

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 4 May 2022¹

KAZAKHSTAN

KTZ RESTRUCTURING BONDS

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

As permitted by paragraph 2.6 of Section III of the Access to Information Policy, disclosure of this Board Report was deferred.

TABLE OF CONTENTS

	Page
TABLE OF CONTENTS	2
ABBREVIATIONS / CURRENCY CONVERSIONS	3
PRESIDENT’S RECOMMENDATION.....	4
BOARD DECISION SHEET	5
ADDITIONAL SUMMARY TERMS FACTSHEET	6
1. STRATEGIC FIT AND KEY ISSUES.....	7
1.1 STRATEGIC CONTEXT	7
1.2 TRANSITION IMPACT	9
1.3 ADDITIONALITY.....	11
1.4 SOUND BANKING - KEY RISKS.....	12
2. MEASURING / MONITORING SUCCESS.....	13
3. KEY PARTIES.....	14
3.1 BORROWER / INVESTEE COMPANY	14
3.2 GUARANTORS	14
4. MARKET CONTEXT.....	14
5. FINANCIAL / ECONOMIC ANALYSIS	16
5.1 FINANCIAL PROJECTIONS	16
5.2 SENSITIVITY ANALYSIS	16
5.3 PROJECTED PROFITABILITY FOR THE BANK.....	16
6. OTHER KEY CONSIDERATIONS.....	16
6.1 ENVIRONMENT	16
6.2 INTEGRITY	17
ANNEXES TO OPERATION REPORT	18
ANNEX 1 - TRANSITION IMPACT SCORING CHART.....	19
ANNEX 2 – SHAREHOLDING STRUCTURE.....	20
ANNEX 3 – TARIFFS AND REGULATORY ENVIRONMENT.....	21
ANNEX 4 – HISTORICAL FINANCIAL STATEMENTS.....	22
ANNEX 5 – GREEN ASSESSMENTS.....	23
ANNEX 6 – THE MIDDLE CORRIDOR MAP	24

ABBREVIATIONS / CURRENCY CONVERSIONS

AIX	Astana International Exchange
CAREC	Central Asia Regional Economic Cooperation
CHF	Swiss Franc
CP	Condition Precedent
CPI	Consumer Price Index
CREM	Committee for Regulation of Natural Monopolies
GDP	Gross Domestic Product
DSCR	Debt Service Cover Ratio
EUR	Euro
E&S	Environmental and Social
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings before Interest, Tax, Depreciation and Amortisation
EHS	Environmental, Health and Safety
ESAP	Environmental and Social Action Plan
FX	Foreign Exchange
ILO	International Labour Organization
IOSH	Institution of Occupational Safety and Health
IRS	Interest Rate Swap
JSC	Joint Stock Company
KZT	Kazakhstani Tenge
KTZ	National Company “Kazakhstan Temir Zholy” JSC
NOSS	National Occupational Skills Standards
NQF	National Qualifications Framework
MNPI	Material Non-Public Information
OHS	Occupational Health and Safety
RUB	Russian Rouble
SOE	State-Owned Enterprise
SOL	Single Obligor Limit
TEU	Twenty-foot Equivalent Unit (container capacity)
TC	Technical Cooperation
TITR	Trans-Caspian International Transport Route
TI	Transition Impact
TRACECA	Transport Corridor Europe Caucasus Asia
TRN	Trunk Railway Network
TVET	Technical and Vocational Education and Training
USD	United States Dollar

CURRENCY CONVERSIONS

(31 March 2022)

1 USD = 470 KZT

1 EUR = 510 KZT

1 USD = 93.5 RUB

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of National Company “Kazakhstan Temir Zholy” JSC (the “Company”), a joint stock company incorporated in Kazakhstan, are submitted for consideration by the Board of Directors.

The facility will consist of an investment of up to EUR 100 million equivalent in Eurobonds to be issued by the Company. The operation will support implementation of the Company’s crisis response measures, including reorganisation of its transit freight operations and improvements in operational and financial resilience.

The project will promote the following transition impact qualities: (i) “*integrated*”, on the back of operational and capacity improvements to develop the Middle Corridor, supported by the liquidity provision and freed up capital, and (ii) “*inclusive*”, by promoting access to market-relevant skills for young people in the transport and logistics industry. The project will achieve this by supporting the Company to introduce and implement National Occupational Skills Standards (NOSS) for two occupations in Logistics to reflect the current labour market requirements for skills. It will also introduce new or improved accredited learning programmes in partnership with the Academy of Logistics and Transport on the basis of the two new NOSS.

I am satisfied that the operation is consistent with the Bank’s Strategy for Kazakhstan, the Transport Sector Strategy, the Equality of Opportunity Strategy 2021-2025, the Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed investment substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

