



Kazakhstan Kagazy plc

(a public company incorporated under the laws of the Isle of Man)

Offer of up to 55,000,000 GDRs and admission to listing on the Official List and to trading on the London Stock Exchange

Offer Price: US\$5.00 per GDR

This prospectus relates to the initial offering (the “Offer”) of 48 million shares (“Shares”) of Kazakhstan Kagazy plc, a public company incorporated under the laws of the Isle of Man (the “Company” and, including its consolidated subsidiaries if the context requires, “we”, “us”, “our” or the “Group”), each with a par value of US\$0.10, in the form of global depositary receipts (“GDRs”), each representing one Share. The Shares will be newly issued by the Company.

In addition, the Company has granted ING Bank N.V., London Branch (“ING” or the “Lead Manager”) an option to purchase up to 7 million additional Shares, in the form of GDRs, at the Offer Price (as defined below) less selling, underwriting and management commissions (the “Over-allotment Option”). The option is exercisable for 30 days from the announcement of the Offer Price to effect stabilisation.

There is currently no market for the GDRs or the Shares. Application has been made (i) to the UK Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (as amended) for the GDRs to be admitted to the Official List of the UK Listing Authority (the “UKLA”) and (ii) to the London Stock Exchange plc (the “London Stock Exchange”) for the GDRs to be admitted to trading under the symbol “KAG” on the London Stock Exchange’s regulated market for listed securities and to be quoted on the London Stock Exchange’s International Order Book. Conditional dealings in the GDRs are expected to commence on the London Stock Exchange on 19 July 2007. Application has also been made to have the Rule 144A GDRs designated as eligible for trading on the PORTAL™ Market of the NASDAQ Stock Market, Inc. (“PORTAL”). It is expected that the GDRs will be issued and admitted, and that unconditional dealings in the GDRs will commence, on the London Stock Exchange on or about 25 July 2007 (the “Closing Date”). Our application to the UK Financial Services Authority covers the listing of up to 55 million GDRs, consisting of 48 million GDRs to be issued in the Offer and up to 7 million additional GDRs to be issued pursuant to the exercise of the Over-allotment Option, if any. **All dealings before the commencement of unconditional dealings will be on a “when issued” basis and will be of no effect if the admission does not take place. Such dealings will be at the sole risk of the parties concerned.**

This document has not been, and does not need to be, approved by the Isle of Man Financial Supervision Commission or any other governmental or regulatory authority in or of the Isle of Man.

INVESTMENT IN THE GDRS INVOLVES A HIGH DEGREE OF RISK. See “Risk Factors” beginning on page 7. The GDRs are of a specialist nature and should only be bought and traded by sophisticated investors who fully appreciate the significance of the risks involved.

The Shares and the GDRs have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the “Securities Act”), and may not be offered or sold within the United States except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

The GDRs are being offered outside the United States in offshore transactions in reliance on Regulation S under the Securities Act and within the United States to “qualified institutional buyers” (“QIBs”) as defined in, and in reliance on, Rule 144A under the Securities Act (“Rule 144A”).

The GDRs offered hereby are offered severally by the Manager as named in “Subscription and Sale” when, as and if delivered to and accepted by the Lead Manager and subject to its right to reject orders in whole or in part. The Regulation S GDRs will be evidenced by a Master Regulation S Global Depositary Receipt (the “Master Regulation S GDR”) registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for The Bank of New York, London branch, as common depositary for Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking S.A. (“Clearstream, Luxembourg”). The Rule 144A GDRs will be evidenced by a Master Rule 144A Global Depositary Receipt (the “Master Rule 144A GDR”) and, together with the Master Regulation S GDR, the “Master GDRs”) registered in the name of Cede & Co., as nominee for The Depository Trust Company (“DTC”) in New York.

It is expected that delivery of the GDRs will be made on the Closing Date through Euroclear and Clearstream, Luxembourg with respect to the GDRs offered pursuant to Regulation S and through DTC with respect to the GDRs offered pursuant to Rule 144A. Except as set forth herein, investors may hold beneficial interests in and transfer the GDRs only through DTC, Euroclear or Clearstream, Luxembourg and their direct and indirect participants, as applicable. Transfers within DTC, Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system.

Global Co-ordinator, Bookrunner and Lead Manager

ING

19 July 2007

This document comprises a prospectus relating to the Company prepared in accordance with the Prospectus Rules of the Financial Services Authority made under section 73A FSMA, and has been filed with the Financial Services Authority and has been made available to the public as required by section 3.2 of the Prospectus Rules.

The Shares to be issued and made available pursuant to the Offer in the form of GDRs will, following the Closing Date, rank *pari passu* in all respects with the other issued Shares and will carry the right to receive all dividends and distributions declared, made or paid on or in respect of the issued Shares after the Closing Date.

The Company accepts responsibility for the information contained in this prospectus, and having taken all reasonable care to ensure that such is the case, the information contained in this prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

The Lead Manager is acting for us and no one else in connection with the Offer, and will not be responsible to anyone other than to us for providing the protections afforded to its clients, or for providing advice in relation to the Offer or any transaction or arrangement referred to in this prospectus.

The distribution of this prospectus and the offer of the GDRs in certain jurisdictions may be restricted by law.

The Lead Manager reserves the right to reject any offer to purchase the GDRs in whole or in part and to sell to any prospective investor less than the full amount of the GDRs sought by such investor.

No action has been or will be taken by us, our current shareholders, the Lead Manager or any other person to permit a public offering of the GDRs or the Shares or to permit the possession or distribution of this prospectus (or any other offering or publicity materials or application form(s) relating to the GDRs or the Shares) in any jurisdiction where action for that purpose may be required.

This prospectus is confidential. You are authorised to use this prospectus solely for the purpose of considering the purchase of GDRs in the Offer. The information in this prospectus has been furnished solely for the purpose of enabling prospective investors to consider the purchase of GDRs. You acknowledge and agree that neither the Lead Manager nor any of its affiliates or advisers makes any representation or warranty, express or implied, as to the accuracy or completeness of such information, and nothing contained in this prospectus is, or shall be relied upon as, a promise or representation by the Lead Manager. This prospectus may not be reproduced or distributed, in whole or in part, and none of the contents of this prospectus may be disclosed or any information herein used for any purpose other than considering an investment in the GDRs. You agree to the foregoing by accepting delivery of this prospectus.

Accordingly, neither this prospectus nor any advertisement nor any other offering or publicity materials or application form(s) may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this prospectus comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions. The Offer and the distribution of this prospectus are subject to the restrictions set out in the section entitled "Transfer Restrictions".

Prospective investors should rely only on the information in this prospectus. No person has been authorised to give any information or make any representations, express or implied, other than those contained in this prospectus and, if given or made, such information or representations must not be relied on as having been authorised by us, by the Lead Manager or our affiliates, advisers or selling agents. Without prejudice to any obligation to publish a supplementary prospectus pursuant to section 87G of FSMA and paragraph 3.4 of the Prospectus Rules, neither the delivery of this prospectus nor any subscription or purchase of GDRs or Shares made pursuant to this prospectus shall, under any circumstances, create any implication that there has been no change in our affairs or the affairs of our subsidiaries and subsidiary undertakings from time to time since, or that the information contained herein is correct at any time subsequent to, the date of this prospectus.

The contents of this prospectus are not to be construed as legal, financial, business or tax advice. Each prospective investor should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice. If you are in any doubt about the contents of this

prospectus, you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser. It should be remembered that the price of securities and the income from them can go down as well as up.

In connection with the Offer, the Lead Manager and its affiliates acting as an investor for its or their own account(s) may acquire GDRs and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of ours or other related investments in connection with the Offer or otherwise. Accordingly, references in this prospectus to the GDRs being issued, offered, acquired or otherwise dealt with should be read as including any issue or offer to, or acquisition or dealing by, the Lead Manager and any of its affiliates acting as an investor for its or their own account(s). The Lead Manager does not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

OVER-ALLOTMENT AND STABILISATION

In connection with the Offer, the Company has agreed with the Lead Manager that the Lead Manager may, acting as principal, acquire or procure acquirers for up to 7 million additional Shares (in the form of GDRs) at the Offer Price to cover over-allotments and/or cover short positions resulting from stabilisation transactions.

In connection with the Offer, the Lead Manager may, to the extent permitted by applicable law, at its discretion over-allot or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market. The Lead Manager is not required to enter into such transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise. Such stabilising measures, if commenced, may be discontinued at any time and may only be undertaken during the 30 day period from the announcement of the Offer Price. In no event will measures be taken to stabilise the market price of the GDRs above the Offer Price. Within one week following the end of the stabilisation period, the following information will be published through a Regulated Information Service:

- whether or not stabilisation was undertaken; and
- for each stabilisation transaction that was carried out, (a) the date on which stabilisation started, (b) the date on which stabilisation last occurred and (c) the price range within which stabilisation was carried out.

Save as specified above, the Lead Manager does not intend to disclose the extent of any over-allotments and/or stabilisation transactions under the Offer.

NOTICE TO UK AND EEA INVESTORS

This prospectus and the Offer are only addressed to and directed to persons in member states of the European Economic Area (“EEA”) who are “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive (“Qualified Investors”). In addition, in the United Kingdom, this prospectus is being distributed only to, and is directed only at, Qualified Investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the “Order”) and Qualified Investors falling within Article 49(2)(a) to (d) of the Order, or (ii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as relevant persons). This prospectus must not be acted on or relied on (i) in the United Kingdom, by persons who are not relevant persons, and (ii) in any member state of the EEA other than in the United Kingdom, by persons who are not Qualified Investors. The GDRs are only available to, and any investment or investment activity to which this prospectus relates is available only to, (i) in the United Kingdom, relevant persons and (ii) in any member state of the EEA other than the United Kingdom, Qualified Investors, and will be engaged in only with such persons.

