable	7,775,720	8,122,043	3,521,470	3,658,783
Expenses of future periods	81,728	50,484	0	0
<b>Current assets</b>	<b>35,949,222</b>	<b>35,271,438</b>	<b>24,271,359</b>	<b>33,054,335</b>
Inventory	17,419,610	13,523,090	11,505,661	18,058,354
Unfinished production	393,759	85,423	123,789	1,112,859
Expenses of future periods	283,596	272,161	119,875	62,625
Cash	977,742	3,628,995	6,139,660	4,989,203
Accounts receivable	16,764,665	17,677,635	6,382,374	8,507,949
Other current assets	109,850	84,134	0	0
<b>Liabilities and equity</b>	<b>325,134,256</b>	<b>183,553,042</b>	<b>172,910,795</b>	<b>182,003,693</b>
<b>Equity</b>	<b>285,368,587</b>	<b>140,995,647</b>	<b>137,009,062</b>	<b>149,074,588</b>
Authorized capital	910,831	915,401	971,382	971,382
Additional unpaid capital	272,074,872	114,985,199	101,316,966	100,278,671
Reserve capital	105,681	103,913	103,439	103,439
Undistributed income (uncovered loss)	12,277,203	24,991,134	34,617,275	47,721,096
<b>Long-term liabilities</b>	<b>15,262,921</b>	<b>21,459,288</b>	<b>15,827,664</b>	<b>15,615,122</b>
Long-term credits	12,646,140	16,214,804	15,246,551	14,234,842
Long-term accounts payable	2,616,781	5,244,484	581,113	1,380,280
<b>Current liabilities</b>	<b>24,502,748</b>	<b>21,101,107</b>	<b>20,074,039</b>	<b>17,313,983</b>
Short-term credits	507,674	1,148,041	3,621,716	4,363,500
Accounts payable	23,534,550	19,953,066	16,026,947	12,499,228
Other liabilities and equity	460,524	0	0	0

Income statement of Kazakhstan Temir Joly NSE by the data of the issuer, th. KZT

Article	as of Jan 1.99	as of Jan 1.00	as of Jan 1.01	as of Apr 1.01
Sales income (cargo and passenger shipments)	110,444,765	99,779,061	138,070,181	34,140,867
Cost of goods sold (works, services)	102,128,790	74,868,389	92,002,820	23,088,900
Gross income	8,315,975	24,910,672	46,067,361	11,051,967
Expenses of the period	13,883,427	13,199,372	21,607,005	3,120,470
Income (loss) from primary activities	(5,567,452)	11,711,300	24,460,356	7,931,497
Income (loss) from secondary activities	(824,899)	(8,442,671)	(3,517,368)	1,046,032
Income tax	3,392,852	3,094,175	12,232,203	1,217,194
Extraordinary gain (loss)	(1,454)	(242)	(643)	0
Net income (loss)	(9,786,657)	3,093,933	12,231,560	1,217,194

Cash flow statement of Kazakhstan Temir Joly NSE by the data of the issuer, th. KZT

Article	as of Jan 1.99	as of Jan 1.00	as of Jan 1.01	as of Apr 1.01
<b>Operating cash flow</b>				
Cash inflow	18,018,122	20,049,928	34,370,244	14,075,264
Cash outflow	-15,470,141	-9,732,053	-22,023,440	-12,830,699
<b>Cash increase (+) decrease (-) from operating activities</b>	<b>-97,452,019</b>	<b>10,317,875</b>	<b>12,346,804</b>	<b>1,244,565</b>
<b>Investing cash flow</b>				
Cash inflow	23,529,402	254,757,585	4,993,248	1,143,985
Cash outflow	-3,301,294	-3,294,851	-17,845,158	-3,268,495

<b>Cash increase (+) decrease (-) from investing activities</b>	20,228,108	251,462,734	-12,851,910	-2,124,510
<b>Financing cash flow</b>				
Cash inflow	10,566,377	4,209,450	2,529,656	741,784
Cash outflow	0	-155,542,355	-14,497,429	-2,050,004
<b>Cash increase (+) decrease (-) from financing activities</b>	10,566,377	-51,332,905	-11,967,773	-1,308,220
<b>Total cash increase (+) decrease (-)</b>	-217,173	2,356,093	2,529,242	-1,150,457
<b>Cash flow at the beginning of the reporting period</b>	1,262,029	977,742	3,628,995	6,139,660
<b>Cash flow at the end of the reporting period</b>	1,044,856	3,655,552	6,158,237	4,989,203

Calculated by the KASE based on the data of the issuer:

Article	as of Jan 1.99	as of Jan 1.00	as of Jan 1.01	as of Apr 1.01
Return on sales (ROS), %	7.53	24.97	33.37	32.37
Return on equity (ROE), %	–	0.12	6.36	15.49
Return on assets (ROA), %	–	0.09	5.04	12.69

Also, Kazakhstan Temir Joly NSE presented an auditing report of Ernst & Young (Almaty, Kazakhstan) made in accordance with International Accounting Standards on consolidated financial statements for the years 1998-2000.