Kazakhstan – Project Zenith - DTM 53279	
Transaction / Board Decision	Board approval ² is sought for a bond investment of up to EUR 100 million equivalent in favour of National Company “Kazakhstan Temir Zholy” JSC (KTZ or the “Company”). The Eurobond will allow KTZ to refinance its maturing financial debt and restore liquidity following KTZ’s decision to cut ties with Russian sanctioned banks, as well as to free up capital to finance modernization of the Middle Corridor infrastructure.
Client	KTZ is a vertically-integrated holding company that manages railway infrastructure and operating freight and passenger train services in Kazakhstan. KTZ owns and operates the railway network of 16,000 km in total length, more than 1,720 locomotives, 47,300 freight and 2,300 passenger wagons. KTZ is fully state-owned through Sovereign Wealth Fund “Samruk-Kazyna” JSC (Samruk-Kazyna). In 2021 KTZ reported revenues of USD 3.12 billion (EUR 2.82 billion) and EBITDA of USD 906 million (EUR 820 million).
Main Elements of the Proposal	<p><u>Transition impact:</u></p> <ul style="list-style-type: none"> - <i>Integrated (primary):</i> capacity improvement on the East-West corridor to mitigate the effect of sanctions against Russia on freight transiting Kazakhstan, in an effort and to support the Middle Corridor development, supported by the liquidity provision and freed up capital; - <i>Inclusive (secondary):</i> promote access to skills for young people in the transport and logistics industry by introducing two new National Occupational Skills Standards (NOSS) and new or improved accredited learning programmes in partnership with the Academy of Logistics and Transport on the basis of the developed NOSS. <p><u>Additionality:</u> (i) financing structure and (ii) risk mitigation.</p> <p>In the current market environment EBRD’s participation will be critical for KTZ to reach expected subscription level and support investors’ confidence.</p> <p><u>Sound banking:</u> due diligence confirmed that the project complies with EBRD’s sound banking requirements.</p>
Key Risks	<ul style="list-style-type: none"> - <i>Knock-on effects of the Russia sanctions on Kazakhstan’s economy and KTZ’s freight operations.</i> To date the sanctions have had a limited ripple effect on KTZ and Kazakhstan in general. Most of the Europe-Asia container transit is operated using parts of the Russian railway network. KTZ plans to gradually redirect freight traffic to the Middle Corridor to reduce this dependence in the medium- to long-term (currently the Middle Corridor accounts for 3-5 per cent of total volume). - <i>Economic viability and infrastructure bottlenecks of the Middle Corridor.</i> In the absence of Russian rail routes, the Middle Corridor provides one of the few alternatives for China-Europe rail freight transportation. In March 2022 Kazakhstan reached an agreement with Azerbaijan and Georgia to create a joint venture to develop the route and provide multimodal transport and logistics services.
Strategic Fit Summary	The project is consistent with the Bank’s Transport Sector Strategy and specifically with the strategic direction to support integration and optimisation of logistic operations and facilitate creation of linkages to key transport networks and corridors, including CAREC and TRACECA. It is also in line with the Bank’s Strategy for Kazakhstan as enhancing inter-regional connectivity and international integration of the country by exploring opportunities with KTZ to finance modernization of its railway infrastructure, fleet renewal and other priority investments and restructuring needs of the Company. The project complies with the Bank’s Equality of Opportunity Strategy and the Strategy for the Promotion of Gender Equality.

² Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	<p>The Bank was asked to participate as an investor in the upcoming Eurobond placement by KTZ, an existing client.</p> <p>The total amount of the issue is expected to be around EUR 500 million (or its equivalent in USD) and the bonds will be listed on the London Stock Exchange and Astana International Exchange (AIX). [REDACTED].</p> <p>Based on early consultations and feedback from investors, the Company has decided to issue bonds in EUR or USD considering relatively high correlation between these currencies and CHF as the railway tariffs for transit freight are quoted in CHF and more than third of the bond proceeds will be used to repay KTZ's maturing CHF bonds.</p>
Existing Exposure	Total amount debt: EUR 69.5 million [REDACTED]
Maturity	Eurobond maturity: 3 years [REDACTED]
Use of Proceeds	[REDACTED] The use of EBRD proceeds will be documented in a Side Agreement and verified through KTZ's financial statements and reporting.
Financing Plan	[REDACTED]
Conditions to Subscription	Signing of the Side Agreement between the Bank and KTZ to reflect transition impact (TI) and use of proceeds covenants and the Bank's other standard (including reporting) requirements [REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	The issue will be guaranteed by KTZ's main subsidiaries: Kaztermirtrans JSC, KTZ Freight Transportation JSC and KTZ Express JSC.

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

The railway system plays a particularly important role in freight transportation in Kazakhstan, comprising 47 per cent of total freight turnover by all modes of transportation. Due to the country's geographical characteristics, such as its vast territory, landlocked position, low population density, and relative locations of natural resources, centres of economic activity and its economic ties with Europe, a key trading partner, Kazakhstan's economy is heavily reliant on freight transportation by rail.

The development of transit rail routes between Europe and Asia has been a major strategic priority of Kazakhstan since its independence. Over the past several years, the country, directly or through KTZ, has made extensive investments to modernise its railway infrastructure, rolling stock fleet and various transit-related logistics and infrastructure projects. This includes establishing second railway crossing at the China-Kazakhstan border (Altynkol-Khorgos), to increase competitiveness of existing rail transportation routes.

In recent years, freight transportation volumes by rail on the China-Europe direction have been growing rapidly. This demonstrates the competitiveness of rail/multimodal corridors compared with the currently dominant maritime routes which currently account for more than 90 per cent of total China-Europe trade volumes, standing at almost EUR 700 billion in 2021³. In addition, in the past two years the Covid-19 pandemic has disrupted sea port operations globally, causing massive shipping delays and leading to higher sea freight costs for transportation of goods. This urged many freight forwarders to explore rail routes as an alternative. Overall, rail container transportation volumes between China and Europe have grown by 100 per cent in 2021 compared with 2019.