This prospectus has been prepared on the basis that once it has been approved under the Prospectus Directive, all offers of GDRs will be made pursuant to an exemption under the Prospectus Directive as implemented in member states of the EEA from the requirement to produce a prospectus for offers of GDRs. Accordingly, any person making or intending to make any offer within the EEA of GDRs which are the subject of the placement contemplated herein should only do so in circumstances in which no obligation arises for the Company or the Lead Manager to produce a prospectus for such offer. The Company and the Lead Manager have not authorised and do not authorise the making of any offer of GDRs through any financial intermediary, other than offers made which constitute the final placement of GDRs contemplated herein.

NOTICE TO PROSPECTIVE INVESTORS IN THE REPUBLIC OF KAZAKHSTAN

The GDRs offered hereby may only be offered or sold in the Republic of Kazakhstan to institutions or individuals in the Republic of Kazakhstan, including banks, brokers, dealer participants, pension funds, and collective investments institutions, as well as central government, large international and supranational organisations, other institutional investors and other parties, including treasury departments of commercial enterprises, which as an ancillary activity regularly invest in securities.

NOTICE IN CONNECTION WITH THE UNITED STATES, AUSTRALIA, CANADA AND JAPAN

The Shares and the GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered, sold, pledged or otherwise transferred except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. Any representation to the contrary is a criminal offence in the United States. Prospective investors are hereby notified that sellers of the Shares and GDRs may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A. The Shares and GDRs are not transferable except in accordance with the restrictions described under “Transfer Restrictions”.

This prospectus does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy, GDRs or Shares in any jurisdiction in which such offer or solicitation is unlawful and is not for distribution in or into Australia, Canada or Japan. In particular, the GDRs offered by this prospectus have not been and will not be registered under the applicable securities laws of Australia, Canada or Japan and, subject to certain exceptions, may not be offered or sold directly or indirectly in or into Australia, Canada or Japan, or to any person resident in Australia, Canada or Japan.

The information in this prospectus is not intended or written to be used, and cannot be used by any person, for the purpose of avoiding United States federal tax penalties, and was written to

support the promotion or marketing of the Offer. Each prospective investor should seek advice based on its particular circumstances from an independent tax adviser.

The Offer and the associated tax strategies are not confidential, proprietary or exclusive. Notwithstanding anything to the contrary herein, there is no limitation on the disclosure by any recipient of this prospectus of the tax treatment or tax structure of the Offer described therein.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements which reflect our current views or, as appropriate, those of our Directors, with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to our products and services). These forward-looking statements relate to us and the sectors and industries in which we operate. Statements that include the words “expects”, “intends”, “plans”, “believes”, “projects”, “anticipates”, “will”, “targets”, “aims”, “may”, “would”, “could”, “continue” and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the US federal securities laws or otherwise.

All forward-looking statements included in this prospectus address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. These factors include but are not limited to those described in the part of this prospectus entitled “Risk Factors”, which should be read in conjunction with the other cautionary statements that are included in this prospectus. Any forward-looking statements in this prospectus reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity.

Any forward-looking statements speak only as at the date of this prospectus. Subject to any obligations under the Listing Rules, we undertake no obligation to update publicly or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to us or individuals acting on behalf of us are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this prospectus that could cause actual results to differ before making an investment decision.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The financial statements included in this prospectus beginning on page F-2 (including the notes thereto, the “Financial Statements”) were, unless otherwise indicated, prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”).

The Company was incorporated in preparation for the Offer on 15 March 2007. Consequently, limited historical financial information relating to the Company is available, and the financial information included in this prospectus with respect to the Company consists only of audited consolidated financial statements as of and for the period from 15 March 2007 to 31 March 2007.

Prior to 10 May 2007, the operations of our group were consolidated under Kazakhstan Kagazy JSC, a joint stock company organised under the laws of Kazakhstan which, following a corporate reorganisation, is now the Company’s indirect wholly owned subsidiary. See “General Information—The Company and its subsidiaries”. To provide historical financial information for our business, this prospectus includes audited consolidated financial statements of Kazakhstan Kagazy JSC as at and for the years ended 31 December 2004, 2005 and 2006, and unaudited condensed interim financial statements as at and for the three months ended 31 March 2006 and 2007.

Anyone considering acquiring GDRs must rely on their own examination of our business, the terms of the Offer and the financial information contained in this prospectus.

Certain figures contained in this prospectus, including financial information and information in the Financial Statements, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this prospectus may not conform exactly to the total figure given for that column or row.

PRESENTATION OF MARKET, ECONOMIC AND INDUSTRY DATA

Market, economic and industry data used throughout this prospectus has been derived from various industry and other independent sources. The accuracy and completeness of such information is not guaranteed.

Information contained in this prospectus relating to the real estate industry and the paper industry and our competitors (which may include estimates and approximations) was derived from publicly available information, including press releases and filings under various securities laws. In addition, we commissioned market research on the Kazakh and Central Asian paper industry from Pöyry Industry Forest Industry Consulting Oy (“Pöyry”) and PR Research Agency LLP, a wholly-owned subsidiary of BISAM Central Asia, and on the Kazakh property market from Jones Lang LaSalle and Scot Holland in association with CB Richard Ellis. We confirm that such information has been accurately reproduced from its sources and, as far as we are aware and are able to ascertain from information published by the relevant third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Certain of the information in this prospectus in relation to Kazakhstan has been extracted from documents and other publications released by, and is presented on the authority of, various officials and other public and private sources, including participants in the capital markets and financial sectors in Kazakhstan. There is not necessarily any uniformity of views among such sources as to the information provided therein. Accordingly, we only accept responsibility for accurately reproducing such extracts as they appear in this prospectus. We accept no further or other responsibility in respect of such information. Each of Pöyry, PR Research Agency LLP and Jones Lang LaSalle has consented to the inclusion in this prospectus of the information sourced to it.

The Valuation Reports prepared by Scot Holland in association with CB Richard Ellis (the “Valuer”) are referred to in various sections of this prospectus. Your attention is directed, in particular, to the basis on which the Valuation Reports were prepared, the representations made by us to the Valuer in the preparation of the Valuation Reports and the definitions, assumptions, explanations and qualifications relating to the Valuer’s estimates set out therein. The Valuer also relied, without independent verification, upon certain information furnished by us with respect to our properties that was accepted as provided and represented by us.

This prospectus contains illustrations and charts derived from our internal information, which have not been independently verified unless specifically indicated.

NO INCORPORATION OF WEBSITE INFORMATION

The contents of our websites do not form part of this prospectus.

CURRENCY PRESENTATION

Unless otherwise indicated, in this prospectus, references to “Tenge” or “KZT” are to Kazakhstan Tenge, the lawful currency of Kazakhstan; references to “US Dollars” or “US\$” are to United States Dollars, the lawful currency of the United States; references to “GBP”, “pounds sterling” or “£” are to the lawful currency of the United Kingdom; references to “Som” are to Kyrgyz Som, the lawful currency of Kyrgyzstan; and references to “EUR”, “Euro” or “€” are to the lawful currency of the member states of the European Monetary Union.

Solely for the convenience of the reader, this prospectus presents unaudited translations of certain Tenge amounts into US Dollars at specified rates. Unless otherwise stated, any balance sheet data in US Dollars is translated from Tenge at the applicable exchange rate on the date of such balance sheet (or, if no such rate was quoted on such date, the immediately preceding date) and any income statement or cash flow statement data in US Dollars is translated from Tenge into US Dollars at the average exchange rate applicable to the period to which such income statement data relates, in each case calculated in accordance with the exchange rate for US Dollars on the Kazakhstan Stock Exchange as reported by the National Bank of Kazakhstan (“NBK”).

On 27 June 2007, the exchange rate for US Dollars on the Kazakhstan Stock Exchange as reported by the NBK was KZT 121.62 per US\$1.00. For further details of applicable exchange rates, see the Financial Statements included herein and “Exchange Rates and Exchange Controls”.

No representation is made that the Tenge or US Dollar amounts in this prospectus could have been converted into US Dollars or Tenge, as the case may be, at any particular rate or at all. Certain amounts which appear in this prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

REFERENCES TO DEFINED TERMS

Certain terms used in this prospectus, including certain capitalised terms and certain technical and other terms, are defined, and certain selected industry and technical terms used in this prospectus are defined and explained, in “Definitions” and “Glossary of Technical and Industry Terms”.

AVAILABLE INFORMATION

So long as any Shares or GDRs representing the Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which it is neither subject to Sections 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, furnish, upon request, to any holder or beneficial owner of such restricted securities, or any prospective purchaser designated by any such holder or beneficial owner, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act. In such cases, the Company will also furnish to each such holder or beneficial owner all notices of shareholders’ meetings and other reports and communications that are generally available to the Company’s shareholders.

ENFORCEMENT OF FOREIGN JUDGMENTS

We are incorporated under the laws of the Isle of Man and, with the exception of two majority owned subsidiaries in Uzbekistan and Kyrgyzstan, all of our operations are located in Kazakhstan. Only one of our Directors is, and none of our senior managers are, a resident of the United States or the United Kingdom. Our directly owned assets are located outside the United States and the United Kingdom. As a result, it may not be possible for investors to effect service of process within the United States or the United Kingdom upon us or each of our Directors or executive officers or to enforce against any of them judgments of courts in the United States or the United Kingdom, including judgments predicated upon civil liabilities under the securities laws of the United States or the United Kingdom. Kazakhstan’s courts will not enforce any judgment obtained in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and the United Kingdom or the United States.