Consolidated balance sheet based on Ernst & Young data, in th. USD

Article	as of Jan 1.99	as of Jan 1.00	as of Jan 1.01
<b>ASSETS</b>	<b>1,128,192</b>	<b>1,028,959</b>	<b>1,035,937</b>
<b>Working capital</b>	<b>243,603</b>	<b>191,381</b>	<b>209,759</b>
Cash and equivalents	11,698	26,110	42,618
Accounts receivable, net	73,478	63,106	44,252
Inventory, net	130,520	82,215	93,536
Other working capital	27,907	19,950	29,353
<b>Long-term assets</b>	<b>884,589</b>	<b>837,578</b>	<b>826,178</b>
Fixed assets, net	878,108	835,860	824,724
Other long-term assets	6,481	1,718	1,454
<b>LIABILITIES AND EQUITY</b>	<b>1,128,192</b>	<b>1,028,959</b>	<b>1,035,937</b>
<b>Short-term liabilities</b>	<b>396,954</b>	<b>202,896</b>	<b>161,524</b>
Long-term liabilities	134,070	143,713	101,085
Accounts payable		132,067	89,207
Pension obligation to the employees		11,646	11,878
<b>Shareholders' equity</b>	<b>597,168</b>	<b>682,350</b>	<b>773,328</b>
Authorized capital	8,086	10,820	10,820
Additional capital	644,452	608,911	608,911
Undistributed income	-55,370	62,619	153,597

Income statement of Kazakhstan Temir Joly NSE by the data of Ernst & Young, th. USD

Article	as of Jan 1.98	as of Jan 1.99	as of Jan 1.00	as of Jan 1.01
Proceeds				
Cargo shipments	835,525	937,316	546,768	736,762
Passenger traffic	121,410	129,292	72,945	81,969
Others	103,668	53,865	41,034	48,087
Total proceeds	1,060,603	1,120,473	660,747	866,818
Operating expenses	1,026,289	1,127,076	569,291	680,193
Operating profit	34,314	-6,603	91,456	186,625
Non-operating income (expenses)	-7,778	-4,769	47,352	-10,995
Net income before income tax	26,536	-11,372	138,808	175,630
Income tax	26,458	44,076	25,241	84,652
Income (loss) after tax	78	-55,448	113,567	90,978
Net income (loss) of the period	78	-55,448	113,567	90,978

Cash flow statement of Kazakhstan Temir Joly NSE by the data of Ernst & Young, th. USD

Article	as of Jan 1.99	as of Jan 1.00	as of Jan 1.01
<b>Cash flow from operating activities</b>			
Net income before tax	-11,372	138,808	175,630
Corrections	116,524	101,209	93,961
<b>Operating income before working capital changes</b>	<b>105,152</b>	<b>240,017</b>	<b>269,591</b>
Cash inflow from operating activities	95,173	137,031	172,356
Interest paid	-5,056	-10,212	-9,853
Income tax paid	-42,575	-44,796	77,511
Pension liabilities, paid		-3,891	3,778
<b>Net cash from operating activities</b>	<b>47,542</b>	<b>78,132</b>	<b>81,214</b>
<b>Cash from investing activities</b>	<b>-60,417</b>	<b>-31,830</b>	<b>-49,048</b>
<b>Cash from financing activities</b>	<b>7,872</b>	<b>-31,890</b>	<b>-15,658</b>
Net increase in cash and equivalents	-5,003	14,412	16,508
<b>Cash and equivalents at the beginning of the year</b>	<b>16,701</b>	<b>11,698</b>	<b>26,110</b>
<b>Cash and equivalents at the end of the year</b>	<b>11,698</b>	<b>26,110</b>	<b>42,618</b>

Calculated by the KASE based on audited financial statements of the issuer:

Article	as of Jan 1.99	as of Jan 1.00	as of Jan 1.01
Return on sales (ROS), %	–	13.8	21.5
Return on equity (ROE), %	–	16.6	11.8
Return on assets (ROA), %	–	11.0	8.8

In auditing report of Ernst & Young, made on financial statements of Kazakhstan Temir Joly NSE for the years 1998-2000, it is said that except for the influences of the corrections, which could've been detected in the presence of Ernst & Young at inventory stock taking as of December 31, 1998, consolidated financial statements give reliable representation of the company's overall financial situation in all aspects as of December 31, 1998, 1999 and 2000, and that of its income, and cash flow statements, as well as changes in equity as of indicated dates in accordance with International Accounting Standards (IAS), created by the International Accounting Standards Committee (IASC).

### Re-evaluation of fixed assets

In 2001 Kazakhstan Temir Joly NSE had an independent expert to re-evaluate its fixed assets based on residual value in compliance with the IAS 16. Based on preliminary results, as of April 30, about 80% of fixed assets has been re-evaluated. Experts expect that re-evaluation will show an excess of \$6,100.0m in the value of fixed assets over their current value.

Based on IAS 16, the difference between the value of fixed assets before and after the re-evaluation will be reflected in the credit of "Re-evaluation reserve" account in "Shareholders' equity" section of the balance sheet. It will be shown by a corresponding record in 2001 after the re-evaluation.