Historically, the Northern Corridor (China-Kazakhstan-Russia-Belarus-Europe) has been the most utilised rail corridor. In 2021 this route accounted for more than 90 per cent of total container volumes shipped from China to Europe by rail. An alternative rail route, the Middle Corridor, avoids Russian territories, and passes through Kazakhstan, the Caspian Sea, Azerbaijan, Georgia and then to Turkey or the Black Sea. In 2021 less than 5 per cent of all rail containers between China and Europe have been shipped through the Middle Corridor. This route has been less competitive mainly because of the more complex logistics involving multiple countries, reloading processes and the Caspian Sea crossing in-between, resulting in higher costs and longer transit times.

However, demand for transportation of cargo through the Middle Corridor has increased since Russia's war on Ukraine and subsequent sanctions imposed by the West against Russia. A growing number of shippers are exploring the Middle Corridor to avoid transit through Russian territories and using services of Russian Railways, a sanctioned entity. As the military conflict continues and concerns over further shipment and supply chain disruptions along the Northern Corridor are growing, the Middle

³ [China-EU - international trade in goods statistics - Statistics Explained \(europa.eu\)](https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&plugin=1&code=sdg13_10_1_2017_2018_2019_2020_2021&plugin=1)

Corridor is emerging as one of the very few viable alternatives for shippers who wish to avoid sending their shipments through Russia due to potential payment difficulties or fear of sanction breaches.

In these circumstances, it will be critical for KTZ to allocate capital towards the modernization of the Middle Corridor infrastructure to capture additional freight volumes and benefit from the reorientation of logistics operations away from the Russian rail routes. This will need to be accompanied by organizational and operational changes, as necessary, to ensure the Middle Corridor serves the rising demand and needs of freight forwarders. The project will help the Company to repay its financial debt, maintain adequate liquidity and free up capital to finance much needed investments and allow KTZ to address some of the major infrastructure and operational bottlenecks along the Middle Corridor.

A key impediment to develop the Middle Corridor is the current state of infrastructure assets. Railway links between Dostyk and Aktau/Kuryk ports need to be improved as a large portion of the network is single-track and non-electrified resulting in significant bottlenecks that limit throughput and speed of transport operations. To alleviate the pressures along the Middle Corridor and increase throughput at the Dostyk dry port, the government intends to complete the modernization and electrification of the Dostyk-Moiynty railway section (836 km) by end-2025. As the project will free up KTZ's capital for investments and accompanying operational improvements, completion of this section and associated increase in handling capacity at Dostyk border crossing point will be covenanted in the Side Agreement with KTZ.

The Eurobond will have a maturity period of 3 years and will be used as a bridge instrument to close the mid-term liquidity gap. Subsequently, the Company plans to refinance the Eurobond by issuing long-term local currency bonds following market stabilisation and reorganization of the Company's freight operations.

The Bank's support to KTZ will be crucial considering the current market conditions as foreign investors are becoming increasingly concerned with potential spill over effects of the Russia sanctions on Kazakhstan's economy.

Apart from infrastructure modernisation and financial restructuring needs, availability of skills in certain areas of multimodal logistics is equally important for a sustainable growth KTZ's freight operations. According to the survey on partnership between employers, educational institutions in railway and road transport carried out by ILO and KazLogistics Union of Transport Workers in 2021, out of 28 participating companies, only 14 employers find graduates' skills as 'satisfactory', and 13 – as 'rather satisfactory'.

The government of Kazakhstan is developing a National Qualifications Framework (NQF) that includes the development of the National Occupational Skills Standards (NOSS). The introduction of skills standards that are comparable and recognisable at a national level, can increase the employability of young people, the ability of companies to recruit based on transparent skills frameworks and requirements, and it can support the capacity of Technical and Vocational Education and Training (TVET) and Higher Education system to prepare young people with the skills that employers need.

The project will address skills mismatches through improvement of the NQF and by supporting the ongoing policy dialogue with the Ministry of Labour and Social

Protection, Ministry of Industry and Infrastructure Development to target improved access for youth to accredited learning programmes that are in line with the new NOSS.

The project aligns well with the Transport Sector Strategy, according to which the Bank will support investment in rehabilitation and expansion of national and regional rail infrastructure to improve access to markets and services, and create linkages to key transport networks and corridors, including CAREC and TRACECA. The Bank will also encourage SOEs to finance investment on a non-sovereign, commercial basis to reduce reliance on state budgets.

The project is consistent with the Bank's strategic objective for Kazakhstan to address, through projects and policy dialogue, when the opportunity arises, remaining skill mismatches that continue to inhibit the competitiveness of both the public and private sectors in Kazakhstan. The project will also facilitate enhancement of Kazakhstan's inter-regional connectivity and international integration, by supporting KTZ's plans to finance its priority investments and restructuring needs.

The operation is consistent with the following Sustainable Development Goals: SDG 4: Quality Education, SDG 8: Decent Work and Economic Growth, SDG 9: Industry, Innovation and Infrastructure, and SDG 10: Reduced Inequalities.

1.2 TRANSITION IMPACT

In light of the ongoing military conflict in Ukraine and sanctions on Russia, further expansion of the Middle Corridor will be key for the realization of Kazakhstan's strategic objective to develop its transit potential by leveraging its geographic location between China and Europe.

The project will support the Company's plans to implement operational and financial restructuring and address the current infrastructure bottlenecks of the Middle Corridor by freeing up capital for much needed investments and operational improvements. In the current market environment EBRD's participation in the Eurobond issuance will be critical to restore confidence of foreign investors who remain highly concerned with the potential impact of the Russian sanctions on Kazakhstan and KTZ's freight operations.

The planned financial restructuring through the bond issuance will allow KTZ to maintain a sufficient level of liquidity and working capital to deal with the potential operational and macroeconomic challenges. The project will also support KTZ in raising debt finance on commercial terms through international capital markets and reduce its dependence on state support in the form of soft loans or interest rate subsidies.