Any judgment for a fixed sum of money obtained against the Company in the High Court of England will be enforceable against it in the Isle of Man in accordance with the provisions of the Judgments (Reciprocal Enforcement) (Isle of Man) Act 1968 provided that such judgment is final and conclusive and is not obtained by fraud or contrary to public policy of the Isle of Man at the time or contrary to the rules of natural justice in the Isle of Man at the time and provided that the correct procedures under the laws of the Isle of Man (including registration of the English judgment with the Isle of Man courts) are complied with. There is no statutory procedure in the Isle of Man for the recognition or enforcement of judgments of the state or federal courts of the United States. However, under Isle of Man common law, a foreign judgment in personam or given by the courts of the United States with jurisdiction to give that judgment may be recognised and enforced by an action for the amount due under it provided that the judgment (i) is for a debt or definite sum of money (not being a sum payable in respect of taxes or other charges of a like nature or in respect of a fine or other penalty), (ii) is final and conclusive, (iii) was not obtained by fraud, (iv) is not one whose enforcement would be contrary to public policy in the Isle of Man at the time and (v) was not obtained in proceedings which were opposed to natural justice in the Isle of Man at the time.

EXPECTED TIMETABLE⁽¹⁾

Latest time and date for receipt of indications of interest from investors under the Offer	18 July 2007, 5 p.m.
Announcement of the Offer Price and allocation.....	19 July 2007
Commencement of conditional dealings ⁽²⁾	19 July 2007
Admission and commencement of unconditional dealings.....	25 July 2007

(1) Each of the times and dates is subject to change without further notice.

(2) If admission does not occur, all conditional dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned.

EXCHANGE RATES AND EXCHANGE CONTROLS

Exchange Rates

The currency of Kazakhstan is the Tenge, which was introduced in November 1993. Prior to 5 April 1999, the NBK maintained a managed floating exchange rate system; however, in April 1999, the NBK and the Government publicly announced that they would cease to intervene in the foreign exchange markets, allowing the Tenge to float freely.

The following table sets forth the high, low, average and period-end rates for the Tenge, each expressed in Tenge and based on the KZT/US Dollar exchange rates on the Kazakhstan Stock Exchange, as reported by the NBK:

	<u>High</u>	<u>Low</u>	<u>Average⁽¹⁾</u>	<u>Period End</u>
	(KZT per U.S. Dollar)			
2007 (up to and including 27 June 2007)	127.00	118.79	123.64	121.62
2006	117.25	133.85	126.09	127.00
2005	129.83	136.12	132.88	133.77
2004	130.00	143.33	136.04	130.00
2003	143.66	155.89	149.58	144.22
2002	150.60	155.60	153.28	155.60

Source: NBK

(1) The weighted average rate reported by the NBK for each month or year during the relevant period.

The daily average KZT/US Dollar exchange rate on the Kazakhstan Stock Exchange, as reported by the NBK, on 19 July 2007 was KZT 121.83 per US\$1.00.

Our functional currency is the Tenge, as the majority of our operating activities are conducted in Tenge. The above rates may differ from the actual rates used in the preparation of our financial statements and other financial information appearing in this prospectus. The inclusion of these exchange rates is not meant to suggest that the Tenge amounts actually represent such US Dollar amounts or that such amounts could have been converted into US Dollars at any particular rate, if at all.

Exchange Controls

Kazakhstan accepted, in July 1996, the conditions of paragraphs 2, 3 and 4 of Article VIII of the Charter of the International Monetary Fund and, as a result, has agreed not to introduce or increase any exchange rate restrictions, introduce or modify any practice of multiple exchange rates, enter into any bilateral agreements violating Article VIII or impose any import restrictions. In accordance with Article VIII, a new law on currency regulation was adopted in December 1996. According to this legislation, all current account operations, including transfers of dividends, interest and other investment income, may be made without restriction and only outflowing capital account operations need to be licensed by or registered with the NBK.

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SUMMARY

The summary information contained in this section should be read as an introduction to the prospectus. Any decision to invest in the GDRs pursuant to the Offer should be based on consideration of this prospectus as a whole by the investor and not just this summary.

Under the Prospectus Directive (Directive 2003/71/EEC), in each member state of the European Economic Area ("EEA"), civil liability for this summary, including any translation thereof, attaches to those persons responsible for the summary, but only if the summary is misleading, inaccurate or inconsistent when read together with other parts of this prospectus. If any claim is brought before a court of an EEA state relating to the information contained in this prospectus, the investor who brings such a claim might, under the national legislation of the EEA states, have to bear the costs of translating this prospectus before the legal proceedings are initiated.

Overview

We are the largest producer of paper, corrugated board and packaging products in Kazakhstan and Central Asia and, utilising the experience gained in this business, we have expanded into commercial real estate development. Through our subsidiary, Kagazy Recycling LLP, we operate a range of businesses connected with paper manufacturing and trading and waste paper recycling. Our subsidiaries own approximately 538 hectares of prime land, strategically located outside Almaty, on which we are developing commercial warehousing and logistics facilities. For the years ended 31 December 2005 and 2006, our revenues were approximately KZT 4,426 million (US\$33.3 million) and KZT 7,004 million (US\$55.6 million), respectively, and, as at 31 March 2007, we had total assets of KZT 41,837.7 million (US\$337.8 million). Our subsidiary Kazakhstan Kagazy JSC has had a debt listing on the Kazakhstan Stock Exchange since 2005.

We produce a range of recycled container board as well as corrugated packaging. Our paper mill in Almaty has two paper machines, each with a capacity of approximately 100 tonnes per day. Located next to the mill is our corrugated board and packaging plant, which has an annual corrugated board capacity of approximately 120 million square metres. In addition, we are in the process of installing a further paper machine with an installed annual capacity of 15,000 tonnes that will enable us to produce hygienic paper products. We also recently installed a production unit to cut fine paper (offset and office paper) and cardboard into sheet formats. These manufacturing facilities are in the final stages of ISO 9001:2000 certification.

Our paper operations primarily use recycled fibre (i.e. waste paper, used corrugated containers and paper sacks) as raw materials. Waste paper is collected at our collection centres located in major cities in Kazakhstan, and through agents in southern Russia, Uzbekistan and Kyrgyzstan. The waste paper is sorted and pressed into bales at these collection centres before being transported to our paper mill. In 2006, we collected more than 38,000 tonnes of waste paper, which is the equivalent of approximately 150,000 cubic metres of wood, based on fibre content.

Our trading division sells our own paper products, as well as a range of imported paper from Russia and Scandinavia, throughout the Central Asian market. We seek to offer a complete range of paper products, with operations similar to European paper trading companies. The trading division currently has approximately 1,000 customers.

The land being developed by our real estate business is located near the intersection of a proposed new outer ring road, and is close to the main road and rail lines to Astana, Kazakhstan's capital, as well as other major transport routes. The land is divided into northern and southern plots, and each will be developed in stages. Master planning of the sites has been completed by Agiplan.

On the southern plot we are building the PEAK Logistics Centre, an integrated logistics hub with road and rail access (including a dedicated rail spur), loading and unloading facilities, warehousing, customs facilities and a container terminal. The initial phase of this development, which was completed at the end of June 2007, involves the construction of modern, climate-controlled Class B warehouses over ten hectares of land, which together will provide approximately 35,000 square metres of rentable space. In the second phase, to be completed in 2008, we intend to build an additional approximately 74,000 square metres of Class A warehousing as well as approximately 2,000 square metres of office space, a container terminal of approximately 142,000 square metres and additional sell-to-build space.

The northern plot will be developed as the PEAK Industrial Park, which has a design similar to Western European industrial parks. Construction of the first phase of the PEAK Industrial Park is scheduled to begin this year.

Our Chairman and CEO, Messrs. Zhunussov and Arip, are currently acquiring land outside Astana and researching potential land acquisitions outside other Kazakh cities. They will seek approvals to change the land use designation of newly acquired properties to allow commercial development. Following the change in land use, we have a right of first refusal to acquire the land at a discount to market value, as determined by an independent appraiser and approved by non-interested directors of the Company. These arrangements are intended to allow us to acquire land for new developments without assuming the risks associated with changing the land use. See “Business—Future Developments—First Refusal Agreement”.

Key Strengths

We believe that we benefit from the following strengths:

- ***Established Paper Operations.*** We established the first high volume paper mill in Kazakhstan following independence and we are currently the country’s largest paper manufacturer. In addition, we are Kazakhstan’s only packaging manufacturer using modern European equipment and international expertise, and the only domestic paper mill with its own recycled paper collection network.
- ***Market Leader With a Competitive Advantage.*** We are the largest producer of paper and packaging in Kazakhstan and Central Asia according to information published by Pöyry and PR Research Agency LLP. In addition, we believe that we currently face relatively limited domestic competition as a result of the following factors:
 - *Capacity.* With an installed annual capacity of 120 million square metres of corrugated board, we are the only packaging manufacturer able to satisfy orders for more than 5 million square metres per month. We estimate that the total combined annual capacity of our principal domestic competitors is approximately 96 million square metres.
 - *Quality.* Our three principal domestic competitors use older equipment to manufacture lower quality products. We believe that their current equipment is not capable of producing the increasingly sophisticated packaging that international companies often require.
 - *Customer focus.* We are the only Kazakh producer able to offer just-in-time production with the ability to adjust quickly to changing customer requirements, which helps customers to reduce their packaging inventory costs. In contrast to our competitors, we offer high-volume design and multicolour printing of sophisticated packaging solutions within Central Asia.

To match our levels of product quality, production and vertical integration would require substantial expenditure and time to acquire and install machinery and recruit and train staff.