### RESTRUCTURING PROGRAM

To rationalize the railroad industry of Kazakhstan and its major activities, the structure of Kazakhstan Temir Joly NSE is to be changed fundamentally. The restructuring suggestion was presented by the company and its consultants: Harrall, Winner, Thomson, Sharp & Laurence Inc. (HWTSL) in November 2000. This group of specialists, after receiving an initial approval from the Ministry of Economy, Ministry of Finance and Antimonopoly Committee, presented a restructuring program to the Government of Kazakhstan for a final approval which was obtained on June 4, 2001.

Restructuring plan means an increase in effectiveness of railroad transportation. Kazakhstan Temir Joly NSE intends to implement a switch from monopoly transportation to a competitive cargo railroad transportation by maintaining a monopoly in infrastructure services and pulling units. Creation of competitive service market in railroad market should be done by establishing private vehicle unit operators, as well as new entities (joint stock companies, production cooperatives and limited liability partnerships), dealing with repair, construction, guard and other activities necessary to keep the railroad transportation functioning.

Considering the importance of the railroad services for Kazakhstan, keeping the state cargo transportation operator is an essential part of the Restructuring plan, which would provide constant availability and stability of railroad transportation in Kazakhstan. Implementation of Restructuring plan in 2001-2005 should be done in three steps. First step (Jan 1, 01 - Jan 1, 02) – commercialization of railroads. Second step (Jan 1, 02 - Jan 1, 04) – introduction of competition. Third step (Jan 1, 04 - Jan 1, 06) – assessment of the results and determining further development steps.

It is expected that restructuring will start from the development of a detailed production plan and analysis of railroad capacity, including car and engine fleet, sections of the railroads, sorting stations and other facilities.

At this step following measures are to be taken:

- separation of remaining social and municipal assets and other non-fixed assets to local city services;
- separation and organization of competition in additional spheres of railroad servicing (repairworks, cargo security, railroad construction etc);
- separation of Passenger traffic unit into an independent enterprise Passenger traffic CJSC by passing a state block of shares to Kazakhstan Temir Joly NSE;
- separation of accounting of the infrastructure and transportation;
- creation of Infrastructure unit to manage the infrastructure (roads, signaling, communication, power and information systems) and development of access fee collection system;
- establishing private operators of railroad services, who will work on contractual prices with the cargo consignors and will have access to all infrastructure.

All domestic tariffs for cargo transportation and passenger traffic will be regulated by Agency of Kazakhstan on natural monopoly regulation, competition protection and small business support.

Main measures to be considered under restructuring plan in the second stage:

- Transformation of Vehicle unit into closed joint stock company. Passing 100% shares of Passenger traffic unit CJSC Vehicle unit CJSC to the Ministry of Transportation and Communication.
- Passenger traffic unit CJSC will take a control over all passenger constructions and passenger vehicles. It will also own fixed assets, which will be leased to passenger companies on franchise basis. Based on current tariffs system on passenger traffic, which is regulated by Antimonopoly committee, it is planned that the activities of this division will be non-profitable and be covered by subsidies from national budget. If state order will be placed on socially important transportation, then minimum allocation will be set.
- Transformation of Kazakhstan Temir Joly NSE into Kazakhstan Temir Joly CJSC holding, which will include Infrastructure CJSC and Engine CJSC. The goals of these units are to traffic control, trunk road exploitation control and pulling vehicles. From Jan 1, 02 to Jan 1, 03 this entity will work under a low, non-profitable tariff for the services (pulling and infrastructure). This tariff will be set for both Passenger traffic CJSC and private operators. Fixed assets and activities of Engine CJSC will include pulling vehicles (engines) and engine house.

It is expected that at this stage the service market will be created, with the services being offered by different cooperatives, LLP and repair engine houses.

Based on restructuring plan in 2003 new railroad operators will be created – Passenger railroad services and several competitive cargo operators. Each of them will have an access to all infrastructure controlled by the company at the same prices paid by the state cargo operator. Also, passenger operator will receive concessions for some parts of the roads. It is expected that each cargo operator will be formed on the basis of its own or leased car fleet.

At this stage, final separation of all additional services should take place and free competitive market of services should be established.

It is expected that at the final stage the State property committee will privatize Kazakhstan Temir Joly holding on an open tender.

## CREDIT LINES

In 2001-2005, based on Restructuring plan, the capital expenses of Kazakhstan Temir Joly NSE are to be increased to \$823.3m. The company plans to finance using different sources. These are the funds from the loan granted by European Bank for Reconstruction and Development (EBRD), bond issue on domestic market and borrowing from banks and other financial institutions.

EBRD loan was granted to help Kazakhstan Temir Joly NSE to improve and perfect the exploitation of the railroads and strengthen the management by implementing the programs aimed at training the personnel.

The company has also received different loans from Economic Cooperation Fund (Japan, OECF) to finance the modernization of railroad transportation.