In addition to infrastructure gaps, challenges are identified with respect to skills and training in the industry. According to a recent survey: (i) the majority of employers note the key challenge of inadequate qualification of job applicants; (ii) employers lack experience and capacity in upgrading learning programmes in partnership with educational institutions; and (iii) there are skills gaps as a result of outdated learning programmes.

The project will support the Company to contribute to the development of the NQF and promote human capital in the transport and logistics sector through the development and introduction of two NOSS that reflect employers' skills needs. Moreover, the Company will also develop or upgrade two accredited learning programmes on the basis

of the new NOSS in close partnership with the Academy of Logistics and Transport and its TVET colleges, training [REDACTED] young people in logistics management and delivery. The new NOSS and learning programmes will cover jobs in logistics, which are vital for the Company's development of the Middle Corridor.

Primary Quality: Integrated

Obj. No.	Objective	Details
1.1	Specific soft measures to improve or expand infrastructure will be introduced and capacity increases will be benchmarked.	The project will support the restructuring of KTZ's operations towards the Middle Corridor, to mitigate the risks arising from the on-going war and to reap the benefits of developing this corridor. KTZ and its operations remain essential to ensure continued railway connectivity and trade along the East-West routes. The project will help the Company to complete the needed financial restructuring (liquidity stabilisation measures) and free up capital to support investments and operational improvements going forward. The Company will complete the modernisation and electrification of the Dostyk-Moiynty railway section by end-2025. This will alleviate the pressures along the Middle Corridor and to increase handling capacity significantly at the Dostyk border crossing.

Secondary Quality: Inclusive

Obj. No.	Objective	Details
2.1	The project will introduce a new, replicable and nationally accredited training programme improving skills for [REDACTED] people from the inclusion target group in partnership with (local) vocational schools or universities.	The Company is developing the Middle Corridor and invests in upgrading skills of the staff in logistics area in particular. To ensure relevance of local skills provision, the Company will develop or upgrade two nationally accredited training programmes for occupations in the logistics sector, on the basis of the new NOSS, with the support from the Bank and in close partnership with the Academy of Logistics and Transport and its TVET colleges in the regions. The new learning programmes will train at least 120 students of TVET colleges and/or universities studying Logistics and Transport.
2.2	The project will introduce improved policy practices (e.g. market relevant curricula).	Improving the workforces' technical and management skills in the logistics sectors remains a key barrier to economy-wide adaptation of the modern logistics technologies that are severely needed to take better advantage of improved infrastructure. With the Bank's successful experience of developing National Occupational Skills Standards (NOSS) in line with ongoing reforms and establishing the NQF in Kazakhstan, and in line with the Company's growing the Middle Corridor, the project will support the Company in developing at least two NOSSs in the Logistics sector. This will be achieved in partnership with Kazlogistics Union of Transport and Logistics Workers, educational institutions, the Ministry of Labour and Social Protection, Ministry of Industry and Infrastructure Development and Atameken National Chamber of Entrepreneurs. The

		developed NOSSs will reflect the labour market requirements, and shape professional education for the sector nationwide.
--	--	--

Risks to TI Delivery:

- Infrastructure bottlenecks of the other Middle Corridor countries (Georgia, Azerbaijan, Turkmenistan and Turkey) may reduce competitiveness of this route. Freight forwarders may not be willing to redirect their volumes from the Northern Corridor to the Middle Corridor due to its logistical complexity.

Mitigating factor: Infrastructure issues in other countries cannot be directly addressed by KTZ or the government of Kazakhstan. At the same time, the government and KTZ have been working closely with other Middle Corridor countries to enhance cooperation and increase transportation volumes for the benefit of all parties. In March 2022, legal and diplomatic work has started between Kazakhstan, Azerbaijan and Georgia to establish a joint venture to develop the corridor and provide multimodal, transport and logistics services.

- Despite the Bank's participation, the issuance may be substantially undersubscribed and KTZ may be required to scale down the issue amount to achieve the target pricing levels.

Mitigating factor: the EBRD's [REDACTED] participation will help to reach the required level of subscription given the planned tenor and pricing indicators. In case of substantially weak demand KTZ may re-consider its pricing range and offer a higher yield to investors.

1.3 ADDITIONALITY

Identified triggers	Description
A significant share (at least 30 per cent) of the project is for refinancing purposes.	The bond proceeds will be used to repay KTZ's current debt maturing within weeks of the planned issue. [REDACTED]
Eurobond issuance with no specific use of proceeds requirement (EBRD use of proceeds are the same as those of other investors in the bond).	This will be a publically traded Eurobond and the proceeds will be used for refinancing and working capital needs.