- ***Market Knowledge.*** In addition to manufacturing, we are one of Kazakhstan’s largest traders of paper products, according to information published by PR Research Agency LLP. Through these activities we believe that we are able to gain a better understanding of our competitors’ activities and the changing demands of customers. This knowledge is also applied in our strategic planning, including our decision to expand into hygienic paper and fine paper cutting.
- ***Cost Efficiencies.*** We operate production facilities that are more energy efficient and less labour intensive than those of our competitors, which enables us to further reduce our production costs. In addition, we believe that our production facilities have a relatively high utilisation rate as they are more reliable and can change between specifications and customer orders with little or no production interruptions. We believe that this utilisation rate further helps us to lower costs and achieve higher margins.

- ***Experience With Construction, Logistics and Warehousing.*** We intend to capitalise on experience gained from our paper business in entering the real estate sector, including our experience with:
 - *Construction.* Our management supervised the construction of our fibre extraction and paper making operations, including coordinating the complex process of obtaining planning permissions and installing and commissioning machinery.
 - *Industrial logistics.* Management has planned and implemented our extensive waste paper collection network, which delivers an average of 200 railway wagons of waste paper each month, as well as our product distribution network.
 - *Development of infrastructure.* We created all of the basic infrastructure for our paper business, including the installation of dedicated electricity substations, aquifers and water purification equipment and gas pipes.

We believe that this experience will assist us in developing the real estate business, including identifying cost efficiencies in planning, construction and ongoing management of our developments.

- ***Prime Land Holdings.*** Our land plots are located only 20 kilometres outside the centre of Almaty, with direct access to main rail and road transport (including the proposed new outer ring road) and existing utilities. We believe that the location of our land plots will become more attractive in the future as a result of the rezoning of Almaty, which will restrict industrial activities within the city centre. In addition, we believe that our investment in infrastructure, including dedicated railway access, will significantly contribute to the desirability of this land.
- ***Experienced and Skilled Management.*** We benefit from the skills and experience of our strong management team. Our Chairman, Baglan Zhunussov, and CEO, Maksat Arip, have worked together for eight years and have experience in managing complex businesses in Kazakhstan. They are supported by a team of Kazakh and international managers with a broad portfolio of skills and experience. International experts, such as Messrs. van Lent and Ippoliti, are helping us to adopt global best practices, including ISO certifications.

Strategy

As part of our strategy we intend to:

- ***Leverage Our Existing Position in the Paper Market.*** We will seek to build upon our current position in the paper market by deepening relationships with existing customers and expanding the range of products and services we provide. In particular, we intend to expand our paper trading operations better to serve customers not only in Kazakhstan but throughout Central Asia. We will also seek to expand our product range to include more sophisticated packaging solutions, which we believe customers will increasingly demand.
- ***Gradually Expand Our Paper Production Facilities.*** Our paper production facilities have been planned and constructed to enable us to easily expand production with limited additional investment. As the paper market in Kazakhstan continues to grow, we expect to increase our output with “bolt on” capacity upgrades and new services and to expand our waste paper collection network.
- ***Invest Further in Our Brand.*** We have established a leading reputation in our market and will seek to build on this by producing products such as hygienic paper (toilet and tissue paper and paper towels) and (using our recently installed paper sheeting facility) fine paper under our own brand name, Kagazy.
- ***Intelligently Use Our Market Knowledge.*** Pöyry have projected that the container board, hygienic paper, printing paper and writing paper markets will experience the highest growth rates within the paper and packaging industry. We have focused on container board and, on the basis of market knowledge gained through our paper trading operations, we have made significant investments towards establishing production of hygienic paper and the installation of a paper sheeting facility. We intend to continue to use and develop our market knowledge to identify additional opportunities.
- ***Leverage Our Real Estate Development Experience.*** We completed the first phase of our initial real estate development, the PEAK Logistics Centre, at the end of June, and we have begun construction of the second phase. We intend to leverage the experience of our

managers and expertise gained in our first real estate development in executing more ambitious projects, including the PEAK Industrial Park and potential developments outside the Almaty region through the arrangements with our current shareholders to acquire additional land in other Kazakh cities.

Risk Factors

Our business is subject to a number of risks, including the following:

- we may not be able to realise fully the expected benefits of our planned developments;
- competition within our industries may increase in the future;
- prices for paper products are cyclical and may decline;
- our raw material costs could increase in the future;
- our paper operations could experience equipment failure, production curtailment, labour disputes and shutdowns;
- our real estate business is subject to construction and development risks;
- the valuations of our properties in this prospectus may not represent the values at which we may be able to dispose of those properties;
- we may incur losses that are not fully covered by insurance;
- we may not be able to retain key employees;
- increasing indebtedness may materially affect our business and financial condition;
- we are subject to the general risks associated with operating in Kazakhstan and in other emerging markets in Central Asia;
- future sales of our securities by our controlling shareholders could negatively affect the price of the GDRs; and
- the voting rights attaching to the Shares are limited by the terms of the Deposit Agreement.

Summary Financial and Operating Information

The Company was incorporated in preparation for the Offer on 15 March 2007. The following table contains summary financial and operating information of Kazakhstan Kagazy JSC as at and for the years ended 31 December 2004, 2005 and 2006 and for the three-month period ended 31 March 2007 extracted without material adjustment from the Financial Statements. The Balance Sheet Data as at 31 March 2006 is extracted, without material adjustment, from the management accounts of Kazakhstan Kagazy JSC. The unaudited interim consolidated results of Kazakhstan Kagazy JSC for the three-month period ended 31 March 2007 are not necessarily indicative of the results that may be expected for the year ended 31 December 2007. The information set out below has been prepared on the basis described in the Financial Statements. The Financial Statements include all adjustments that our management considers necessary for a fair presentation of our consolidated financial position and results of operations for the periods covered.

You should read the following summary financial and operating information in conjunction with the information contained in “Capitalisation and Indebtedness”, “Operating and Financial Review and Prospects” and the Financial Statements beginning on page F-2.

	Year Ended 31 December			Three Month Period Ended 31 March	
	2006	2005	2004	2007	2006
		(audited) (KZT '000)		(unaudited) (KZT '000)	
Income Statement Data:					
Revenue ⁽¹⁾	7,004,313	4,425,936	2,144,649	1,686,597	1,426,321
Cost of sales ⁽²⁾	(5,183,269)	(3,009,114)	(1,390,897)	(1,115,176)	(1,047,757)
Gross profit	1,821,044	1,416,822	753,752	571,421	378,564
Selling expenses ⁽³⁾	(458,094)	(226,868)	(212,694)	(85,836)	(93,611)
Administrative expenses ⁽⁴⁾	(489,846)	(307,281)	(196,730)	(151,607)	(88,399)
Finance costs.....	(884,969)	(635,386)	(375,555)	(445,267)	(122,892)
Other income and expenses	185,348	34,941	298,397	124,369	125,863
Profit before tax	173,483	282,228	267,170	13,080	199,525
Income tax expense.....	(54,905)	(42,057)	(12,952)	(4,055)	(862)
Profit for the year/period	118,578	240,171	254,218	9,025	198,663
Balance Sheet Data (as of period end):					
Non-current assets					
Property, plant and equipment.....	22,561,504	10,543,225	5,316,934	26,105,827	10,924,782
Intangible assets ⁽⁵⁾	5,117	3,397	1,783	4,935	3,249
Non-current receivables	—	—	—	15,200	—
Prepayments in respect of construction contracts.....	2,887,336	293,473	354,889	4,211,795	293,473
VAT recoverable ⁽⁶⁾	1,100,645	—	—	1,100,645	—
Cash and cash equivalents on special deposits ⁽⁷⁾	345,000	—	—	175,000	—
	26,899,602	10,840,095	5,673,606	31,613,402	11,221,504
Current assets					
Inventories.....	6,094,200	1,094,415	321,385	6,320,000	1,752,979
Prepayments in respect of goods and construction contracts.....	7,590,292	1,104,153	755,832	1,770,543	2,069,804
Other current assets	790,728	5,621	895	769,293	18,106
Trade and other receivables.....	626,981	3,149,966	1,095,542	1,100,526	3,329,668
Cash and cash equivalents	80,584	43,557	37,897	263,917	324,914
	15,182,785	5,397,712	2,211,551	10,224,279	7,495,471
Total assets	42,082,387	16,237,807	7,885,157	41,837,681	18,716,975

	Year Ended 31 December			Three Month Period Ended 31 March	
	2006	2005	2004	2007	2006
		(audited) (KZT '000)		(unaudited) (KZT '000)	
Equity					
Share capital	6,356,996	4,380,496	657,039	6,356,996	4,380,496
Share premium	3,953,000	—	—	3,953,000	—
Revaluation reserve ⁽⁸⁾	1,822,202	872,406	1,034,098	2,782,966	853,871
Retained earnings.....	906,953	705,942	304,079	931,725	923,185
	13,039,151	5,958,844	1,995,216	14,024,687	6,157,552
Non-current liabilities					
Interest bearing loans and borrowings ..	17,096,716	7,178,599	2,734,246	21,734,320	7,977,607
Deferred tax liabilities.....	998,728	508,673	476,888	1,421,287	508,673
Other long-term liabilities	—	—	17,367	—	—
	18,095,444	7,687,272	3,228,501	23,155,607	8,486,280
Current liabilities					
Interest bearing loans and borrowings ..	6,163,829	961,821	1,582,020	347,644	807,372
Corporate income tax payable.....	9,488	9,098	—	8,420	9,645
Other tax liabilities ⁽⁹⁾	65,331	23,114	11,087	47,536	199,446
Trade and other payables	4,709,144	1,597,658	1,068,333	4,253,787	3,056,680
	10,947,792	2,591,691	2,661,440	4,657,387	4,073,143
Total equity and liabilities	42,082,387	16,237,807	7,885,157	41,837,681	18,716,975

- (1) Revenue is derived from: (i) the sale of the finished paper and packaging products we produce; (ii) goods for resale as part of our trading operations; and (iii) ancillary services provided to customers, including design services.
- (2) Cost of sales comprises the direct costs relating to production, including labour, materials, energy costs, depreciation and other production overhead costs, in addition to the costs attributable to products resold through our trading operations.
- (3) Selling expenses comprises transportation and warehousing costs incurred in the distribution of products, wages and salaries of sales and production personnel, rental expenses and marketing and advertising costs.
- (4) Administrative expenses relate to general administrative costs, such as wages and salaries of administrative personnel, property taxes and bank fees.
- (5) Intangible assets primarily comprise computer software licences.
- (6) VAT recoverable relates to VAT credits and excess VAT paid and is recoverable in the normal course of business.
- (7) Cash and cash equivalents on special deposits relate to interest-earning deposits reserved for bond interest payments.
- (8) Revaluation reserve relates to the cumulative surplus value of property, plant and equipment in excess of historic cost, less amounts transferred to retained earnings representing the amount of any cumulative surplus recognised in the income statement in respect of depreciation of revalued property.
- (9) Other tax liabilities relate to taxes other than corporate income tax, such as social tax and social insurance, employees' income tax, withholding tax on non-residents' income and certain environmental payments.