### Brief review of unpaid long-term liabilities of Kazakhstan Temir Joly NSE as of December 31, 2000

Lender	Currency	Total amount, m	Unpaid amount, m	Interest	Maturity
Japanese credit, Eximbank	YEN	7,236.0	7,078.4	3.5%	2020 (June, December)
German credit, Eximbank	DEM	206.7	96.7	8.0%	2004 (semiannually)
German credit, Eximbank	DEM	2.5	0.1	5.0%	2001 (June)
Eximbank	KZT	17.8	6.0	10.0%	2003 (quarterly)
EBRD	USD	65.0	0.7	6-month LIBOR +1.0%	2011 (May, November)
Citibank	USD	10.0	5.0	3-month LIBOR +3.0%	2001 (February)
ABN AMRO	USD	5.0	5.0	3-month LIBOR +3.0%	2001 (June)
Ministry of Finance	USD	5.0	3.0	2.0%	2003 (June, December)

The idea of planned financial model of use of investments in the development of railroad industry under the Restructuring program means the following. For the Passenger traffic CJSC will receive:

- \$27.4m of total investments, credits, loans to construct high speed railroad lien (Talgo), which will be functioning in 2003;
- reconstruct car and repair workshop will be financed from the state external loan of OECF.

Remaining money will be used by Kazakhstan Temir Joly holding. When becoming a joint stock company, other subsidiaries will be separated with their own fixed assets without any credits granted.

## INVESTMENT ACTIVITIES

Main goal of Kazakhstan Temir Joly NSE investment program is the development and implementation of a number of measures to develop the production base of the railroad transportation, reduction of expenses by modernizing the fixed assets and introducing new technologies.

Kazakhstan Temir Joly NSE plans to use KZT50,788m to develop inventory and technical base from 2000 to 2005. In 2000-2001 a total of KZT3,735.8m was raised through EBRD and OECF credits. The EBRD funds

were used to purchasing diagnostic equipment and small mechanization facilities for a current repair of the railroads. The OECF funds were used to keep the financing of Railroad transportation development project, which has started in 1996.

In 2000 a total of KZT20,120.6m was planned to use for the development purposes, and actual amount used equaled KZT16,791.2m.

Kazakhstan Temir Joly NSE plans to invest the funds in upcoming 5 years into:

- about \$34.0m to the improvement of engines and engine house fleet, including the delivery and use of certain new engines in 2003 for a total of \$2.5m per engine;
- purchasing of about 2,600 new open top cargo cars in next five years;
- to set up power supply at existing power lines for a total of KZT117.2m in next five years;
- to upgrade the signaling and communication facilities, with the capital investments reaching KZT0.9m for Almaty-Astana section; besides, signaling equipment upgrade at Jana-Semei-Konechnaya section is planned if cargo is to transported through a new Aksu-Konechnaya line.

Part of the funds from the second issue bond placement Kazakhstan Temir Joly NSE plans to use for the replacement and upgrade of signaling and communication equipment.

Despite significant reduction of exploitation expenses of Kazakhstan Temir Joly NSE in 1999 and 2000, in the future, in order to improve the effectiveness and decrease the expense the company plans to take following measures:

- develop a new operating plan to increase productivity of such assets as the engines and cars, as well as determine the excess of asset;
- develop an expenses reduction plan, aimed at the elimination of the excessive routes, stations and other assets, as well as making corresponding changes into personnel and other resources;
- attract strategic investments into expenses saving technologies, including computer systems.

## **COMMENTS OF KASE LISTING COMMISSION**

Following are the comments of Kazakhstan Stock Exchange (KASE) Listing commission. The goal of the comments is to draw the attention of the KASE Exchange council, which is to make a decision on admitting the bonds into official list of the Exchange under category "A", to certain aspects of the issuer's activities, which deserve the attention. They should be considered by potential investors.

### **State regulation**

Kazakhstan Temir Joly NSE is a monopoly in railroad transportation services sector in Kazakhstan. The company's tariff policy is regulated by authorized state bodies. The risk of a sharp devaluation of the national currency may lead to significant decrease in the revenues of Kazakhstan Temir Joly NSE in terms of dollars. The management believes that the company has insured itself against such risks. First, 47.9% of the transportation is transit and export-import transportation, where tariffs are set in foreign currency (Swiss francs). Second, Kazakhstan Temir Joly NSE has a sufficient safety margin: with liabilities of \$262.5m as of January 1, 01, the volume of services offered in 2000 equaled \$866m.

### **Technical factors**

Technical risks originate as a result of significant wearout of vehicles fleet, railroad capacity, engine fleet and etc. In late 2000 wearout of man-made constructions equaled 37%, average wearout of the railroad pavement – 42%, average wearout of track vehicles reached 53%. In early 2001 wearout of passenger fleet is 12.8%, central power supply facilities – 56%, autoblocking units on the tracks out of the lines – 93%.

### **Risks related to non-payments**

Growth of accounts receivable in 1998-1999 provoked the deficit of free working capital. As a result, Kazakhstan Temir Joly NSE had to resort to short-term bank credits to restore its working capital to the normal levels.

The measures taken by Kazakhstan Temir Joly NSE in reducing the accounts receivable include consecutive reduction of mutual settlements, refusal to transport and transit the cargo for the debtor. In 1999 the company refused to transport cargo for coal mines and transit of interstate trains of Uzbek and Kyrgyz railroads, which had significant debts to Kazakhstan Temir Joly NSE. These debts were settled partially by paying out the debt and supplying engines and power. Accounts receivable as of December 31, 1998 was \$73.5m, as of December 31, 1999 – \$63.1m, as of December 31, 2000 – \$44.2m.