Additionality sources	Evidence of additionality sources
Financing structure: Crisis response: EBRD financing effectively bridges a financing gap due to adverse market conditions. Capital market: EBRD financing is expected to effectively 'close the funding gap' and allows carrying out a successful book-building process.	The economy of Kazakhstan has been hit first by the January protests across the country and then by the events in Ukraine and sanctions against Russia. Since mid-February the local currency has depreciated by 17 per cent against the USD. To avoid further weakening of KZT and reduce inflationary pressure the National Bank of Kazakhstan has increased its interest rate to 13.5 per cent from 10.25 per cent making it unattractive to borrow in KZT. In the current volatile market environment it would be challenging for KTZ to attract sufficient demand to ensure adequate pricing for the bonds. As evidenced by the increased credit spreads on sovereign bonds of Kazakhstan, investors have become concerned with consequences of the sanctions against Russia on

	Kazakhstan. Therefore, the Bank's participation is critical for KTZ to secure appropriate subscription level.
Risk mitigation: - EBRD's involvement in a debt capital market transaction provides comfort to other investors and further widens market participation.	Unlike many foreign institutional investors, the Bank has an extensive understanding of the local railway market and is able to adequately assess risks associated with the Company's operations.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Demand risk	Medium/ Medium	<p>The Company may not be able to redirect freight volumes from the Northern Corridor to the Middle Corridor.</p> <p><u>Risk mitigant:</u> In the absence of Russian rail routes, the Middle Corridor provides one of the few alternatives for China-Europe rail freight transportation. Certain types of goods (sensitive to transit time) cannot be transported by sea so the shippers will have to redirect some volumes to the Middle Corridor. In March 2022 Kazakhstan reached an agreement with Azerbaijan, Georgia and Turkey to create a joint venture to coordinate and facilitate transit operations. The project will facilitate further improvement of the corridor's capacity.</p>
Macro-economic risk	Low/ Medium	<p>Spill over effect of the Russian sanctions on Kazakhstan's economy and the railway sector. Further devaluation of KZT and slowdown of economic activity.</p> <p><u>Risk mitigant:</u> This is a [systemic] risk [REDACTED]. At the same time, Kazakhstan has relatively low public debt (some 25 per cent of GDP) and large foreign currency reserves in the National Fund which provide a significant buffer against external shocks.</p>
FX Risk	Medium/ Medium	<p>KTZ is exposed to foreign currency exchange rate risk due to some mismatch of currencies of KTZ's debt and revenues.</p> <p><u>Risk mitigant:</u> Based on the sensitivity analysis KTZ will be able to withstand substantial further devaluation (in line with the Bank's stress case rates) of the local currency against USD. In addition, some 25-30 per cent of KTZ's revenues from transit are tied to CHF (which has historical high correlation with EUR and USD), providing a natural hedge against sharp devaluation of KZT.</p>
Regulatory risk (uncertainty with tariffs)	Low/ Medium	<p>The government may be inclined to keep rail tariffs at unreasonably low levels [REDACTED].</p> <p><u>Risk mitigant:</u> Freight tariffs have steadily increased over the past few years (on average by 8 per cent p.a. in 2019-2021). These tariff growth rates are sufficient to maintain adequate profitability for KTZ: the EBITDA margin has remained at around 29 per cent 2019-2021.</p>
Refinancing/repayment risk	Medium/ Low	<p>KTZ may not be able to repay/refinance the Eurobond on or prior to its maturity (within 3 years).</p> <p><u>Risk mitigant:</u> The Company plans to issue long-term KZT bonds to refinance the Eurobond. Alternatively the Eurobond will be refinanced using a soft loan from Samruk-Kazyna.</p>

2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
Good financial and operational performance	Growth in revenues, increased EBITDA margin	[REDACTED]
Successful Eurobond issuance	The issue will be fully subscribed (with subscription level of at least 100 per cent)	[REDACTED]
Improved liquidity profile (as a result of refinancing)	Liquidity indicators to improve compared with 1 st half of 2022	[REDACTED]

Primary Quality: Integrated

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Physical capacity of the client modernised: length of railways	Railway section between Dostyk and MoiynTy will be modernised through construction of a second railway track	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Physical capacity of the client modernised: length of railways	Railway section between Dostyk and MoiynTy will be electrified	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Net increase in port infrastructure capacity: throughput	Handling capacity at Dostyk border crossing to increase	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Inclusive

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Tailored training programme developed and implemented	The Company will develop or upgrade two training programmes for occupations in the Logistics sector, on the basis of the new NOSS in close partnership with the Academy of Logistics and Transport and its TVET colleges in the regions.	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Recommended policy or strategy or regulatory framework/ standard agreed by relevant stakeholder(s)	The Company will develop at least two NOSS in the logistics sector in partnership with key stakeholders, reflecting updated labour market requirements.	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Number of youth enhancing their skills as a result of training	The project will support [REDACTED] youth access the new training programme focused on logistics management and delivery.	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER / INVESTEE COMPANY

National Company Kazakhstan Temir Zholy JSC (KTZ or the “Company”) is a vertically integrated state-owned holding company managing railway infrastructure and operating freight and passenger train services. The Company owns and operates the railway network of 16,000 km in total length, more than 1,720 locomotives, 47,300 freight and 2,300 passenger wagons. It plays a key role in the national transportation sector: its freight turnover accounts for 47 per cent of Kazakhstan’s total freight turnover by all modes of transport (excluding pipelines) and 84 per cent of railway passenger transportation. It also manages a number of transportation and logistics infrastructure assets on behalf of the state, including the Aktau seaport, the Khorgos International Centre of Boundary Cooperation, the Khorgos-Eastern Gates free economic zone. The Company’s turnover for 2021 equalled USD 3.12 billion, with EBITDA of USD 906 million.

KTZ’s credit ratings:

- S&P: BB/ Stable (affirmed on 9 November 2021)
- Moody's: Baa3/ Stable outlook (affirmed on 27 December 2021)
- Fitch: BBB- / Stable outlook (affirmed on 21 December 2021)

3.2 GUARANTORS

The Eurobond will be guaranteed by KTZ’s wholly-owned subsidiaries: Kaztemirtrans JSC (owner of KTZ’s freight wagons) and KTZ-Freight Transportation JSC (owner of KTZ’s locomotives and provider of freight transportation services). Please see Annex 1 for more information on these subsidiaries.

