Transportation
Kazakhstan
Credit Analysis

Kazakhstan Temir Zholy

Ratings

Security Class / Entity	Current Ratings
Foreign Currency	
Long-Term IDR	BBB-

Outlook

Foreign Long-Term IDR	Negative

Financial Data

Kazakhstan Temir Zholy

	31 Dec 07	31 Dec 06
Revenue (KZTm)	423,638.6	382,591.7
Operating EBITDAR (KZTm)	94,678.7	91,557.8
Operating EBITDAR margin (%)	22.3	23.9
Cash flow from operations (KZTm)	110,506.1	96,929.2
Free cash flow (KZTm)	14,093.8	21,528.7
Net fixed charge cover (x)	18.9	9
EBITDA/gross interest expense (x)	10.4	12.2
Gross debt (KZTm)	124,418.4	132,953.5
Cash (KZTm)	97,319.2	85,969.6
Net debt (KZTm)	27,099.2	46,983.9
Gross leverage (x)	1.3	1.5
Net leverage (x)	0.3	0.5

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Related Research

- *Parent and Subsidiary Rating Linkage, 19 June 2007*

Rating Rationale

- The ratings of Kazakhstan Temir Zholy (KTZ), a 100% state-owned railway company, are aligned with those of the sovereign, based on Fitch Ratings' *Parent and Subsidiary Rating Linkage* methodology. Accordingly, the Long-Term Foreign Currency IDR was downgraded on 10 November 2008, to 'BBB-' from ''BBB'. The Negative Outlook likewise reflects the sovereign Outlook.
- As such, the ratings reflect KTZ's strategic importance to the country given its vast terrain, land-locked position and underdeveloped road infrastructure, as well as state-ownership and state involvement in tariff setting.
- KTZ is expected to remain the monopoly provider of rail infrastructure in Kazakhstan, and maintain a dominant market share in the provision of locomotives and rolling stock upon completion of the rail reforms.
- The ratings also take into consideration KTZ's solid financial profile. With a financial year 2007 (FY07) EBITDAR margin of 22.3% and net leverage of 0.3x, the company compares well with its international rail peers with median figures of 29.3% and 4.1x, respectively.
- However, the ratings incorporate KTZ's intensive investment programme of KZT1,199.6bn (USD9.9bn) over 2008-2012, the financing of which is reliant on the expected tariff increases. Fitch notes that strong political interference in the tariff-setting mechanism — resulting in lower-than-planned tariff increases — is likely to put pressure on KTZ's financial profile.
- Furthermore, the ratings factor in the agency's expectations that the planned state subsidies for the loss-making passenger division, which is currently cross-subsidised by the freight division, will be fulfilled.

What Could Trigger a Downgrade?

- A downgrade of the sovereign or evidence of weakening support.
- A substantial increase in leverage due to the debt-funded capex programme.

Recent Events

KTZ posted strong financials in H108; with revenue increasing by 14.8% yoy to KZT233.5bn (USD1.9bn), with an EBITDAR margin of 28.2%.

Liquidity and Debt Structure

KTZ's strong profitability in 2007 and H108 underpinned solid generation of cash flow from operations (CFO) — at KZT110.5bn (USD902m) and KZT53.6bn (USD446.4m), respectively. As a result, free cash flow (FCF) has returned to positive territory since 2006. Fitch believes that KTZ is well placed to maintain good CFO, but its FCF is likely to come under pressure due to the intensive capex programme. Gross debt remained flat at KZT124.5bn (USD1bn) at end-H108. Although Fitch expects gross leverage to fluctuate at around 2.0x as a result of capex financing needs, KTZ still stands up well versus its peers. KTZ also has strong liquidity, with a cash position (including short-term investments) of KZT97.3bn (USD809m) at FYE07 and KZT103.3bn (USD861m) at end-H108. With short-term maturities at end-H108 comprising only a fraction of gross debt (4.4%), the cash position is more than sufficient to cover them. Low refinancing risk is also underpinned by the fact that 83% of KTZ's debt falls due after three years.

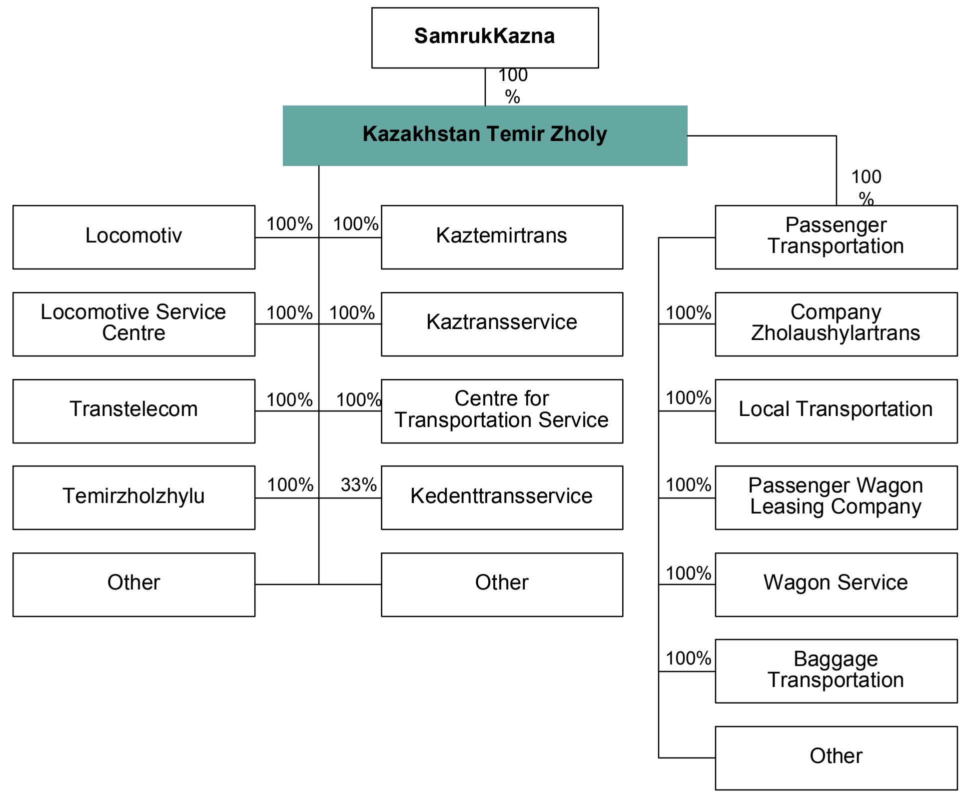
Background

KTZ operates Kazakhstan's rail network, and provides freight and passenger services. Its activities span ownership of rail infrastructure, and the provision of rolling stock and locomotives. Although the rail reforms in Kazakhstan foresee privatisation in some areas of rail transportation (including wagons and, potentially, locomotives), KTZ will remain the monopoly provider of the rail network.