Kazakhstan Temir Joly NSE has developed a currency risk hedging strategy. Active work is done to analyze currency and credit risks of the enterprise and introduce financial schemes and other measures to reduce those risks.

In late 2000 the major debtors of Kazakhstan Temir Joly NSE were Razrez Severnyi LLP – KZT1,820.3m (18.3% of total receivables); Maikuben-West – KZT576.4m (5.8%) and Sverdloverno JSC – KZT209.7m (2.1%).

### **Environmental risks**

Lately Kazakhstan Temir Joly NSE has not been fined for any environmental damage, and did not have remarks from the governmental bodies regarding the use, storage, transportation of toxic materials and waste.

In 1998 the company developed a 7-year plan (till 2005) on environment protection. It means the reduction of air pollution by installing dust collectors onto trains and replacement of diesel trains that use hard fuel to electricity powered trains. Besides, new water purification systems are to be installed. From 1998 Kazakhstan Temir Joly NSE has already spent about \$1.8m and plans to spend another \$2.2m till 2005.

### **Restructuring results**

Kazakhstan Temir Joly NSE plans to conduct following activities in coming 5 years – full-scale restructuring the railroad industry. However, the company did not give a financial model of the duty division among the structural divisions it has now, which are to be separated into individual enterprises based on approved restructuring plan. Therefore, it is hard to determine possible consequences of the restructuring for potential buyers of Kazakhstan Temir Joly NSE securities.

**Prepared by the agency “IRBIS”**

## First issue bonds of Atyraumunaigasgeologya OJSC were admitted to the KASE official listing under category “B”

Special issue based on the information of AtMGG OJSC, Kazakhstan Stock Exchange (KASE), and agency IRBIS

From July 10, 2001, by the decision of the Board of the KASE, and based on the decision of the Exchange council, first issue inscribed coupon bonds of Atyraumunaigasgeologya OJSC (Atyrau) are admitted to the official list of the KASE securities under category “B”.

### BOND ISSUE INFORMATION

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Type of the securities:	inscribed coupon bonds, indexed by the change in the exchange rate of tenge to U.S. dollar
National identification number:	KZ2C4AUC1A24
Number in the state register:	A30
Registrar:	Kazregistr LLP (Almaty)
Date of registration:	Jan 12 01
Face value, USD:	100.00
Issue volume, USD:	10,000,000
Issue volume, bonds:	10,000
Circulation starts on:	Jan 15, 01
Floatation term:	180 days from circulation starting date
Circulation term:	1 year
Maturity:	Jan 15, 02
Interest:	12% APR
Interest payment days:	July 15 and January 15
Time basis for coupon calculations:	360/30
Fixing date of the register for coupon payments:	first – 30 days, second – 10 days
Dates when the register is fixed for coupon payments:	June 15, 01 and January 5, 02
Fixing date of the register for the maturity:	10 days
Date when the register is fixed for the maturity:	Jan 5, 02
Servicing of the issue:	in tenge at official rate of the National Bank of Kazakhstan, effective on the payment or maturity date
Financial consultant of the issue:	Asia Business Consulting OJSC (Almaty)
Admittance date to the KASE trade lists:	July 9, 01
Date of the first trades:	July 10, 01
KASE trade code:	AMGGb1
Price deviation accuracy:	4 decimal points
Market-makers at the KASE:	absent (not required for this listing category)

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If coupon payment date or maturity date of the bonds falls on week-end or holiday, then the coupon or the principal is paid on the next business day.

Callback of the bonds is not specified, except for the cases, set by the Law of Kazakhstan. None of the bondholders has the right to callback the bonds, except for the cases, set by the Law of Kazakhstan.

The funds, raised by the bond issue, are to be used to conduct additional survey and development of **Airankol** hydrocarbons site (Jylyoi district of Atyrau region).

*Following information was borrowed from the conclusion of Kazakhstan Stock Exchange (KASE) Listing commission, which is devoted to the admittance of second issue inscribed coupon bonds of the company to the official list of the KASE securities under category “B”. The information has not been checked by the agency IRBIS. The management of AtMGG OJSC is liable for the reliability of the information presented by the KASE Listing commission.*

### GENERAL INFORMATION

Date of initial state registration – March 6, 1996. Legal status – Open Joint Stock Company. Ownership – private. Legal and actual address – 4, Azattyk Ave., Atyrau, 465002, Kazakhstan. Primary activities – offering drilling geological survey works and hydrocarbons extraction services. Primary services – survey, drilling, well repair services at oil and gas fields. The number of employees as of January 1, 2001 (based on the list) – 595, including 28 managers, 57 specialists, 6 employees, 504 workers.

AtMGG OJSC has a state license of the Ministry of Energy, Industry and Trade of Kazakhstan to use industrial highly explosive and flammable production facilities, dated June 22, 2000.

The company has no credit ratings.