4. MARKET CONTEXT

KTZ has a natural operational monopoly of Kazakhstan’s mainline railway network (infrastructure services). It also maintains a dominant market position in the operation of locomotives (carrier services) and is one of the main providers of rolling stock for railway freight and passenger transportation services (rolling stock services).

The share of privately owned freight rolling stock has been increasing and was approximately 57 per cent in 2021. Private participation is limited to the ownership, leasing and operation of railcars and container platforms.

Freight rolling stock in Kazakhstan

	2014	2015	2016	2017	2018	2019	2020	2021
<i>KTZ share</i>	46%	45%	44%	42%	41%	39%	39%	43%
<i>Private share</i>	54%	55%	56%	58%	59%	61%	61%	57%

As of today KTZ owns around 47,000 freight wagons

In 2021, KTZ's freight turnover was 233 billion t-km, which is around half of the total freight turnover in Kazakhstan by all modes of transport excluding pipelines. The railway network's largest freight shippers are suppliers of commodities, chemicals, sodium carbonate and agricultural products. No single customer accounts for more than 10 per cent of KTZ's freight transportation revenue.

KTZ's transit traffic primarily originates on Russia - Central Asia/Iran and China - Russia/Europe destinations. Although there is no feasible competition for KTZ in Russia – Central Asia/Iran routes, the China – Russia/Europe route is primarily competing with maritime transportation and the Trans-Siberia railway route. Nevertheless, KTZ's share in railway transit of goods between China and Europe currently accounts for 80 per cent.

In 2021, the demand for rail freight between China and Europe grew considerably. The shipping volume on this direction was 707 thousand TEU (through Russia, Mongolia and Kazakhstan), with a year-on-year growth rate of 53 per cent, up from 2020's growth rate of 41 per cent. From 2016 to 2021, the annual number of China-Europe freight trains has increased nine-fold (from 1,702 to 15,183) with an average annual growth rate of 55 per cent.

In 2021 container transit through Kazakhstan reached 662 thousand TEU or 93 per cent of the total China-Europe container shipments by rail.

Container transit through Kazakhstan, in 000' TEU

	2018	2019	2020	2021
China-EU-China	311	348	518	662
Other directions	227	317	359	404
Total	537	665	876	1,066
<i>Growth</i>	-	24%	32%	22%

*In 2021 only 17.5 thousand TEU were transported through the Middle Corridor

Historically, the Northern Corridor (China-Kazakhstan-Russia-Belarus-Europe) has been the most intensive rail corridor between Asia and Europe. In 2021 this route accounted for more than 90 per cent of total container volumes shipped from China to Europe by rail.

Following the Russia-Ukraine conflict, the freight transportation via the Middle Corridor has increased by 218 per cent in the last month. The Middle Corridor is 2,000 km shorter compared with the Northern Corridor, has more favorable climate conditions and substantially shortens the travel time (only 15 days) compared with the sea route (45 days). It was launched in 2017 and accounted for only 300 TEU that year. In 2021 the transit volume reached 17.5 thousand TEU. See Annex 6 for the Middle Corridor map.

Furthermore, the Middle Corridor offers great opportunities for the cargo traffic in Asia so that the loads can reach Middle East, North Africa and Mediterranean region by benefiting from the port connections in Turkey.

KTZ will prioritise development of the Middle Corridor through investment in modernisation of its railway network, locomotive fleet, acquisition of container platforms, as well as expansion of the two main Caspian Sea ports – Aktau and Kuryk. Azerbaijan’s port of Baku is already well established and only 470 km from Aktau with shipping taking about 28 hours port to port. From there, freight re-joins rail links across the Caucasus, through Georgia and onto its just completed major Black Sea Port facility at Poti. There are also rail links along the planned Baku-Tbilisi-Kars (BTK) route to join Turkey’s national rail network.

In the long term, climate policy will be another critical factor affecting the sustainable growth of the China-EU rail corridors. The recently passed “Fit for 55⁴” package in the EU could facilitate further growth of rail freight volumes as a “greener” alternative to currently dominant sea routes.

Please refer to Annex 3 for information on railway tariffs and regulatory environment.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (ESP 2019). This is a capital market transaction with due diligence being limited to publicly available information. The proceeds of the new bonds would be used to refinance KTZ’s current bonds issued in 2014 for general corporate purposes, and are not envisaged to be directed at specific physical assets or any new CAPEX investments. Therefore, ESDD is focussed on assessing the risks and impacts associated with KTZ’s current E&S management systems, practices and compliance record and review of the risks associated with the current operations. This has been done through review of documentation and reporting which the client has produced on previous projects. Past annual E&S reporting from KTZ has been satisfactory. Overall, KTZ has capacity and capability to implement the Performance Requirements (PRs).

The Company proactively focusses its efforts on enhancing its ESG performance and aligning it in line with good international practice, supporting the move towards a low-carbon competitive economy and the wider use of the digitalisation. KTZ continuously works to improve its internal EHS capacity, enhance managerial leadership and overall

⁴ Commitment of the EU to cut emissions by at least 55 percent by 2030.

management of industrial safety, occupational health and safety practice and environmental protection. It considers safety as one of its primary objectives and is committed to Vision Zero in both its day-to-day operations and at top management level to reduce the number of accidents. Further corrective measures required at the corporate level to meet EBRD's PRs will be addressed through the Side Agreement.