RISK FACTORS

Investing in the GDRs involves a high degree of risk. Prospective investors should carefully consider the following risk factors, and all information contained in this prospectus, before investing in the GDRs. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also adversely affect our business, financial condition and operating results. If any of these events occur, our business, financial condition and operating results could be materially and adversely affected, the price of the GDRs may decline and/or our ability to pay dividends could be impaired.

General Risks Relating to our Business

Limited Operating History

Although members of our management team have significant experience in the paper and real estate industries, our business was established in 2001 and has had active operations for less than four full years. Our business initially focused on the production of paper products and since 2005 has been engaged in real estate development; however, we have been involved with managing the logistics and warehousing operations of our paper business since 2002, and our managers began researching the Almaty real estate market in 2004. As a result, prospective investors will have limited historical information available to them with which to evaluate our business, making it more difficult to identify its long-term trends and developments. In evaluating our historical performance and prospects, investors should consider the risks, expenses, uncertainties and obstacles that we may face in implementing our strategy and in conducting our current and planned business activities.

Assumptions

Our current development plans and objectives reflect our management's views with respect to the industries and countries in which we operate and include important assumptions with respect to future events. These assumptions are subject to the risks set forth herein, as well as additional risks not currently contemplated by our management, and represent important factors that could cause our actual results to differ materially from the expectations of our management.

Competition

We face strong competition in each of our business sectors. Our paper operations primarily compete against regional and international paper companies, particularly Russian producers, while our real estate operations generally compete against local and regional developers. Some of our competitors have greater financial and operational resources than us. New competitors and changes in the competitive environment may increase competitive pressures or reduce market prices for our products and services. A significant loss of customers or a sustained reduction in revenue or margins could have a material adverse effect on our business, financial condition and operating results.

Uninsured Losses

Kazakh law currently prohibits foreign insurance companies from directly operating in Kazakhstan. However, the domestic insurance industry is not yet well developed. While we maintain insurance against standard risks, such as fire or accidental damage, the terms of such insurance are likely to be less comprehensive, provide for lower levels of compensation and be more expensive than might be expected in more developed markets such as in the United States and Western Europe. In addition, we do not carry business interruption insurance. Furthermore, our operations are principally conducted and most of our assets are located in Kazakhstan, which may have higher political, social, economic and market risks as compared to countries in the EU or the United States. Various types of catastrophic losses, such as losses due to political risks, civil unrest, acts of warfare, terrorist activities, certain natural disasters (e.g. hurricanes), pollution, environmental matters or expropriation of assets generally are either uninsurable or not economically insurable, or may be subject to limitations, such as large deductibles or co-payments. In addition, insurance for certain of our projects under development is provided by the construction company in charge of the project pursuant to the relevant project construction agreement. While these agreements may obligate the relevant construction company to provide insurance, we cannot be certain that the construction company provides adequate insurance. Any losses from uninsured risks could have a material adverse effect upon our business, financial position and operating results.

Key Employees

Our success depends to a significant degree upon the efforts and abilities of certain key persons, including our Directors and senior managers. In addition, we benefit from the extensive contacts and

relationships of our executives. No assurance can be given that the current members of our management team will continue to make their services available to us on a long-term basis. In addition, our success will depend, in part, on our ability to continue to retain, motivate and attract qualified and experienced management personnel. Within Kazakhstan, competition within our industry for qualified personnel is intense due to the disproportionately low number of qualified and/or experienced individuals compared to the level of demand. Moreover, our need for qualified staff will increase as we continue to grow. We aim to be an employer of choice in Kazakhstan and have introduced above-market compensation packages for certain members of our management and other personnel, including a bonus incentive scheme. However, there can be no assurance that we will be able successfully to recruit and retain necessary qualified personnel. The loss or diminution in the services of our Directors or other senior managers or an inability to recruit, train and/or retain necessary personnel could materially adversely affect our business, financial condition and operating results.

Exchange Rate Risk

We are exposed to currency exchange rate risks. Between 2002 and 2006, the Tenge strengthened against the US Dollar, which increased our costs in US Dollar terms. If a large portion of our operating costs continue to be incurred in Tenge, any significant and sustained appreciation of the Tenge against the US Dollar will reduce our Tenge revenues and overall net income. In April 1999, the NBK and the Government publicly announced that they would cease to intervene in the foreign exchange markets to support the Tenge, allowing the exchange rate to float freely. While the NBK has stated that it has no plans to resume a managed exchange rate policy, there can be no assurance that the NBK's exchange rate policy will not change. Any decision to support the Tenge/US Dollar exchange rate could have an adverse impact on Kazakhstan's public finances and economy and could materially adversely affect our business, financial position and operating results.

Risks Relating to Our Indebtedness

Scheduled Debt Payments

We currently have a significant amount of indebtedness, primarily our publicly traded bonds, and we intend to borrow amounts under the EBRD Loan and continue to use debt financing for our future developments. As a result, the risks normally associated with debt financing may affect our business, financial position and operating results. If principal payments due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new equity or debt capital, then our cash flow may not be sufficient in all years to repay all maturing debt. If prevailing interest rates or other factors at the time of refinancing, such as the possible reluctance of lenders to make commercial loans in Kazakhstan, will result in higher interest rates, the increased interest expense would adversely affect our ability to service debt and complete the development of our projects. In addition, if we are unable to service indebtedness which is secured by a mortgage on property, we could lose this property through foreclosure proceedings.

Rising Interest Rates

Advances under our credit facilities bear interest at variable rates and we may decide to borrow additional monies with variable interest rates in the future. Increases in interest rates would increase our interest expense, which could adversely affect our business, financial condition and results of operations. Such increases in interest rates could also adversely affect our cash flow and our ability to service our debt.

Covenants and Obligations in Our Debt Agreements

Our credit facilities contain customary requirements, including restrictions and other limitations on the ability of certain parts of our business to incur debt as a result of financial covenants requiring the maintenance, at predetermined levels, of debt to assets ratios, secured debt to total assets ratios, debt service coverage ratios, fixed charge coverage ratios and minimum ratios of unsecured debt to unencumbered assets. In addition, the EBRD Loan requires, among other things, that Messrs Zhunussov and Arip retain at least an aggregate 35 per cent. beneficial interest in our business and that our paper business meet certain production levels. These and other covenants and obligations will reduce our flexibility to conduct our operations and create a risk of default on our debt if we cannot satisfy them. If we were to breach certain of our debt covenants, our lenders could require us to repay the debt immediately, and, if the debt is secured, could take possession of the property securing the loan. Moreover, such breach may result in additional restrictions on our use of

funds to pay dividends or make payments related to our operations. In addition, any breach may result in cross-defaults under other indebtedness.

Risks Relating to Our Paper Business

Cyclical Nature of Markets

Our paper business has historically been cyclical and sensitive to changes in general economic conditions. The demand for paper products therefore generally correlates with macroeconomic fluctuations in the economies in which the products are sold, as well as fluctuations in the global economy. The prices of paper products are influenced by many factors, including demand, worldwide production capacity, capacity utilisation rates, raw material and labour costs, exchange rates, trade barriers and improvements in paper-making processes. In addition, in the past, Russian producers have been suspected of “dumping” paper products in other markets, including Kazakhstan. Paper prices may dramatically fluctuate as a result of the factors described above and other factors, many of which are beyond our control.

Kazakhstan is our largest single market and accounted for approximately 95 per cent. of our total revenues in 2006. The Kazakh economy has experienced significantly fluctuating growth rates over the past ten years. If the sustained growth of the Kazakh economy does not continue, there may be certain negative consequences for all Kazakh paper-producing companies. In addition to Kazakhstan, China and Central Asian countries are also destinations for our products, and these areas, like Kazakhstan, face greater risks of volatility. Accordingly, any significant decrease in demand for paper products or decline in the price of these products in Kazakhstan or other emerging market economies could result in significantly reduced revenues and us holding significant amounts of raw materials, thereby materially adversely affecting our business, financial condition and operating results.

Variability of Financial Results

Our paper business experiences seasonality. Our revenues are typically lower in the first half of the year and higher in the second half due, amongst other things, to increased summer demand for packaging for juices and other beverages and for construction materials. There is also increased use of packaging during the year-end holiday period.

Operationally, paper manufacturing runs continuously, with the exception of scheduled maintenance shut-downs. Manufactured paper is added to stock, which means that working capital is higher in periods with lower sales and, therefore, a larger stock of paper. Unlike paper, storage of corrugated products is more difficult because of its large volume, the fact that it is more easily damaged and because its quality degrades over time. Corrugated packaging is produced to a given customer’s specification and any change in a customer’s brand name or design could render any stock that we hold in anticipation of repeat orders obsolete.