### CHARACTERISTICS OF ACTIVITIES

AtMGG OJSC is a private company without subsidiaries. The main block of shares (76.54%) belongs to **MTA SECURITIES & INVESTMENT LIMITED** (Tortola, British Virgin Island). The core of the business is the participation in service offering tenders: exploration of oil and gas fields, drilling and repairing the wells. All

major contracts were won by the company at tenders. Total amount of all contracts signed in 2001 is about \$4m.

Following is a brief characteristics of existing contracts.

<b>Customer:</b>	<b>KaspiiNefit OJSC</b>
<b>Type of works:</b>	testing and preliminary exploitation of exploratory well Airankol #2,16,22
<b>Contract value:</b>	KZT23,468,602
<b>Contract term:</b>	from 2000 till the completion of works
<b>Payment term:</b>	monthly, based on acts of works done
<b>Customer:</b>	<b>Sazankurak JV</b>
<b>Type of works:</b>	drilling of exploratory wells SK-3, SK-4 "at a daily rate" with the depth of 600 m
<b>Contract value:</b>	\$150-180 th.
<b>Contract term:</b>	from Sept 08.00 through Dec 31.01
<b>Payment term:</b>	monthly, based on acts of works done
<b>Customer:</b>	<b>North Caspian Oil JV</b>
<b>Type of works:</b>	drilling of exploratory well Taskuduk FX-1 " at a daily rate "
<b>Contract value:</b>	\$180-200 th.
<b>Contract term:</b>	from Oct 17.00 during 6 months from the drilling starting date
<b>Payment term:</b>	monthly, based on acts of works done
<b>Customer:</b>	<b>BN-Munai LLP</b>
<b>Type of works:</b>	drilling of exploratory well Akkulovskaya-5
<b>Contract value:</b>	\$2,100 th.
<b>Contract term:</b>	from Dec 15.99 through Aug 20.01
<b>Payment term:</b>	installment payment
<b>Customer:</b>	<b>BN-Munai LLP</b>
<b>Type of works:</b>	drilling of exploratory well Akkulovskaya-6
<b>Contract value:</b>	\$1,900 th.
<b>Contract term:</b>	from Sept 28.00 through Nov 31.01
<b>Payment term:</b>	installment payment
<b>Customer:</b>	<b>Med Shipping Usturt Petroleum</b>
<b>Type of works:</b>	major overhaul of exploratory well Begesh-1
<b>Contract value:</b>	\$600 th.
<b>Contract term:</b>	from Sept 08.00 till the completion of the works at the well
<b>Payment term:</b>	monthly, based on acts of works done

### Production and inventory bases

Transportation-grouting base (TGB) of AtMGG OJSC allows it to meet all the company's own requirements in cargo transportation, as well as to offer services to other companies. Based on the specifics of the works, TGB has two components – automobile and grouting. The automobile part deals with corresponding services during the construction of the wells. Grouting part deals with the cementing during the fixing of the wells, pressure testing the equipment, casing and exploitation strings, cement bridges, installing cement bridges, insulating and liquidatory and other works.

Central engineer-technological service drills the wells, test them conducts major overhaul and underground repairworks, repairs drilling equipment and derrick mounting works. Particularly, drilling equipment division repairs the rotor, winch, swivel, rotary pump, diesel engines, power stations, mobile drilling wrenches, and others, derrick mounting unit mainly deals with construction of derricks (mounting and demounting stationary and mobile drilling equipment).

**Atyraumunaigasgeologiya-service administration** offers such services as the repair of the parts of drilling equipment, machinery, mobile houses, makes switches and non-standard equipment, accepts and processes different cargo, carpentry works, welding and other works. It consists of Repair-rolling workshop, Atyrau production base and Dengiz byrail unit.

#### Wearout degree of AtMGG OJSC assets as of January 1, 2001

Item	Initial value, th. KZT	Accrued depreciation, th. KZT	Average wearout, %
Buildings	21,030	8,577	41
Machinery and equipment	167,360	108,887	65
Vehicles	89,226	48,672	55
Others	28,225	8,058	29

### Suppliers

Main suppliers of the materials and equipment to AtMGG OJSC are the enterprises of Russia and Ukraine:

- **Volgoburmash OJSC** – Russian enterprise producing main well drilling equipment for oil, gas and mining industries;
- **Volzhskii trubnyi zavod (Pipe plant)** – major metallurgical enterprise in Russia producing seamless and electric welding spiral-seamed pipes;

- **Concern Nadra** – Holding of Ukrainian companies specializing in offering services in exploration and extraction of hydrocarbons, development of scientific-geological programs, as well as the production of drilling and logging equipment;
- **Izhneftemash OJSC** – major Russian machinery enterprise producing oil producing equipment.

### Competitors

Based on the information of AtMGG OJSC, presently only a few companies offer the services similar to those of the company in Kazakhstan:

- **Prikaspiiburneft** (Russia, middle drilling; distinguished by a relatively expensive mobility and absence of powerful production and technical base);
- **Kazakhoilburenie** (Kazakhstan, middle drilling; mainly works for one customer – NOC KAZAKHOIL CJSC, which limits its abilities to participate in the tenders conducted by oil companies for drilling works, mainly specializes in industrial drilling);
- **Parker Drilling** (USA, deep drilling; contractors – only OKIOC, Chevron and Japanese national oil company, specializes solely on deep drilling, does not participate in tenders).