KTZ's indicative anticipated capex programme for 2022-2026, to be financed mostly by KTZ's own capital, includes predominantly new rolling stock for passenger and freight transportation, incl. electrical trains, modernisation of the existing infrastructure as well as the development and construction of the train station complex in Nur-Sultan. To ensure that the risks associated with KTZ's current and future operations are adequately addressed, the Side Agreement will clearly specify that (i) after subscription, the Bank will require the Company to comply with the PRs, and (ii) any high risk projects or projects categorised "A" in line with EBRD's E&S Policy 2019 will not be financed through this bond refinancing. The Bank is not expecting to obtain the prospectus until end of April 2022. Paris Alignment and GET is not applicable to this project as there is no capex associated with the bond.

6.2 INTEGRITY

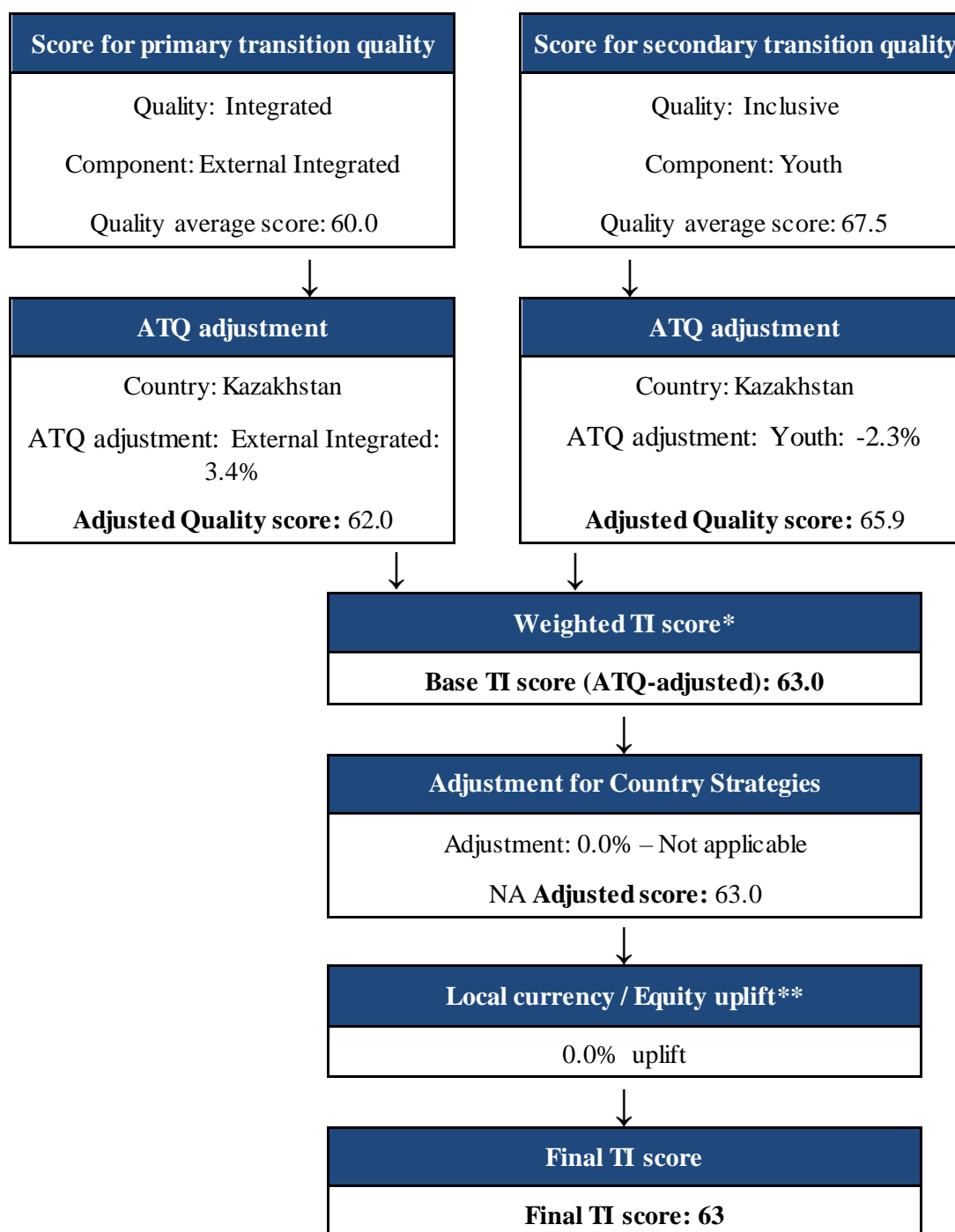
In conjunction with OCCO, updated integrity due diligence was undertaken on the Company, its shareholders, senior management and other relevant parties. [REDACTED] [I] t was concluded that it is sufficiently mitigated and therefore this project does not pose an unacceptable integrity or reputational risk to the Bank. The Company is a longstanding client of the Bank and the experience to date has been positive. [REDACTED].

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the project, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the project.