In Fitch's view — and applying its *Parent and Subsidiary Rating Linkage* methodology — although KTZ's current debt is not guaranteed by the state (the last government guarantee for KTZ's debt dates back to 2002), the company's strong strategic and operational ties with the state provide a background for alignment of its ratings with those of the sovereign. The following ties were considered:

- KTZ is 100% state-owned through Kazakhstan's state-owned fund SamrukKazna (SamrukKazna).
- Rail is a strategic infrastructure for the country due to its vast terrain, land-locked position and underdeveloped road infrastructure.
- The tariffs are regulated by the Agency for Regulation of Natural Monopolies of Kazakhstan (ARNM, a state agency).
- Since 2005, the state has been subsidising the loss-making passenger division of KTZ, which was (and still is, although to a lesser extent) cross-subsidised by the freight division.
- The rail infrastructure in Kazakhstan has to be state-owned, according to the Railway Transportation Law. Therefore it cannot be privatised without a vote in parliament.

Diagram 1: KTZ's Organisational Structure



Source: KTZ

- Most of KTZ's board members (four out of seven) are appointed from the government-related entities.
- KTZ's strategy is approved by the government, through SamrukKazna.
- KTZ contributed 1.8% to the country's GDP in 2006. It is the single-largest national employer and taxpayer in Kazakhstan.

The group has demonstrated a visible improvement in corporate governance over the last several years. Its seven-member board includes three independent members. The company has established an audit committee chaired by an independent director, Chris Walton, and has been publishing audited IFRS financials for over five years. Following the dismissal of the group's former CEO, the company formed an anti-corruption committee.

Rail Reform Update

Despite several railway reform programmes and a series of directives adopted in Kazakhstan during 2003-2007, these were effectively only an introductory phase in the rail reform progress. Fitch expects the reform to start in earnest when the legal base is prepared.

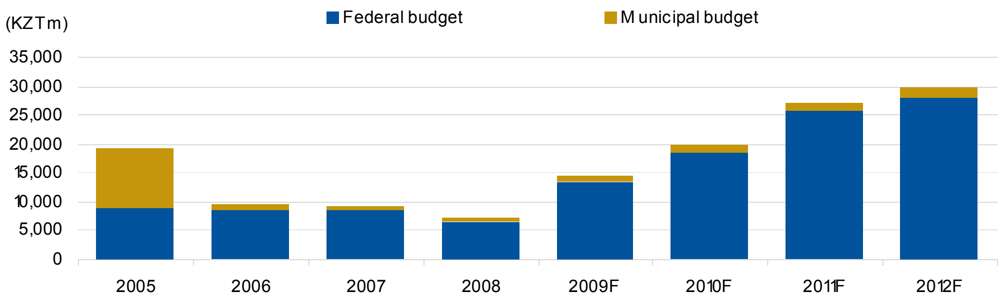
The main goals stipulated in the new programme for the restructuring of rail assets up to 2020, which has been developed but not yet approved by government, resemble those of the reform programme for 2004-2006, and include:

- Establishment of the competitive environment in the rail transportation industry
- Development of the legal base
- Disposal of non-core assets.

As part of the reform, KTZ sold many of its non-core businesses, including track repair services and wagon and locomotive repair activities.

Furthermore, KTZ spun off its locomotive and rolling stock activities into three wholly owned subsidiaries:– Locomotiv (locomotives), Kaztemirtrans (freight rolling stock), and Kaztransservice (container rolling stock), which provides a foundation for the development of competition in the sector. KTZ is considering the possibility of selling stakes in the abovementioned subsidiaries, although management believes that they are likely to remain wholly owned at least for the next three to five years.

Chart 1: State Subsidies for KTZ's Loss-Making Passenger Division



Source: KTZ

In 2008, the share of the private operators of rolling stock in Kazakhstan increased to 30%, and is expected to rise further. However, KTZ anticipates to maintain at least a 50% share in the rolling stock after the reforms. At this stage, the group also has a dominant position in the provision of locomotives, and does not expect this to change given that locomotives are expensive and technically complex to operate.

Overall, the reforms foresee that provision of rolling stock and locomotives will be open to competition, with KTZ remaining a dominant player in these activities, whereas rail infrastructure is expected to be retained in KTZ's monopoly operations.

KTZ also plans to transfer its loss-making passenger transportation division to the state by 2012. In 2008, private carriers accounted for 38% of the passenger turnover in Kazakhstan. However, their share is expected to shrink to about 10% in 2009 due to the introduction of stricter regulation for passenger transportation. KTZ anticipates that such market composition will be maintained in the future.

Since 2005, the Kazakh government has partly subsidised the unprofitable passenger division. State subsidies amounted to KZT9.2bn (USD77m) in 2007 and KZT7.2bn (USD60m) in 2008. The company expects the state subsidies to cover the losses incurred by the passenger division in full starting from 2011 (*Chart 1*).

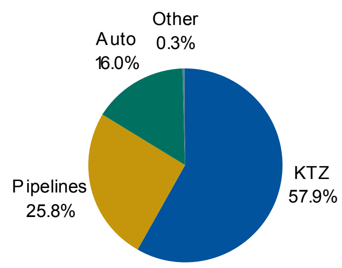
Business Profile

Freight Operations

Freight Transportation

Freight transportation is the largest and most profitable of the group's businesses; contributing KZT359.4bn (USD2.9bn), or 84.8%, of FY07 revenue, and KZT58bn (USD473m) in operating profit. As the main — and therefore most important means of transportation — in Kazakhstan, rail accounted for 57.9% of the country's freight turnover in 2003-2007, followed by pipelines (25.8%) and auto transportation (16%).

Chart 2: KTZ's Share in Kazakh Freight Turnover, 2003-07



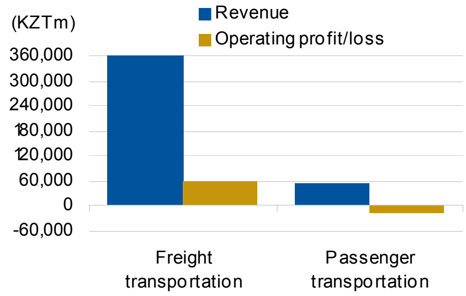
Source: KTZ

KTZ's freight turnover grew at a compound annual growth rate (CAGR) of 8% over 2005-2007, to 200.7 billion tonne-km in 2007, driven by the economic growth and expansion of international trade. In 9M08, freight turnover further increased by 10.8% yoy to 160.3 billion tonne-km. The company also demonstrated growth in freight transportation of 5.5% yoy to 260.5 million tonnes in 2007. Growth continued in 9M08 to 203.2 million tonnes, up by 7.2% yoy. Fitch expects a slowdown in KTZ's freight turnover dynamics, which is expected to grow in 2009-2010, albeit at a lower rate, due to the ongoing global financial turbulence.