Raw Materials

Our main production expenses are raw materials, including waste paper, cellulose and starch, as well as energy costs, salaries and overheads. Changes in costs of our operations can occur as a result of unforeseen events, and could result in changes in profitability or reserve estimates. Many of these changes may be beyond our control.

Due to the remoteness of Kazakhstan from major sources of virgin wood fibre, we rely on recycled waste paper to produce our products. Whilst the percentage of paper being made available for recycling in Kazakhstan is currently increasing, there can be no guarantee that it will continue to increase sufficiently in line with our growth. Our expansion could therefore be restricted by the availability of this recycled waste paper, which could materially adversely affect our business, financial position and operating results. In addition, our plant currently operates using natural gas. If natural gas were to become unavailable for any reason, the plant could be operated with diesel oil, but this would result in increased energy costs. The plant is additionally dependent on electricity supplies, for which there is no alternative.

There can be no assurance that we will be able to secure all of our resource requirements in the future at prices that are comparable to those that have prevailed in the past. Significant increases in the cost of our raw materials and energy requirements could materially adversely affect our business, financial position and operating results.

Risks of Equipment Failure, Production Curtailment and Shut-downs

As with any manufacturer, our manufacturing processes depend on critical pieces of equipment which may, on occasion, be out of service as a result of unanticipated failures. In the future, we may experience material plant shutdowns or periods of reduced production as a result of any such equipment failures. We are also subject to interruptions in production related to catastrophic events such as explosions or natural disasters. Paper producers are particularly susceptible to the risk of fire. We have had small fires in our production facilities in the past and, although we have implemented or are currently in the process of implementing preventative and containment measures, which include sprinklers, fire breaks and a full-time fire brigade, there can be no assurance that we will not experience any fires in the future. An interruption in production capability may require us to make large capital expenditures to remedy the situation, which could have a material adverse effect on our business, financial condition and operating results.

Our production and distribution also rely on supplies of oil, gas and electricity and on rail transport. Although our boilers would also be able to run on diesel generators as an alternative to natural gas and we have the ability to transport our products by truck, any interruption in these services could negatively affect our business, financial condition and operating results.

Labour Disputes

The employees in our paper business are not members of trade unions. While we believe that current relations with our employees are satisfactory, there can be no assurance that work stoppages will not occur. Any such work stoppages could reduce or halt production and could materially adversely affect our business, financial condition and operating results if they were to continue for a significant period of time.

Technology Upgrades and Modernisation Programmes

As part of our business plan, we intend, amongst other things, to continue a programme of modernising and expanding the capacity of our facilities, including the introduction of equipment capable of manufacturing hygienic paper products. In relation to our two existing paper machines, upgrades will be made to increase their capacity and to add additional corrugating machines to expand capacity. We currently estimate that through to the end of 2016, we will make capital expenditures of approximately US\$380 million, as described in “Operating and Financial Review and Prospects – Liquidity and Capital Resources – Technology upgrades and modernisation programmes”. These capital expenditures are part of our technical modernisation programme to improve the quality and range of our products, replace outdated equipment, implement newer technologies, reduce the environmental impact of our production and reduce our raw material and energy costs.

The proceeds of the Offer, together with cash generated by our business and our current funding sources, may not be sufficient to meet our capital requirements in accordance with our current business plan. Accordingly, we may require additional debt and/or equity financing. We cannot be certain that any additional financing will be available on terms that are satisfactory to us. In addition, the terms of our existing indebtedness may restrict our ability to obtain additional financing. Any reduction in capital expenditures resulting from an inability to obtain additional financing may limit the implementation of our business plan, which may have a material adverse effect on our business, financial condition and operating results.

In addition, our capital investment programme is subject to a variety of potential problems and uncertainties, including changes in economic conditions, delays in completion, cost overruns and defects in design or construction. We may not be able to complete the modernisation of, and improvements at, our facilities as originally planned or on schedule, and the expected benefits of the programme may not be fully realised.

Risks Relating to Our Real Estate Business

General Considerations Relating to Property Investments

Several factors may affect the economic performance and value of our properties and their development, including:

- changes in the national, regional and local economic climate;
- local conditions such as a reduction in demand for the types of property that we own;
- the attractiveness of such types of property to tenants or purchasers;
- the ability to collect rent from tenants;

- changes in availability and costs of financing, which may affect the sale or refinancing of properties;
- governmental actions against properties or changes in the regulations governing the development or use of properties;
- governmental regulations relating to matters including financing, environmental usage, taxation and insurance;
- risks associated with construction activity at the properties, including delays, the imposition of liens and defects in workmanship;
- the development of infrastructure outside the property developments;
- covenants, conditions, restrictions and easements relating to the properties;
- the ability to pay for adequate maintenance, insurance and other operating costs (including taxes on those costs or on the proceeds of operations), which could increase over time; and
- acts of nature, such as earthquakes and floods, that may damage the properties.

Any negative change in one or more of the factors listed above could materially adversely affect our business, financial condition and operating results. Investors should be aware that the past performance of real estate investments in Kazakhstan might not be indicative of future results of our operations.

Construction and Development Risks

Part of our business is to develop real property, which subjects us to the general risks associated with construction and development projects. Our profitability will depend, in part, on the actual economic returns and the actual costs of developing land, which may differ significantly from our current estimates, including for reasons beyond our control. Our decision to develop a piece of land is typically based on the results of a feasibility study that includes an estimate of likely returns on any investment made in relation to such land. These feasibility studies will routinely set out estimates of expected or anticipated projected economic returns. These estimates are based on assumptions that include future rent levels, anticipated capital expenditure and cash operating costs and the anticipated return on investment. Actual cash operating costs and economic returns may differ significantly from those anticipated by such studies and estimates. There are a number of uncertainties inherent in the development of land as carried on by us that may involve the following risks:

- we may be unable to proceed with the development of properties because we cannot obtain financing upon favourable terms;
- we may incur construction costs for a development project which could make completion of the project uneconomical because we underestimated actual material, labour or other costs and because we may then not be able to increase rents or sale prices to compensate for the increase in those costs;
- we may face increased competition for land that we are seeking to acquire, and consequently not be able to purchase land at the price reflected in our feasibility studies;
- we may be unable to obtain, or face delays in obtaining, required zoning, land use, building, occupancy and other governmental permits and authorisations, which could result in increased costs and could require us to abandon a project entirely;
- we may be unable to complete construction and leasing or sale of a property on schedule, resulting in increased debt service expenses and construction or renovation costs, which may result in the termination of existing investment agreements, and claims by third parties for damages and termination of tenancy and other agreements that we have entered into in anticipation of completion;
- we may have to lease developed properties to tenants at below expected rental rates; and
- occupancy rates and rents at newly completed properties may fluctuate depending on a number of factors, including market and economic conditions, and may result in our investment not being profitable.

Any negative change in one or more of the factors listed above could materially adversely affect our business, financial condition and operating results.

Valuation

There is a limited amount of publicly available data and research relating to the real estate market in Kazakhstan. Recently, a number of organisations have begun to publish statistical and other research data with respect to the Kazakh real estate market. However, such data is generally narrower in scope and less consistent than data relating to real estate markets in other industrialised countries. This lack of data makes it difficult to assess market values and rental values of real estate in Kazakhstan. Scot Holland in association with CB Richard Ellis (being the Valuer) has valued our key real estate properties as of 24 and 25 May 2007 based upon comparisons with recent sales of similar properties. As the final sales prices were not always publicly available, the valuation estimated certain sales prices based upon initial asking prices. The valuation also contains subjective assessments of, amongst other things, the desirability of our properties relative to comparative properties. Accordingly, we cannot assure you that the values ascribed to our properties reflect their actual market values as at any other date.

In addition, the use of different assumptions or valuation models, which may be feasible in more developed jurisdictions, would likely produce different valuation results.

Rental Income and Defaults

The financial stability of our future tenants may affect the financial performance of our properties. Tenant defaults may result in a significant reduction in rental revenues, which could require us to contribute additional capital or obtain alternative financing to meet obligations under any financing arrangements relating to such properties or discharge other costs. In addition, the costs and time involved in enforcing rights under a lease with a defaulting tenant, including eviction and re-leasing costs, may be significant. If the tenants were to decide not to renew their leases, we may not be able to re-let their space on terms that are as favourable as those contained in existing leases, if at all. If tenants do not renew their leases, we may need to expend significant time and money to attract replacement tenants. Although we believe that demand is currently higher than the amount of available space, there can be no assurance that we will be able to lease all of our developed warehouse and office space. Moreover, if tenants default, if leases cannot be promptly renewed or the relevant space cannot promptly be re-let, or if the rental rates upon renewal or reletting are significantly lower than the expected rates, then our business, financial condition and operating results could be materially adversely affected.

Liquidity of Underlying Investments

Real estate investments generally cannot be sold quickly. Our properties are subject to tax laws and financing covenants. In addition, in raising additional financing, we may encumber new or existing properties, which may further restrict their transferability. As a result, we may not be able to vary our portfolio promptly in response to economic or other conditions, which could have a material adverse effect on our business, financial condition and operating results.

Risks Relating to Kazakhstan and to Investments in Emerging Markets

Generally

Investors in companies whose assets are located in emerging markets, such as Kazakhstan, should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant legal, regulatory, economic and political risks. Investors should also note that emerging economies, such as Kazakhstan's, are subject to rapid change and that the information set out in this prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of these risks, investing in the GDRs is appropriate. Generally, investment in a company whose assets are located in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisers before making an investment in the GDRs.