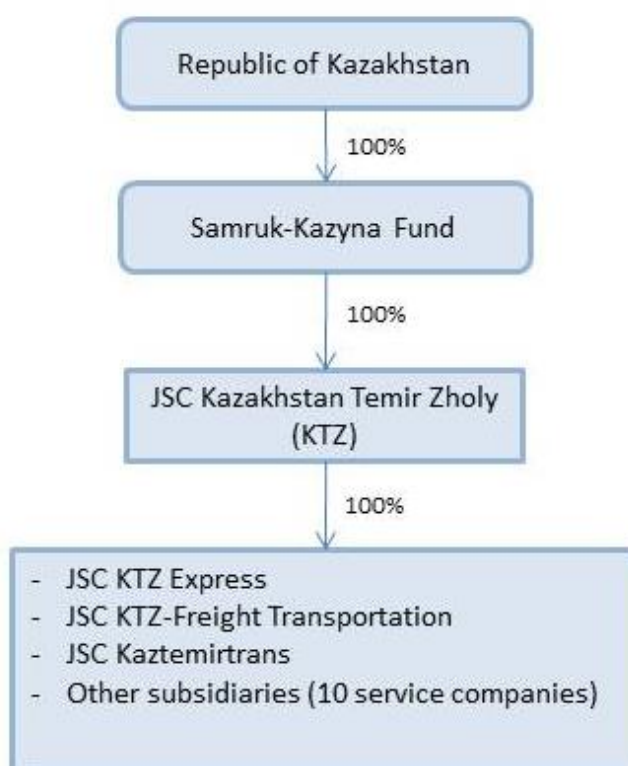
ANNEXES TO OPERATION REPORT

ANNEX 1	TRANSITION IMPACT SCORING CHART
ANNEX 2	SHAREHOLDING STRUCTURE
ANNEX 3	TARIFFS AND REGULATORY ENVIRONMENT
ANNEX 4	HISTORICAL FINANCIAL STATEMENTS
ANNEX 5	GREEN ASSESSMENTS
ANNEX 6	THE MIDDLE CORRIDOR MAP

ANNEX 1 - TRANSITION IMPACT SCORING CHART



ANNEX 2 – SHAREHOLDING STRUCTURE



Brief description of KTZ's main subsidiaries:

KTZ Freight Transportation (KTZ-FT) was established on the basis of Locomotive JSC in June 2016 as a step towards the separation of the Company's infrastructure, administration and freight transportation activities. KTZ-FT owns KTZ's locomotives and provides freight transportation and locomotive haulage services for its freight and passenger services.

Kaztemirtrans is the owner of KTZ's freight railcar fleet, which is primarily used for KTZ's transportation services (i.e., where a customer uses KTZ's freight cars). A large proportion of the railcars are leased to KTZ Express.

KTZ Express is the national multimodal transport and logistics operator which integrates various transportation routes including rail, road, sea, and air with a network of terminals and warehouses, as well as cargo loading operations at strategic gateways for freight moving to or from China.

The mainline railway network and associated infrastructure are owned and managed by the parent company, Kazakhstan Temir Zholy (KTZ).

ANNEX 3 – TARIFFS AND REGULATORY ENVIRONMENT

The government of Kazakhstan and KTZ have been actively progressing with the reforms in the railway industry. [REDACTED].

ANNEX 4 – HISTORICAL FINANCIAL STATEMENTS

The combined financial statements for KTZ are based on audited consolidated financial statements for 2019-2021.

Table 3: Key consolidated financials

USD thousands	2019 (A)	2020 (A)	2021 (A)
Revenue	2,976,582	2,841,346	3,118,412
EBITDA	770,496	819,574	933,169
EBITDA margin, %	26%	29%	30%
Profit/(loss) after tax	(148,793)	39,455	283,104
Total assets	8,734,841	7,999,803	8,346,767
Total liabilities	5,714,627	5,294,700	5,399,935
EBITDA/Interest	2.3	2.7	3.2
Debt/EBITDA	4.8	4.5	3.8
KTZ's freight turnover, in billion t-km			
	2019	2020	2021
Freight turnover, bln t-km	224	231	233
Growth, %	1.3%	3.2%	1.0%

Note: the ratios are calculated based on EBRD loan agreement definition i.e. including third-party guarantees and excluding certain Samruk-Kazyna loans.

- Despite the COVID-related restrictions since mid-March 2020 (mainly affecting passenger services) and general economic slowdown, the Company's financial performance improved in 2021 compared with 2020 on the back of the ongoing recovery of freight volumes and an increase in tariffs, coupled with the active development of high-margin transit transportation business.
- Operating revenue in KZT terms grew 9.8 per cent in 2021, primarily on the back of growing freight transportation revenue (up by 11.5 per cent in 2021 vs. 2020).
- In 2021, freight volume increased slightly by 1.0 per cent, freight tariffs on average increased by 13.0 per cent. The growth was primarily driven by transit and domestic traffic. Transit volume has increased 2x times in 2021.
- EBITDA margin recovered steadily and reached 30 per cent in 2021 compared with 29 per cent in 2020.
- The loss-making passenger business is subsidised from the state budget. During 2021, following gradual easing of Covid-19 restrictions, revenues from passenger transportation increased by a significant 50 per cent and reached USD 134.4 million. [REDACTED].

ANNEX 5 – GREEN ASSESSMENTS

Introduction

As the use of proceeds are associated with refinancing with no clear associated use of proceeds, the transaction was not subject to Paris Agreement alignment assessment. Similarly the GET share is 0 per cent, as it concerns refinancing.

[REDACTED] Kazakhstan operates an emissions trading scheme⁵, but KTZ is understood not to be directly subject to the scheme. It is however likely that the Scope 2 emissions associated with the electricity consumption would be covered by the scheme [REDACTED].

5

https://icapcarbonaction.com/en/?option=com_etsmap&task=export&format=pdf&layout=list&systems%5B%5D=46

ANNEX 6 – THE MIDDLE CORRIDOR MAP

Existing infrastructure of the Middle Corridor provides sufficient capacity for the immediate shift of transit volumes from the Northern Corridor (via Russia) routes. This, however, requires further improvements of KTZ's operational efficiency to ensure reliability of transport and logistics.