Most of the freight is transported by KTZ domestically (40% of freight turnover in 2007), with 37% directed for export and 11% as transit. KTZ considers transit as an important growth potential in the future, underpinned by the geographical location of Kazakhstan — between China and Russia — and expects the share of transit in freight turnover to increase to 30% by 2020.

KTZ's freight turnover breakdown by cargo reflects the nature of Kazakh economic activities, eg its focus on raw materials. The main cargo transported by KTZ is coal, which accounted for 24% of freight turnover in 2007, followed by oil and oil products (16%). At the same time, the latter contributed the most to the group's FY07 freight revenue (25%); followed by coal (12%), which reflects higher tariffs set for oil transportation.

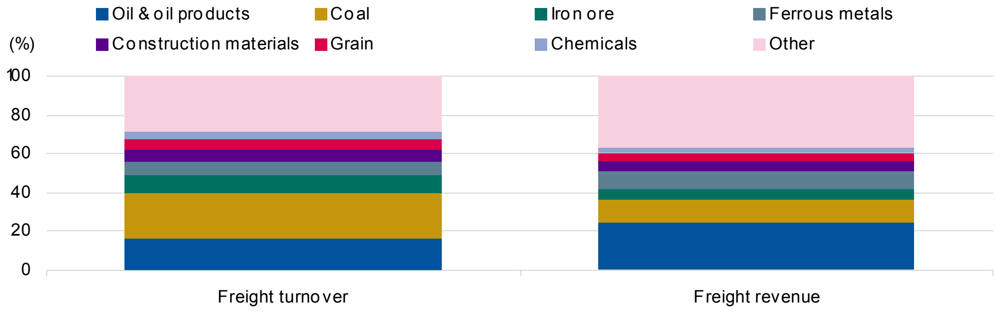
Chart 3: KTZ's Revenue and Operating Profit by Division, 2007



Source: KTZ

Revenue dependence on oil and oil products transportation means that KTZ is exposed to the risk of increasing competition from oil pipelines which are planned to be constructed or expanded by 2010-13. KTZ intends to substitute the anticipated slowdown in growth of oil and oil products volumes for transportation of other goods, including the growing chemicals and petrochemicals industries.

Chart 4: KTZ's Freight Turnover and Revenue Breakdown by Cargo, 2007

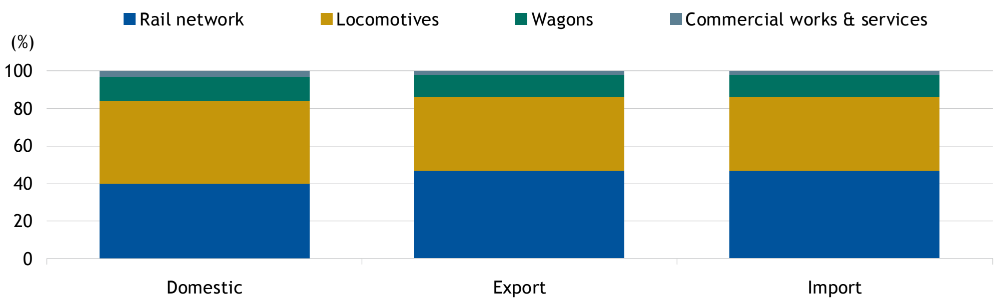


Source: KTZ

Freight Tariffs

There are three different tariff rates used for freight transportation by KTZ: for domestic transportation, for international export/import, and for transit. The first two are set in Kazakh tenge by the ARNM. The tariff for transit is calculated in Swiss francs and converted into US dollars, and set at an annual Tariff Conference of CIS member railway administrators signing a Tariff Agreement. The rate is based on the International Rail Transit Tariff and the Common Transit Tariff.

Chart 5: Main Tariff Components



Source: KTZ

The tariff mechanism change in 2004 separated out four components: 1) tariff for use of infrastructure, 2) tariff for use of locomotives, 3) tariff for use of rolling stock, and 4) tariff for commercial works and services. This tariff breakdown provided a background for the development of a competitive market in the sector. Thus customers will only have to pay charges for services incurred, so if a private operator uses its own wagons it does not have to pay for this component. The proportion of each component in the tariff varies according to the type of journey, but is approximately the following: for domestic transportation, the split is 40%:44%:13%:3%, and for international export/import transportation the split is 47%:39%:12%:2%.

As part of the reform implementation, tariffs for the infrastructure usage are strictly regulated by the ARNM (as KTZ is considered to be a natural monopoly), and can be reviewed only once a year, whereas the tariffs for the other three components (locomotives, wagons and commercial work and services) are set on a more flexible basis and can be changed several times a year.

Tariffs are set on a cost-plus basis. They vary significantly according to commodity type and destination (domestic, international export/import). The first attempt for tariff unification between domestic and international export/import transportation was made in 2006 for several types of cargo, including (among others) oil, ferrous and non-ferrous metals. KTZ expects the second phase of tariff unification to equalise domestic and international tariffs for a broader range of cargo, which is likely to exclude such socially and strategically important (as determined by the government) commodities as grain and coal. It should be also noted that the tariff rate is proportionate to the commodity price.

The tariffs were increased three times in 2006, with an average increase of 40% for domestic transportation and 17% and 7% for international export and import services, respectively. After a decline in 2007 by 1% , the tariffs were twice raised again in 2008 — in February and April — which led to an average increase of 16% for domestic transportation, and 26% and 21% for international export and import services, respectively.

As Kazakhstan's tariff rates are on average much lower than those in Russia, it provides room for their further growth. KTZ expects freight tariffs to grow on average at 15% per annum over the next five years in light of its planned intensive capex programme. Fitch will continue monitoring whether a cost-plus approach in tariff-setting is consistently applied, as well as progress in tariff equalisation. Political interference, in conjunction with unfulfilled passenger transportation subsidies, are likely to put pressure on KTZ' financial profile, and might be considered as a negative credit factor.

Passenger Operations

Passenger Transportation

The passenger transportation division is small in terms of its contribution to the group's revenue (12.3% in 2007), and made an operating loss of KZT16.5bn (USD138bn) in 2007, which along with its social importance underpins the decision to transfer it to SamrukKazna by 2012. As mentioned above, it was cross-subsidised by the profitable freight division, but is currently partly financed by the state subsidies.