With the exception of two subsidiaries located in Uzbekistan and Kyrgyzstan, all of our production operations are conducted in Kazakhstan. Accordingly, we are substantially dependent on the economic and political conditions prevailing in Kazakhstan. Kazakhstan became an independent sovereign state in 1991 as a result of the dissolution of the former Soviet Union. Since then, Kazakhstan has experienced significant change as it emerged from a single-party political system and a centrally controlled command economy to a market-oriented model. The transition was initially marked by political uncertainty and tension, a recessionary economy marked by high inflation and instability of the local currency and rapid, but incomplete, changes in the legal environment. Since

1992, Kazakhstan has actively pursued a programme of economic reform designed to establish a free-market economy through privatisation of state enterprises and deregulation, and is more advanced in this respect than some other countries of the former Soviet Union. However, as with any transition economy, there can be no assurance that such reforms and other reforms described elsewhere in this prospectus will continue or that such reforms will achieve all or any of their intended aims. Kazakhstan depends on neighbouring states to access world markets for a number of its major exports, including oil, natural gas, steel, copper, ferro-alloys, iron ore, aluminium, coal, lead, zinc and wheat. Kazakhstan is therefore dependent upon good relations with its neighbours to ensure its ability to export. Should access to these export routes be materially impaired, this could adversely impact the economy of Kazakhstan. Adverse economic factors in the regional markets may also adversely impact Kazakhstan's economy.

Since independence, Kazakhstan has had only one president, Mr. Nazarbayev. Under the current constitution, Mr. Nazarbayev could stand for reelection following expiry of his current, second, term in the next scheduled presidential election due to be held in late 2012. Any uncertainty in relation to succession could have an adverse effect on the Kazakh economy, which could, in turn, materially adversely affect our business, financial condition and operating results. Although Kazakhstan has in the recent past enjoyed relative stability, it could be adversely affected by political unrest in the Central Asian region. In common with other countries in Central Asia, Kazakhstan could be adversely affected by terrorism or by military or other action taken against sponsors of terrorism in the region.

According to figures compiled by the Kazakhstan National Statistics Agency, GDP has continued to grow in real terms following the adoption of a floating exchange rate policy in April 1999, increasing by 13.5 per cent. in 2001, 9.8 per cent. in 2002, 9.2 per cent. in 2003, 9.6 per cent. in 2004, 9.4 per cent. in 2005 and by 10.6 per cent. in 2006. However, there can be no assurance that GDP will continue to grow and any decrease in GDP or in the rate of GDP growth in subsequent years could adversely affect Kazakhstan's economic development, which could, in turn, materially adversely affect our business, financial condition and operating results.

Uncertainty Over Further Market-based Economic Reforms

The need for substantial investment in many enterprises has driven the Government's privatisation programme. This programme has excluded certain enterprises that are deemed to be strategically significant by the Government, although major privatisations in key sectors have taken place, such as full or partial sales of certain large oil and gas producers, mining companies and the national telecommunications company. However, there remains a need for substantial investment in many sectors of the Kazakh economy, and there are areas in which economic performance in the private sector is still constrained by an inadequate business infrastructure. Further, the significant size of the shadow economy may adversely affect the implementation of reforms and hamper the efficient collection of taxes. The Government has stated that it intends to address these problems by improving the current business infrastructure and tax administration and by continuing the privatisation process. However, there can be no assurance that these measures will be effective or that any failure to implement them may not materially adversely affect our business, financial condition and operating results.

Underdevelopment and Evolution of the Legislative, Tax and Regulatory Frameworks in Kazakhstan

Although a large volume of legislation has come into force since early 1994, including a new tax code, laws relating to foreign arbitration and foreign investment, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, economic partnerships and companies, state enterprise reform and privatisation, the legal framework in Kazakhstan, whilst one of the most developed among the countries of the former Soviet Union, is still at a relatively early stage of development compared to countries with established market economies. The judicial system, judicial officials and other Government officials in Kazakhstan may not be fully independent of external social, economic and political forces. There have in the past been recorded instances of improper payments being made by private enterprises to public officials, court decisions can be difficult to predict and administrative decisions have on occasion been inconsistent. Kazakhstan is a civil law-based jurisdiction and, as such, judicial precedents have no binding effect on subsequent decisions.

Further, the legal and tax authorities may make arbitrary judgments and assessments of tax liabilities and challenge previous judgments and tax assessments, thereby rendering it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest. As a result

of these ambiguities, as well as the lack of an established system of precedent or consistency in legal interpretation, the legal and tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed legal and tax system. It is expected that the tax legislation in Kazakhstan will continue to evolve, which may result in additional taxes becoming payable, or becoming payable more quickly than at present, or costs and expenses that are currently deductible no longer being deductible. The tax authorities are able to raise additional tax assessments for taxes for five years after the end of the relevant tax period. For all taxes, the fact that the tax authorities have conducted an audit of a particular period does not prevent them from revisiting that period and raising an additional assessment. In addition, Kazakhstan's tax system does not have the concept of the tax authorities giving legally binding rulings on tax issues that are put to them. Additional tax exposure could have a material adverse effect on our business, financial condition and operating results and there can be no assurance that any tax legislation passed in the future will not materially adversely affect our business, financial condition and operating results.

In 2001, Kazakhstan introduced its first corporate governance code, the Kazakhstan Corporate Management Code, which became binding for companies listed on the Kazakhstan Stock Exchange in 2003. However, the Kazakh legal system continues to suffer from a lack of effectiveness and fails to provide adequate support for strong corporate governance practices. In addition, as a company incorporated in the Isle of Man, we are not required by Isle of Man law to comply with the UK Combined Code on Corporate Governance principles or similar standards of other European Union member states or the United States.

Possible Changes in Exchange Rate Policies

The Tenge is convertible for current account transactions, although it is not a fully convertible currency for capital account transactions outside Kazakhstan. Between 1991, when Kazakhstan began its transition to a market-based economy, and April 1999, the NBK maintained a managed exchange rate policy which, although permitting general trends in exchange rates to reflect market conditions, involved official intervention aimed at limiting fluctuations. Depressed export markets in 1998 and early 1999, however, caused considerable pressure on Kazakhstan's managed exchange rate and resulting official intervention in the foreign exchange markets led to losses in foreign currency reserves. In response to these pressures, the authorities instituted a number of expenditure cuts and took revenue increasing measures and, in April 1999, the NBK adopted a floating rate exchange policy for the Tenge. The Tenge fell by 64.6 per cent. against the US Dollar in the year ended 31 December 1999, compared to a depreciation of 10.7 per cent. in the year ended 31 December 1998. Following the adoption of a floating exchange rate policy, the Tenge continued to depreciate in value against the US Dollar, although at a much slower rate, and in 2006 there was some appreciation against the US Dollar.

Exchange rates may also be affected by the levels of inflation in Kazakhstan, as high rates of inflation tend, over time, to lead to a depreciation of currency. While the NBK has stated that it has no plans to resume a managed exchange rate policy, there can be no assurance that the NBK's policy will not change and any subsequent decision to support the exchange rate could have an adverse impact on Kazakhstan's public finances and economy, which would, in turn, have a material adverse effect on our business, financial condition and operating results.

Dependency on Oil Exports

Countries in the Central Asian region, such as Kazakhstan, whose economies and state budgets rely in part on the export of oil and oil products and other commodities, the importation of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by volatility in oil and other commodity prices and by any sustained fall in them or by the frustration or delay of any energy or other commodity infrastructure projects caused by political or economic instability in countries engaged in such projects. In addition, any fluctuations in the value of the US Dollar relative to other currencies may cause volatility on earnings from US Dollar-denominated oil exports. An oversupply of oil or other commodities in world markets or a general downturn in the economies of any significant markets for oil or other commodities or weakening of the US Dollar relative to other currencies might have a material adverse effect on the Kazakhstan economy, which would, in turn, have a material adverse effect on our business, financial condition and operating results.

Environmental Regulation

Kazakhstan has adopted environmental regulations requiring industrial companies to undertake programmes to reduce, control or eliminate various types of pollution and to protect natural resources. We are required to actively monitor air emission levels, ambient air quality, the quality of nearby surface water, levels of contaminants in soil and the discharge of solid waste. We must also submit an annual report on pollution levels to the environmental authorities in Kazakhstan. In addition, the responsible environmental authorities conduct additional testing to validate our results. If we exceed certain emissions levels in Kazakhstan, we become subject to additional payment obligations.

Environmental laws and regulations in Kazakhstan are continually changing and have recently become more restrictive. A new environmental code has been adopted by the Kazakh parliament that will require us to renew our environmental permits in accordance with that new code. The effect of the new environmental code is that the standard that must be met before we can renew our environmental permits has been raised. Additionally, under the new environmental code, companies engaged in manufacturing or other activities that could potentially be environmentally hazardous (which includes our group companies) are required to carry mandatory environmental liability insurance at stated amounts and to make good any environmental damage resulting from their operations. Non-compliance with these insurance requirements could result in administrative fines or other penalties being levied. If changes in environmental compliance obligations were to result in us having to use different assumptions to estimate liabilities, or if unanticipated problems were to arise in our operations as a result of changes in environmental compliance obligations, our expenses and provisions would increase to reflect these changes. These expenses and provisions could materially adversely affect our business, financial condition and operating results.

Physical Infrastructure

Kazakhstan's physical infrastructure is in poor condition, which could disrupt normal business activity. Kazakhstan's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained over the past 15 years. Particularly affected are rail and road networks, power generation and transmission, pipelines and communication systems. There can be no assurance that the Government will dedicate budget revenues to improving the country's physical infrastructure. A lack of progress in the rehabilitation of Kazakhstan's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Kazakhstan and may interrupt business operations, any of which could have a material adverse effect on our business, financial condition and operating results.