### Development strategy

Presently, long-term strategy of AtMGG OJSC is the participation in the development of **Airankol field** to receive a profit from selling this oil based on mutual cooperation agreement “On the development of Airankol field” with **KaspiiNeft OJSC**.

The contract, signed on September 11, 2000, was based on mutual development and exploitation of Airankol field, which is under development already. The contract term is 3 years. Based on its terms, AtMGG OJSC ensures a quality work in testing and preliminary exploitation of the exploration wells based on the project and work plan, as well as assumes obligation to finance the development of Airankol field independently, which would require \$1m. For the part of KaspiiNeft OJSC, it should provide AtMGG OJSC with detailed plan of testing and preliminary exploitation works, and assumes an obligation to sell the oil obtained as a result of the tests and exploitation.

KaspiiNeft OJSC is the owner of the license on mineral resources use under this project. The license was issued by the Ministry of Energy and Mineral Resources of Kazakhstan to use the mineral resources and explore hydrocarbons at Airankol field on October 10, 1997 for 5 years.

The oil from Airankol field is sold on domestic market. Main consumers are ANPZ OJSC, NOTC KazTransOil CJSC, Mercury LLP, Munai Impex.

Airankol oil field is located in Southern-Eastern part of Caspian valley. Based on administrative division, it is a part of Jylyoi district of Atyrau region of Kazakhstan.

Within western semiarch of the southern wing of the structure Apt, I and II Neocom horizons have been discovered. The oil reserves within the horizons are distributed as follows:

- **Apt:** I horizon – balance reserves 976.1 th. tons, extractable – 195.2 th. tons; II horizon – balance reserves 786.1 th. tons, extractable – 157.2 th. tons.
- **Neocom:** I horizon – balance reserves 2,646.8 th. tons, extractable – 529.4 th. tons; II horizon – balance reserves 2,352.7 th. tons, extractable – 470.5 th. tons.

At the outset of the project major overhaul will be conducted at 7 wells and they will be re-activated at Airankol field, as well as two exploitation wells will be drilled with further use through pumping station at Koschagyl OJSC field. Average daily output of one well is 9.1 tons a day, and the production volume of oil is at 22,932 tons a year.

Profitability of the project is estimated as follows:

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Annual oil production:	22,932 tons
Price per ton of crude oil:	\$120
Sales income:	\$2,751,840
Demulsification expenses compensation:	\$218,400
Plant's processing expenses:	\$436,800
Bond maturity expenses:	\$1,120,000
Securities transaction tax expenses:	\$1,000
Listing fees to KASE:	\$1,000
Income before tax:	\$974,640
VAT 20%:	\$550,368
Excise and royalty:	\$144,471
Income tax at 30%:	\$83,940
Net income:	\$195,861

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## FINANCIAL RATIOS

AtMGG OJSC presented to the Exchange the following financial report prepared according to Kazakhstani standards of book keeping (KSB): balances, reports of income and expenses, reports of money resources movement in period 1998-2000 and within first quarter of 2001.

### The balance sheet according to AtMGG OJSC in th. KZT

Article	as of		as of	
	Jan 1.99	Jan 1.00	Jan 1.01	Apr 1.01
<b>ASSETS</b>	<b>308,811</b>	<b>304,519</b>	<b>346,467</b>	<b>350,342</b>
<b>Long-term assets</b>	<b>117,518</b>	<b>109,262</b>	<b>134,648</b>	<b>139,445</b>
Primary price	138,114	116,518	305,841	316,937
Depreciation	21,596	8,256	174,193	179,492
Incomplete prices	116,518	108,262	131,648	137,445
Long-term debit debt	1,000	1,000	3,000	2,000
<b>Current assets</b>	<b>191,293</b>	<b>195,257</b>	<b>211,819</b>	<b>210,897</b>
Inventory	110,289	93,296	82,392	64,686
Debt of purchasers and Consumers	77,112	100,288	104,431	74,448
Money resources	194	1,673	24,996	71,763
Other current assets	3,698	–	–	–
<b>LIABILITIES</b>	<b>308,811</b>	<b>304,519</b>	<b>346,467</b>	<b>350,342</b>
<b>Equity</b>	<b>149,540</b>	<b>117,721</b>	<b>119,751</b>	<b>119,751</b>
Authorized capital	140,819	140,819	140,819	140,819
Additional unpaid capital	151,408	115,620	115,620	115,620
Undistributed income (uncovered loss)	-142,687	-138,718	-136,688	-136,688
<b>Long-term liabilities</b>	<b>132,261</b>	<b>132,269</b>	<b>132,269</b>	<b>132,269</b>
Long-term credits	132,261	132,269	132,269	132,269
<b>Current liabilities</b>	<b>27,010</b>	<b>54,529</b>	<b>94,447</b>	<b>98,322</b>
Short-term credits	–	15,000	28,107	4,500
Credit debt	27,010	39,529	66,340	43,822
Bonds	–	–	–	50,000