KTZ's passenger turnover increased at a 9% CAGR over 2005-2007 and reached 14.3 billion passenger-km in 2007. This was followed by a significant drop in 9M08 by 27.2% yoy to 7.9 billion passenger-km, due to rising competition from private players. However, the company expects it to rebound in 2009.

Passenger Tariffs

The passenger transportation tariffs are also set by the ARNM. As of November 2008, KTZ is working on the implementation of a more flexible approach to passenger tariff-setting which will allow it to differentiate among tariffs for regular and luxury cars, as is the case for JSC Russian Railways ('BBB+'/Negative). The first step in this direction was an introduction of higher tariffs for passenger services on the Almaty-Astana route in the Spanish-made rail cars.

Given the social nature of the passenger services, the tariffs were flat during 1997-2004. Long-haul passenger tariffs were increased by 15% per annum in 2006 and 2007, and remained unchanged in 2008. Local passenger tariffs rose by 31.1% in 2006 and 15% in 2007, and remained unchanged in 2008. The tariffs — both for long-haul and local transportation — are expected to be increased on average by 10% per annum over the next five years.

Financial Profile

Revenue and Profitability

Strong freight and passenger turnover dynamics, along with tariff increases, enabled KTZ to post strong revenue growth at a CAGR of 20% during 2003-2007, to

KZT423.6bn (USD3.5bn) in 2007. After a significant drop in 2004 to 9.3% at the EBITDAR level (from 22.5% in 2004), profitability rebounded to 23.9% in 2006 and remained at this level in 2007 (22.3%), reflecting the several tariff increases in 2006 and introduction of state subsidies for recurring losses of the passenger division.

The positive trend continued in H108, with revenue increasing by 14.8% yoy to KZT233.5bn (USD1.9bn) and an EBITDAR margin of 28.2%, underpinned by significant tariff increases in 2008. Based on the achieved level of profitability, the company now comfortably compares with JSC Russian Railways and its international rail peers (*Table 2*).

As evident from the H108 financials (*Table 1*), KTZ is poised for another year of strong financial results in 2008. Fitch anticipates some slowdown in revenue growth in 2009-2010 amid the prevailing financial crisis. However, the agency expects the group to maintain its profitability in the low 20%s, with the potential for an increase from 2011 when state subsidies are expected to fully cover the passenger operating loss.

Cash Flow and Coverage

KTZ's improved profitability in 2005-2007 translated into solid cash flow generation, with CFO of KZT110.5bn (USD902m) in 2007. FCF has returned to positive territory since 2006 and reached KZT14.1bn (USD115m) in 2007.

This trend persisted in H108, with CFO of KZT53.6bn (USD446m) and positive FCF of KZT4.4bn (USD37.1m). Whilst Fitch expects KTZ to continue generating solid CFO, its FCF is likely to come under pressure again due to the intensive capex programme of KZT1,199.6bn (USD9.9bn) over 2008-2012 (*Chart 6*). The group intends to finance most of the investment programme (80%) with internally generated cash flow (underpinned by the expected tariff increases), and 19.5% with debt.

The investment programme is evenly split among rail infrastructure, locomotives and wagons. The largest portion of the capex (59%) is earmarked for modernisation and renewal of rail, rolling stock and locomotives, whereas 25% of the total capex is planned for repair and maintenance. The remaining portion (16%) is planned for other items, which, in Fitch's view, provides some flexibility for scaling down in the case of unfulfilled tariff increases.

Table 1: KTZ's Selected Financials, H108 versus H107

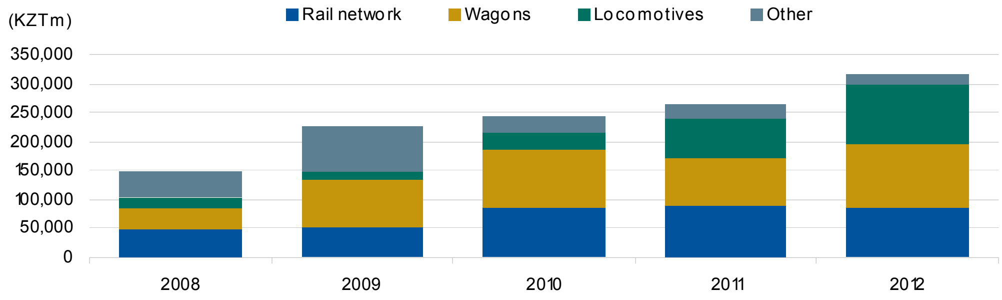
(KZTm)	H108	H107	YoY (%)
Revenue	233,525.8	203,355.9	14.8
Op. EBITDAR	65,906.1	53,421.0	23.4
EBITDAR margin (%)	28.2	26.3	
CFO	53,569.8	55,032.2	-2.7
FCF	4,448.8	8,054.9	
EBITDA/gross interest expense (x)	15.3	12.3	
Gross debt	124,531.0	124,418.4	0.1
Cash	103,318.0	97,319.2	6.2
Net debt	21,213.0	27,099.2	-21.7
Gross leverage (x)	0.9	1.3	
Net leverage (x)	0.2	0.3	
Short-term debt	5,458.1	4,451.5	
Short-term debt/gross debt (%)	4.4	3.6	

Source: KTZ, Fitch

Another supporting factor for KTZ's cash flow generation is its conservative dividend policy, which provides for dividend payout of 10% of net income — reflecting the company's substantial investment needs. In 2007, KTZ paid 9% of net income in dividends.

The group posted strong coverage ratios in FY07. The net fixed-charge cover stood at 18.9x versus the median for its peers of 2.7x, and its EBITDA/gross interest expense ratio was 10.4x compared with the median figure of 5.3x for its peers.

Chart 6: KTZ's Capex Programme for 2008-2012



Source: KTZ

Debt and Leverage

Following the company's expansion, KTZ's gross debt increased five-fold in 2007 compared with 2003, to KZT124.4bn (USD1bn). At FYE07, most of the debt (82.2%) was unsecured following the USD800m Eurobond issue in 2006 (USD350m due in 2016 and USD450m due in 2011), which comprised 77.1% of gross debt. This resulted in the extension of the maturity profile, with short-term debt accounting for 4% of gross debt versus 64% in 2006, with most of the debt (83%) falling due after three years. At end-H108, gross debt remained unchanged at KZT124.5bn (USD1bn), with short-term debt accounting for its same fraction (4%). At end-9M08, most of KTZ's debt (93%) was located at the holding company level. The group intends to raise debt at both the holding and subsidiaries levels in the future.

Despite the rapid growth of debt, KTZ still remained underleveraged compared with its international rail peers. Gross leverage and net leverage stood at 1.3x and 0.3x, respectively, in 2007, and at 0.9x and 0.2x in H108, whereas median FY07 gross leverage and net leverage for the peer group were 4.6x and 4.1x, respectively. KTZ's pension-adjusted net leverage was also low, at 0.3x in 2007. In addition, KTZ has one of the highest CFO/gross debt ratios among its rail peers. The group's capital structure is conservative, with gross debt comprising only 17.6% of total capitalisation.

However, Fitch expects gross debt to rise in the next two to three years as the company intends to finance 19.5% of its intensive capex programme with debt. As a result, gross leverage is anticipated to fluctuate at around 2.0x, which still comfortably compares with its international rail peers. Given the current market conditions, the group plans to raise debt from both Kazakh and international development banks.

Furthermore, Fitch gains comfort from the fact that KTZ follows internal financial targets set by SamrukKazna, and financial covenants stipulated in the loan documents. The company is currently in compliance with the set targets and covenants listed below.

Internal financial targets include:

- Gross debt/EBITDA below 2.9x
- Net debt/net capitalisation below 0.4x
- EBIT/gross interest expense above 2.0x
- Current ratio above 1.0x

Table 2: KTZ's International Rail Peers

Issuer name	Long-Term IDR	Country	Revenue	Op. EBITDAR/ revenues (%)	CFO/ total adj .debt	Total adj. debt/op. EBITDAR (x)	Net adj debt/op. EBITDAR (x)	Total adj. debt/ total adj. capitalisation (%)	Net fixed charge cover (x)	Op. EBITDA/ gross int. exp. (x)
SNCF	AAA	France	24,767	10.0	7.8	9.7	8.8	80.3	1.6	5.1
Kowloon-Canton Railway Corporation	AA	Hong Kong	715	49.7	8.0	6.5	4.1	21.6	0.3	1.7
MTR Corporation Ltd	AA	Hong Kong	1,370	55.9	13.0	5.8	5.7	27.5	2.2	3.6
Central Japan Railway Company	AA-	Japan	15,579	42.8	14.7	5.1	5.1	78.6	3.1	4.8
East Japan Railway Company	AA-	Japan	27,009	32.0	11.0	5.0	4.9	72.7	2.6	6.2
West Japan Railway Company	A+	Japan	12,889	22.5	18.6	4.1	4.0	64.0	2.7	7.5
Norfolk Southern Corporation	BBB+	USA	9,432	40.0	24.3	2.5	2.5	49.6	4.9	7.4
Odakyu Electric Railway Co., Ltd.	BBB+	Japan	6,234	17.2	11.8	7.4	7.2	79.0	3.1	7.4
JSC Russian Railways	BBB+	Russia	33,340	29.3	193.0	0.5	0.4	8.8	19.5	25.8
FirstGroup Plc	BBB	UK	9,414	12.7	13.9	4.6	4.4	79.5	2.1	4.9
Stagecoach Group Plc	BBB	UK	3,469	13.9	33.0	2.6	2.3	88.8	5.9	5.3
CSX Corporation	BBB-	USA	10,030	35.6	20.1	3.0	2.8	55.6	4.4	7.5
Kazakhstan Temir Zholy	**BBB-**	**Kazakhstan**	**3,457**	**22.3**	**89.0**	**1.3**	**0.3**	**17.6**	**18.9**	**10.4**
Median			10,030	29.3	14.7	4.6	4.1	66.6	2.7	5.3
Mean			15,450	29.0	29.6	4.7	4.3	59.4	4.2	7.0

Source: Fitch

- (Net income + depreciation — (current assets excluding cash - current liabilities excluding short-term debt))/short-term debt above 1.0x

Financial covenants include:

- Gross debt/EBITDA below 2.5x
- Gross debt/equity below 0.4x
- EBIT/gross interest expense above 1.2x

KTZ demonstrated strong liquidity with a cash position of KZT97.3bn (USD809m), including cash and cash equivalents of KZT26.4bn (USD219.6m) and short-term investments (eg deposits of 3-12 months) of KZT70.9bn (USD589.4m), at FYE07 and of KZT103.3bn (USD861m) at end-H108. The cash position was sufficient to cover small short-term maturities in full at both FYE07 and end-H108. The company also has an available uncommitted credit line of USD20m from Citibank.

Under KTZ's risk management policy, the group keeps its deposits at national banks holding ratings of not lower than 'BB', and at the subsidiaries of the international banks in Kazakhstan with ratings not lower than 'BBB'. As at end-9M08, 69.8% of the group's total cash deposits were located at the three largest Kazakh banks — Halyk Bank ('BB'/Negative), BTA Bank ('BB'/Negative) and Kazkommertsbank ('BB'/Negative).