### Income statement of AtMGG OJSC by the data of the issuer, th. KZT

Article	as of		as of	
	Jan 1.99	Jan 1.00	Jan 1.01	Apr 1.01
<b>Sales income</b>	<b>176,727</b>	<b>146,207</b>	<b>446,680</b>	<b>124,797</b>
Cost of goods sold (works, services)	131,949	127,725	411,439	118,488
<b>Gross income</b>	<b>44,778</b>	<b>18,482</b>	<b>35,241</b>	<b>6,309</b>
<b>Expenses of the period</b>	<b>44,281</b>	<b>14,513</b>	<b>32,341</b>	<b>6,309</b>
General expenses for authority	42,145	13,423	32,341	6,293
Percentage expenses	2,136	1,090	–	16
<b>Operating activity income</b>	<b>497</b>	<b>3,969</b>	<b>2,900</b>	<b>–</b>
Non operating activity income	7,708	–	–	–
Net income (loss)	8,205	3,969	2,900	–
Income tax expenses	–	–	870	–
Gross income of common operating	8,205	3,969	2,030	–
<b>Clear income</b>	<b>8,205</b>	<b>3,969</b>	<b>2,030</b>	<b>–</b>

### Cash flow statement of AtMGG OJSC by the data of the issuer, th. KZT

Article	as of		as of	
	Jan 1.99	Jan 1.00	Jan 1.01	Apr 1.01
<b>Operating money flow</b>	<b>171</b>	<b>1,479</b>	<b>23,323</b>	<b>46,767</b>
Money inflow	276,727	140,360	570,526	275,465
Products sales income	156,727	130,360	487,149	225,465
Other income	120,000	10,000	83,377	50,000
Outcome of money	276,556	138,881	547,203	228,698
Calculations with suppliers and contractors	98,240	53,121	262,497	116,863
Salary calculations	82,907	46,546	133,868	54,940
Payments for insurance funds and pension funds	26,666	13,420	1,402	–
Taxes payments	64,560	12,600	45,774	20,207
Credits' payments	–	11,000	53,835	23,193
Other payments	4,183	2,194	49,827	13,495
<b>Money at the beginning of reporting period</b>	<b>23</b>	<b>194</b>	<b>1,673</b>	<b>24,996</b>
<b>Money at the end of reporting period</b>	<b>194</b>	<b>1,673</b>	<b>24,996</b>	<b>71,763</b>

In 2000 we can observe significant growth of sales volume of AtMGG OJSC relatively to 1998 and 1999 – at KZT 300m or 20.6% and KZT270m or 153% respectively, due to significant growth of prices for oil and quantity of orders for AtMGG OJSC services.

In 1998 – 2000 the ratio of AtMGG OJSC income was for oil drilling service. In 2000 the new article of income from oil selling of Ayrankol oilfield, due to joint venture contract conclusion with Kaspian Oil OJSC.

Cost of goods of AtMGG OJSC increased at KZT284m or 222% in 2000, and it resulted income decrease (from 25% to 13% in 1999 and from 8% to 2000)

AtMGG also submitted audit conclusion of Atyraudaudit company, prepared under financial report of 1998 and 2000 according to KBS. Under the agreement of shareholders the audit of 1999 was not conducted.

Atyrau audit company considers that financial report of AtMGG OJSC for 1998 reliably written, and financial status is satisfactory. In financial report audit conclusion of AtMGG OJSC per 2000 it is written that financial report was reliably written and book keeping and reports meet established in Kazakhstan methodology and standards..

### **COMMENTS OF KASE LISTING COMMISSION**

Following are the comments of KASE Listing commission. The goal of the comments is to draw the attention of the KASE Exchange council, which is to make a decision on admitting the bonds into official list of the Exchange under category "B", to certain aspects of the issuer's activities, which deserve the attention. They should be considered by potential investors.

#### **Oil prices**

Successful activity of AtMGG OJSC largely depends on favorable conditions of oil market. The number of oil exploration orders would fall in case of oil prices lowering. Doubtlessly, this will affect revenues of the company. Airankol oil field projects is also subjected to the same relationship.

#### **Technical risks**

Technical risks are mainly attributed to high depreciation level of transportation and equipment. The average depreciation level equals 65%, transportation - 55%. The company's representatives consider that such risks will be disregarded using new foreign mobile drilling equipment.

#### **Financial statements**

The balance sheet of AtMGG OJSC as of Jan.01, 2001 recorded increase of initial cost of fixed assets on KZT182m (156%) and depreciation - KZT166m (201%). According to the company's data the increase was associated to mistaken statement of fixed assets value as of Jan.01, 1999, the accumulated depreciation was stated KZT211m lower. The company's managers reported that data have been corrected.

The cash flow statement has no break downs by types of activity (operational, investment and financial). All inflows and outflows are stated in the operational activity. For instance, cash flow statement for the first quarter of 2001 shows KZT50m inflows from bonds floatation as inflows from operational activity. According to Kazakhstan Accounting Standards such inflows must be stated in financial activity.

The company did not present auditing reports for 1999. The corresponding approval was given by shareholders.

**Prepared by the agency "IRBIS"**