KAZAKHSTAN TEMIR ZHOLY

Financial Summary

	31 Dec 2007 KZTm IFRS Original	31 Dec 2006 KZTm IFRS Restated	31 Dec 2005 KZTm IFRS Original	31 Dec 2004 KZTm IFRS Original	31 Dec 2003 KZTm IFRS Original
INCOME STATEMENT					
Revenues	423,638.6	382,591.7	285,885.1	245,122.0	206,256.0
Revenue Growth	10.7	33.8	16.6	18.8	19.2
EBIT	42,249.1	45,392.6	-8,434.1	-8,829.0	15,773.0
Interest Expense Net of Interest Income	2,377.3	5,121.6	2,259.9	734.0	-707.0
Net Income	25,555.2	22,446.0	-17,232.8	-12,057.0	8,994.0
BALANCE SHEET					
Cash and Equivalents	97,319.2	85,969.6	8,455.9	13,570.0	18,176.0
Total Assets	856,340.1	801,046.4	671,636.7	646,576.0	574,144.0
Short-term Debt	4,451.5	4,420.1	41,995.0	9,158.0	11,125.0
Senior Long-Term Debt	119,966.9	128,533.4	23,433.8	24,783.0	12,344.0
Subordinated Debt	0.0	0.0	0.0	0.0	0.0
Total Debt	124,418.4	132,953.5	65,428.8	33,941.0	23,469.0
Common Equity	582,682.1	548,818.4	515,514.3	533,950.0	495,290.0
Off-Balance Sheet Debt	0.0	0.0	0.0	0.0	0.0
Total Adjusted Capitalisation	707,100.5	681,771.9	580,943.1	567,891.0	518,759.0
Total Adjusted Debt	124,418.4	132,953.5	65,428.8	33,941.0	23,469.0
Preferred Stock + Minority Interests	0.0	0.0	0.0	0.0	0.0
CASH FLOW					
Operating EBITDAR (Op. EBITDAR)	94,678.7	91,557.8	37,969.5	22,752.0	46,352.0
Cash Interest Paid, Net of Interest Received	5,352.0	5,610.4	2,594.3	986.0	903.0
Cash Tax Paid	1,454.0	4,941.1	6,147.9	5,829.0	11,267.0
Associate Dividends	0.0	0.0	0.0	0.0	0.0
Other Changes before Funds From Operations**	8,427.5	14,996.4	12,259.2	17,983.0	7,778.0
FUNDS FROM OPERATIONS	96,300.2	96,002.7	41,486.5	33,920.0	41,960.0
Working Capital	14,205.9	926.5	23,672.0	-5,713.0	10,358.0
CASH FLOW FROM OPERATIONS	110,506.1	96,929.2	65,158.5	28,207.0	52,318.0
Non-Operational Cash Flow*	-74.8	0.0	0.0	-451.0	-79.0
Capital Expenditure	94,092.9	75,400.5	90,608.2	58,302.0	59,915.0
Dividends Paid	2,244.6	0.0	1,147.2	0.0	0.0
FREE CASH FLOW	14,093.8	21,528.7	-26,596.9	-30,546.0	-7,676.0
Receipts from Asset Disposals	1,246.0	481.0	305.0	3,075.0	302.0
Business Acquisitions	0.0	73.2	682.6	0.0	0.0
Business Divestments	167.9	146.2	1,112.2	2,014.0	-179.0
Exceptional & Other Cash Flow Items	-3,219.0	-2,764.5	-1,248.4	6,826.0	0.0
NET CASH IN/OUTFLOW	12,288.7	19,318.2	-27,110.7	-18,631.0	-7,553.0
Equity Issuance/(Buyback)	0.0	0.0	0.0	0.0	0.0
FX movement	0.0	0.0	0.0	0.0	0.0
Other Items Affecting Cash Flow**	7,596.0	-9,329.2	-9,491.2	3,553.0	194.0
NET CASH FLOW AVAILABLE FOR FINANCING	19,884.7	9,989.0	-36,601.9	-15,078.0	-7,359.0
CLOSING NET DEBT	27,099.2	46,983.9	56,972.9	20,371.0	5,293.0
PROFITABILITY					
Op. EBITDAR/Revenues (%)	22.3	23.9	13.3	9.3	22.5
EBIT/Revenues (%)	10.0	11.9	-3.0	-3.6	7.6
FFO Return on Adjusted Capital (%)	14.9	15.2	7.6	6.1	8.3
CREDIT RATIOS					
Funds From Operations/Gross Interest Expense (x)	11.6	13.8	17.4	35.6	47.9
FFO Fixed Charge Cover (x)	11.6	13.8	17.4	35.6	47.9
Op. EBITDAR/Net Fixed Charges (x)	39.8	17.9	16.8	31.0	-65.6
Adjusted Leverage/FFO (x)	1.2	1.3	1.5	1.0	0.5
Total Adjusted Debt Net of Cash/Op. EBITDAR (x)	0.3	0.5	1.5	0.9	0.1
Total Adjusted (Recourse) Debt/Total Adjusted Capitalisation (%)	17.6	19.5	11.3	6.0	4.5

Off Balance sheet debt reflects 8 times gross rent expense plus off balance sheet debt with full/limited recourse.
* Includes Analyst Estimate
** Balancing Item

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	31 Dec 2007 KZTm IFRS Original	31 Dec 2006 KZTm IFRS Restated	31 Dec 2005 KZTm IFRS Original	31 Dec 2004 KZTm IFRS Original	31 Dec 2003 KZTm IFRS Original
Summary Balance Sheet					
ASSETS					
Cash and Marketable Securities	97,319.2	85,969.6	8,455.9	13,570.0	18,176.0
Accounts Receivable/Trade Debtors	4,316.2	4,357.0	4,696.1	6,905.0	8,089.0
Inventory	19,487.6	16,429.7	18,419.1	21,711.0	24,510.0
Other Current Assets	24,618.7	34,343.2	31,015.7	33,340.0	34,231.0
Property, Plant & Equipment	694,931.3	644,701.7	590,137.4	547,365.0	482,145.0
Intangible Assets	2,573.8	1,070.0	1,129.6	598.0	215.0
Other Non-current Assets	13,093.3	14,175.2	17,782.9	23,087.0	6,778.0
TOTAL ASSETS	**856,340.1**	**801,046.4**	**671,636.7**	**646,576.0**	**574,144.0**
LIABILITIES					
Short-term Debt (inc. CPLTD)	4,451.5	4,420.1	41,995.0	9,158.0	11,125.0
Accounts Payable/Trade Creditors	30,508.6	28,310.7	30,139.6	17,954.0	26,611.0
Provisions	72,977.1	53,952.9	31,074.0	28,473.0	12,503.0
Other Short-term Liabilities	45,753.9	37,010.9	29,480.0	32,258.0	16,271.0
Other Long-term Liabilities	0.0	0.0	0.0	0.0	0.0
Long-term Secured Debt	18,819.6	21,566.9	14,260.9	9,687.0	12,344.0
Long-term Unsecured Debt	101,147.3	106,966.5	9,172.9	15,096.0	0.0
TOTAL LIABILITIES	**273,658.0**	**252,228.0**	**156,122.4**	**112,626.0**	**78,854.0**
EQUITY					
Minority Interest/Minorities	0.0	0.0	0.0	0.0	0.0
Equity Capital & Reserves	582,682.1	548,818.4	515,514.3	533,950.0	495,290.0
TOTAL LIABILITIES & EQUITY	**856,340.1**	**801,046.4**	**671,636.7**	**646,576.0**	**574,144.0**
Adjusted Gross Debt	**124,418.4**	**132,953.5**	**65,428.8**	**33,941.0**	**23,469.0**
Debt Schedule					
DEBT PRIORITY					
Lease Liabilities	4,563.6	4,202.5	0.0	0.0	0.0
Secured	17,580.3	20,745.9	14,260.9	9,687.0	12,344.0
Unsecured	102,274.5	108,005.1	51,167.9	24,254.0	6,832.0
Convertible	0.0	0.0	0.0	0.0	4,293.0
Subordinated	0.0	0.0	0.0	0.0	0.0
Total Debt	**124,418.4**	**132,953.5**	**65,428.8**	**33,941.0**	**23,469.0**
Off-Balance Sheet Debt	0.0	0.0	0.0	0.0	0.0
Total Adjusted Debt	**124,418.4**	**132,953.5**	**65,428.8**	**33,941.0**	**23,469.0**
Non-recourse + Equity Hybrid Component	0.0	0.0	0.0	0.0	0.0
Total Adjusted Debt with Equity Credit	**124,418.4**	**132,953.5**	**65,428.8**	**33,941.0**	**23,469.0**
Adjusted Liabilities~~	**124,418.4**	**132,953.5**	**65,428.8**	**33,941.0**	**23,469.0**
DEBT SOURCE					
Bank	23,911.2	27,639.3	65,428.8	33,941.0	19,176.0
Capital Markets	95,943.6	101,111.7	0.0	0.0	4,293.0
Other	4,563.6	4,202.5	0.0	0.0	0.0
TOTAL DEBT	**124,418.4**	**132,953.5**	**65,428.8**	**33,941.0**	**23,469.0**
DEBT MATURITY					
Less than 1 Year	4,451.5	4,420.1	41,995.0	9,158.0	11,125.0
1 To 2 Years	3,959.3	3,219.6	2,724.4	2,794.0	725.0
2 To 5 Years	66,880.5	70,780.7	8,340.2	8,482.0	0.0
More than 5 Years	49,127.1	54,533.1	12,369.2	13,507.0	11,619.0
TOTAL DEBT	**124,418.4**	**132,953.5**	**65,428.8**	**33,941.0**	**23,469.0**
Unrestricted Cash & Deposits	97,319.2	85,969.6	8,455.9	13,570.0	18,176.0
CURRENT DEBT NET OF CASH	**-92,867.7**	**-81,549.5**	**33,539.1**	**-4,412.0**	**-7,051.0**
TOTAL DEBT NET OF CASH	**27,099.2**	**46,983.9**	**56,972.9**	**20,371.0**	**5,293.0**
TOTAL ADJUSTED DEBT NET OF CASH	**27,099.2**	**46,983.9**	**56,972.9**	**20,371.0**	**5,293.0**
Adjusted Liabilities Net of Cash	**27,099.2**	**46,983.9**	**56,972.9**	**20,371.0**	**5,293.0**
Restricted Cash & Deposits	0.0	0.0	0.0	209.0	0.0

~ includes Restricted Cash
~~ Total Adjusted Debt with Equity Credit plus Debt-like Pref. Stock

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Summary Income Statement

	31 Dec 2007 KZTm IFRS Original	31 Dec 2006 KZTm IFRS Restated	31 Dec 2005 KZTm IFRS Original	31 Dec 2004 KZTm IFRS Original	31 Dec 2003 KZTm IFRS Original
SUMMARY INCOME STATEMENT					
Revenue*	423,638.6	382,591.7	285,885.1	245,122.0	206,256.0
Cost of Goods Sold	328,959.9	291,033.9	247,915.6	222,370.0	159,904.0
GROSS PROFIT	**94,678.7**	**91,557.8**	**37,969.5**	**22,752.0**	**46,352.0**
Selling, Distribution & Administrative Expenses	0.0	0.0	0.0	0.0	0.0
Other Operating Expenditure**	0.0	0.0	0.0	0.0	0.0
Presentational only: L-T Rentals (incl. in SG&A above)	0.0	0.0	0.0	0.0	0.0
Operating EBITDAR	**94,678.7**	**91,557.8**	**37,969.5**	**22,752.0**	**46,352.0**
Depreciation & Amortisation	49,791.9	45,213.1	43,953.8	32,604.0	30,591.0
Non-recurring, non-operational and non-recourse income***	214.0	51.3	-5.2	251.0	-594.0
Associate Income/Loss	333.7	390.9	-308.8	161.0	190.0
Other Income/Expense	-3,185.4	-1,394.3	-2,135.8	611.0	416.0
EBIT	**42,249.1**	**45,392.6**	**-8,434.1**	**-8,829.0**	**15,773.0**
Interest Income	6,716.2	2,393.5	275.3	246.0	1,601.0
Interest Expense	9,093.5	7,515.1	2,535.2	980.0	894.0
Non-interest Financial Income/Charges	5,814.8	2,934.4	-994.6	0.0	0.0
PBT	**45,686.6**	**43,205.4**	**-11,688.6**	**-9,563.0**	**16,480.0**
Taxation	20,131.4	20,759.4	5,544.2	2,494.0	7,486.0
Minorities	0.0	0.0	0.0	0.0	0.0
NET INCOME	**25,555.2**	**22,446.0**	**-17,232.8**	**-12,057.0**	**8,994.0**
Extraordinary Items/Accounting Changes	0.0	0.0	0.0	0.0	0.0
NET INCOME AFTER EXTRAORDINARY ITEMS (before dividends)	25,555.2	22,446.0	-17,232.8	-12,057.0	8,994.0

Summary Cash Flow

	31 Dec 2007 KZTm IFRS Original	31 Dec 2006 KZTm IFRS Restated	31 Dec 2005 KZTm IFRS Original	31 Dec 2004 KZTm IFRS Original	31 Dec 2003 KZTm IFRS Original
SUMMARY CASH FLOW					
Operating EBITDAR	**94,678.7**	**91,557.8**	**37,969.5**	**22,752.0**	**46,352.0**
Cash Interest Paid, Net of Interest Income	5,352.0	5,610.4	2,594.3	986.0	903.0
Cash Tax Paid	1,454.0	4,941.1	6,147.9	5,829.0	11,267.0
Associate Dividends	0.0	0.0	0.0	0.0	0.0
Other Changes before Funds From Operations****	8,427.5	14,996.4	12,259.2	17,983.0	7,778.0
FUNDS FROM OPERATIONS	**96,300.2**	**96,002.7**	**41,486.5**	**33,920.0**	**41,960.0**
Working Capital	14,205.9	926.5	23,672.0	-5,713.0	10,358.0
CASH FLOW FROM OPERATIONS	**110,506.1**	**96,929.2**	**65,158.5**	**28,207.0**	**52,318.0**
Non-Operational Cash Flow***	-74.8	0.0	0.0	-451.0	-79.0
Capital Expenditure	94,092.9	75,400.5	90,608.2	58,302.0	59,915.0
Dividends Paid	2,244.6	0.0	1,147.2	0.0	0.0
FREE CASH FLOW	**14,093.8**	**21,528.7**	**-26,596.9**	**-30,546.0**	**-7,676.0**
Receipts from Asset Disposals	1,246.0	481.0	305.0	3,075.0	302.0
Business Acquisitions	0.0	73.2	682.6	0.0	0.0
Business Divestments	167.9	146.2	1,112.2	2,014.0	-179.0
Exceptional & Other Cash Flow Items	-3,219.0	-2,764.5	-1,248.4	6,826.0	0.0
NET CASH IN/OUTFLOW	**12,288.7**	**19,318.2**	**-27,110.7**	**-18,631.0**	**-7,553.0**
Equity Issuance/(Buyback)	0.0	0.0	0.0	0.0	0.0
FX movement	0.0	0.0	0.0	0.0	0.0
Other Items Affecting Cash Flow****	7,596.0	-9,329.2	-9,491.2	3,553.0	194.0
NET CASH FLOW AVAILABLE FOR FINANCING	**19,884.7**	**9,989.0**	**-36,601.9**	**-15,078.0**	**-7,359.0**
OPENING TOTAL DEBT NET OF CASH	**46,983.9**	**56,972.9**	**20,371.0**	**5,293.0**	**-2,066.0**
Net Debt Increase/(Decrease)	-19,884.7	-9,989.0	36,601.9	15,078.0	7,359.0
CLOSING TOTAL DEBT NET OF CASH	**27,099.2**	**46,983.9**	**56,972.9**	**20,371.0**	**5,293.0**

* Net of Sales, Royalty & Other Operational Taxes
** Excludes Depreciation & Amortisation
*** Analyst Estimate
**** Balancing Item

KAZAKHSTAN TEMIR ZHOLY

Ratio Analysis

	31 Dec 2007 KZTm IFRS Original	31 Dec 2006 KZTm IFRS Restated	31 Dec 2005 KZTm IFRS Original	31 Dec 2004 KZTm IFRS Original	31 Dec 2003 KZTm IFRS Original
EARNINGS/PROFITABILITY					
Revenue Growth (%)	10.7	33.8	16.6	18.8	19.2
Gross Profit/Revenues (%)	22.3	23.9	13.3	9.3	22.5
Op. EBITDAR/Revenues (%)	22.3	23.9	13.3	9.3	22.5
EBIT/Revenues (%)	10.0	11.9	-3.0	-3.6	7.6
Pre-Tax Profit/Revenues (%)	10.8	11.3	-4.1	-3.9	8.0
Profit after tax/Revenues (%)	6.0	5.9	-6.0	-4.9	4.4
Effective Tax Rate (%)	44.1	48.0	-47.4	-26.1	45.4
Profit after tax/Average Equity (%)	8.1	8.1	-2.2	-1.9	3.3
Return on Average Assets (%)	4.2	4.1	-2.2	-1.8	1.8
FFO Return on Adjusted Capital (%)	14.9	15.2	7.6	6.1	8.3
Free Cash Flow Margin (%)	3.3	5.6	-9.3	-12.5	-3.7
COVERAGES					
FFO/Gross Interest Expense and Preferred Dividends (x)	11.6	13.8	17.4	35.6	47.9
FFO Fixed Charge Cover (x)	11.6	13.8	17.4	35.6	47.9
(Op. EBITDAR-Capex)/Gross Fixed Charges(x)	0.1	2.2	-20.8	-36.3	-15.2
Op. EBITDAR/Net Fixed Charges (x)	39.8	17.9	16.8	31.0	-65.6
FFO/Interest Expense Net of Interest Income (x)	41.5	19.7	19.4	47.2	-58.3
Free Cash Flow Debt Service Coverage (x)	1.7	2.4	-0.5	-2.9	-0.6
Net Fixed Charges Cover (x)	18.9	9.0	-2.6	-13.4	-22.3
LEVERAGE					
Total Adjusted Debt/Op. EBITDAR (x)	1.3	1.5	1.7	1.5	0.5
Total Adjusted Debt Net of Cash/Op. EBITDAR(x)	0.3	0.5	1.5	0.9	0.1
Adjusted Liabilities Net of Cash/Op. EBITDAR (x)	0.3	0.5	1.5	0.9	0.1
Adjusted Net Leverage/FFO (x)	0.3	0.5	1.3	0.6	0.1
Adjusted Leverage/FFO (x)	1.2	1.3	1.5	1.0	0.5
Free Cash Flow/ Adjusted Liabilities (%)	11.3	16.2	-40.7	-90.0	-32.7
CFO/Total Debt Net of Cash (%)	407.8	206.3	114.4	138.5	988.4
CFO/Adjusted Liabilities Net of Cash (%)	407.8	206.3	114.4	138.5	988.4
Total Adjusted Debt/Total Adjusted Capitalisation (%)	17.6	19.5	11.3	6.0	4.5
FINANCIAL STRUCTURE					
Secured and Lease Debt/Total Debt (%)	17.8	18.8	21.8	28.5	52.6
Current Debt/Total Debt (%)	3.6	3.3	64.2	27.0	47.4
Off-Balance Sheet Debt/Total Adjusted Debt (%)	0.0	0.0	0.0	0.0	0.0
Total Debt Net of Cash/Tangible Equity (%)	4.7	8.6	11.1	3.8	1.1
PENSION ADJUSTED RATIOS					
Mixed Scheme Pension Liability	1,948.0	1,774.2	725.6	348.5	210.6
Pension Adjusted Net Leverage	0.3	0.5	1.5	0.9	0.1
Pension Adjusted Net Coverage	0.0	0.0	0.0	0.0	0.0
Pension Adjusted Net Coverage (Implied)	26.8	15.4	13.2	17.0	-196.7
Implied Interest Cost	0.0	0.0	0.0	0.0	0.0
Pension Adjusted Gross Coverage	0.0	0.0	0.0	0.0	0.0
Pension Adjusted Gross Coverage (Implied)	26.8	15.4	13.2	17.0	-196.7
WORKING CAPITAL CYCLE					
Average Inventory Processing Period (days)	19.9	21.9	29.5	37.9	46.0
Average Receivables Collection Period (days)	3.7	4.3	7.4	11.2	13.0
Gross Cash Cycle (days)	23.7	26.2	36.9	49.1	58.9
Average Payables Payment Period (days)	32.6	36.7	35.4	36.6	39.9
Cash Conversion Cycle (days)	-9.0	-10.5	1.5	12.5	19.1
ADDITIONAL INFORMATION					
Depreciation	49,791.9	45,213.1	43,953.8	32,604.0	30,591.0
Amortisation	0.0	0.0	0.0	0.0	0.0
Capital Expenditure/Depreciation (x)	1.9	1.7	2.1	1.8	2.0
CFO/Capital Expenditure (x)	1.2	1.3	0.7	0.5	0.9
Interest Capitalised	0.0	0.0	0.0	0.0	0.0
Hire/Lease/Rent Costs for Current Assets	0.0	0.0	0.0	0.0	0.0
Hire/Lease/Rent Costs for Long-term Assets	0.0	0.0	0.0	0.0	0.0
Contingent Liabilities	0.0	0.0	0.0	0.0	0.0
Operating Exceptionals in Operating Costs	0.0	0.0	0.0	0.0	0.0
Staff cost/Revenues (%)	29.3	28.1	29.9	31.0	26.8
R&D (net)/Revenues (%)	0.0	0.0	0.0	0.0	0.0