Employment Laws

The Government intends to enact a new labour code that will come into force on 1 January 2008, and which is expected to extend employee rights and place further obligations on employers in relation to, for example, employees' minimum holiday entitlements, which will increase from 18 to 28 calendar days, employment protection rights during probationary periods and the right to a safe working environment. Giving effect to the increased employee rights and employer obligations contained in the new labour code may require us to incur additional expense, which could have a material adverse effect on our business, financial condition and operating results.

Competition Regulations

Under Kazakh competition law, the prior consent of the Kazakhstan Competition Committee is required for any acquisition of control of a Kazakh entity, or of greater than 25 per cent. of the shares in, or 10 per cent. (by book value) of the assets of, such an entity. Failure to obtain such prior consent could render such acquisition invalid, upon the application by the Kazakhstan Competition Committee to a Kazakh court. The Kazakhstan Competition Committee can make such an application to a court regardless of whether or not (i) competition has been reduced as a result of such acquisition or (ii) there has been an abuse, by the acquirer, of its dominant position in the market. There is a three-year time limit, from the Kazakhstan Competition Committee becoming aware of the matter in question, for it to make such an application.

We have reorganised our business through the transfer between members of our group of shares and assets. Many of these transfers required the prior approval of the Kazakhstan Competition Committee, which we have not sought. There can be no assurance that the Kazakhstan Competition Committee will not conclude that parts of the reorganisation of our business were carried out in contravention of applicable legislation. Any such finding could result in the imposition of

administrative sanctions or require the transfer of such newly acquired or created companies or other assets to be unwound, materially adversely affecting our business, financial conditional and operating results.

Reliability of Data and Statistics

Official statistics and other data published by Kazakh state authorities may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on different bases than those used in more developed countries. We have not independently verified such official statistics and other data, and any discussion of matters relating to Kazakhstan in this prospectus is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information.

Specifically, investors should be aware that certain statistical information and other data contained in this prospectus has been extracted from official governmental sources in Kazakhstan and was not prepared specifically in connection with the preparation of this prospectus. We accept responsibility only for the correct extraction and reproduction of such information.

Kazakh Securities Laws

In February 2007, the Kazakh parliament approved Law 230-III ZRK containing amendments to a number of existing laws, including the Securities Market Law. As amended, the Securities Market Law now provides that any legal entity deemed to be resident in Kazakhstan must obtain the prior approval of the Kazakh financial services regulator (the Agency of the Republic of Kazakhstan on the Regulation and Supervision of the Financial Market and Financial Organisations) with respect to any placement of securities abroad. In such case, the amended law also requires a listing of the securities on the Kazakhstan Stock Exchange and that at least 20% of the securities be offered in Kazakhstan. An entity is deemed to be resident in Kazakhstan, and subject to the requirements described above, if it is organised under the laws of Kazakhstan or if the principal management is carried out and strategic commercial decisions are made in Kazakhstan.

We were incorporated in the Isle of Man and we intend to maintain residency there for tax purposes. Accordingly, the Articles provide that the principal management and all strategic commercial decisions regarding our business are to be made, and meetings of our Board of Directors are to be held, outside of Kazakhstan. Based upon informal discussions with the Kazakh regulator, we believe that the new requirements of the Securities Market Law do not require us to obtain approval for the Offer or to effect a local listing or placement.

The changes to the Securities Market Law are broadly worded and, because they are relatively recent, there is no available interpretive guidance. Therefore, there can be no assurance that the Kazakh financial services regulator or a Kazakh court would not consider other factors, in addition to our jurisdiction of incorporation, place of strategic decisions and effective management, to be relevant in determining whether we are resident in Kazakhstan for the purposes of the Securities Market Law and that they would determine that we comply with the Securities Market Law. The Securities Market Law does not specify any penalties for non-compliance with the new provisions. However, the authorities could seek to impose general administrative penalties, which are relatively modest fines. They could also seek to require us to effect a local listing and placement of securities. There can also be no assurance that the relevant authorities would not seek to impose other penalties or requirements to remedy a claimed breach of the Securities Market Law provisions. Any such actions could have a material adverse effect on our business, results of operations and financial condition.

Risks Relating to the Offer, the GDRs and the Trading Market

Control by Existing Shareholders

Following the Offer, approximately 51 per cent. of our issued Shares (or approximately 48 per cent. if the maximum number of Shares are sold pursuant to the Over-allotment Option) will be controlled by the existing shareholders, Oreo Limited and Pleco Limited. As long as Oreo Limited and Pleco Limited together continue to own a majority of the Shares, they will be able to control the outcome of all matters requiring a simple majority vote of our shareholders (and, depending on the size of their shareholding, matters requiring greater than a simple majority vote) including, but not limited to, proposed amendments to the Articles, which govern the rights attaching to the Shares, and significant corporate transactions required to be subject to shareholder consent. Through their ability to control the election of Directors and the representation on the Board, they will also be able to

control or exert significant influence on all of our policy decisions and strategic direction. The interests of Oreo Limited and Pleco Limited and their respective shareholders, Messrs. Arip and Zhunussov, may not be aligned and, at times, could conflict with those of the holders of the GDRs, whose investment in the GDRs could be adversely affected by such conflict.

Market Value of the GDRs

Prior to the Offer, there was no trading market for the GDRs. There is no assurance that any active trading market for the GDRs will develop or be sustained after the Offer, or that the Offer Price will correspond to the price at which the GDRs will trade in the public market subsequent to the Offer. If no trading market develops for the GDRs, investors may experience difficulties in selling the GDRs. In addition, sales of additional Shares or GDRs into the public market following the Offer, on the London Stock Exchange or otherwise, could adversely affect the market price of the GDRs. If a substantial number of the Shares or the GDRs are offered for sale, the trading price of the GDRs may be depressed.

Publicly traded securities from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them. The market price of the GDRs may fluctuate significantly in response to a number of factors, many of which are beyond our control, including variations in operating results, changes in financial estimates by securities analysts, changes in market valuations of similar companies, announcements of significant developments in our business, future issues or sales of GDRs and stock market price and volume fluctuations. Any of these events could result in a material decline in the price of the GDRs.

Dividends

Our business, financial condition and operating results are entirely dependent on the trading performance of our subsidiaries, and our ability to pay dividends will depend on the level of distributions, if any, received from these subsidiaries. Our subsidiaries may from time to time be subject to restrictions on their ability to make distributions to us, as a result of factors such as restrictive covenants contained within loan agreements, foreign exchange limitations or regulatory, fiscal or other restrictions. Therefore, there can be no assurance as to our ability to pay dividends in the future.

Voting Rights Limited by Terms of the Deposit Agreement

Holders of GDRs will have no direct voting rights with respect to the Shares represented by the GDRs. They will have a right to instruct the Depositary how to exercise those rights, subject to the provisions of the Deposit Agreement. However, there are practical limitations upon their ability to exercise voting rights due to additional procedural steps involved in our communication with holders of GDRs. GDR holders will not receive notices of meetings directly from us, but from the Depositary, which has undertaken to deliver to GDR holders, as soon as practicable after receipt of the same by the Depositary, notices of meetings, copies of voting materials that it receives from us and a statement as to the manner in which instructions may be given by GDR holders. As a result, the process of exercising voting rights may take longer for holders of GDRs than for holders of Shares. In addition, there is a possibility that a GDR holder will not receive voting materials or otherwise learn of a meeting in time to enable that GDR holder to return voting instructions to the Depositary in a timely manner. In the event that the Depositary does not receive voting instructions from a GDR holder either because no voting instructions were returned to the Depositary or because the voting instructions are incomplete, illegible or unclear or if the GDR holder fails to confirm its ownership interest and identify the ultimate beneficial owner, if required, of the GDRs, a discretionary proxy may be designated by us to exercise the voting rights of such GDR holder. No such discretionary proxy will be appointed with respect to any matter as to which we inform the Depositary that we do not wish such proxy to be given or that such matter materially and adversely affects the rights of holders of GDRs.

Additionally, GDR holders will be unable to instruct the Depositary to introduce resolutions on the agenda of our shareholders' meetings, request the convening of shareholders' meetings, nominate candidates for the Board or otherwise exercise the rights of minority ownership.

GDR holders who wish to take such action must timely request the cancellation of GDRs and take delivery of the underlying Shares, thus becoming the owner of such Shares on our share register. See "Terms and Conditions of the GDRs". However, no application has been made, or will be made, to admit the Shares to trading on the London Stock Exchange's regulated market for listed securities or elsewhere.

Future Issuances or Sales of Shares or GDRs

Future issuances or sales of Shares, or securities convertible into or exchangeable for Shares, directly or in the form of depositary receipts at any time by us, or even the perception that such issuances or sales might occur, could adversely affect the market price of the GDRs and the Shares. Although no Shares are listed or admitted to trading on any securities market at the date of this prospectus, subsequent sales of a substantial number of Shares or GDRs in the public markets following the Offer, or the perception that these sales may occur, could have a material adverse effect on the price of the GDRs and could impair our ability to obtain further capital through an offering of equity securities. Although we and the existing shareholders, Oreo Limited and Pleco Limited, have entered into customary lock-up arrangements with ING for a period of 360 days from the Closing Date (or, if later, from the last closing date in respect of an exercise of the Over-allotment Option), these restrictions may be waived by ING in its discretion, in whole or in part. See “Subscription and Sale”. Neither the Articles nor any requirements of Isle of Man company law oblige the Company to make a pre-emptive offer of any Shares proposed to be issued in the future to existing holders of Shares (unless the Company by special resolution otherwise directs). Even if pre-emptive rights are made available to holders of GDRs, the process for exercising such pre-emptive rights through the Depositary may take longer for such holders than for holders of Shares and we cannot assure investors that they will be able to instruct the Depositary to exercise pre-emptive rights in a timely manner. Furthermore, we may issue other classes of securities with rights, preferences or privileges that are more favourable than those attached to the Shares.

Passive Foreign Investment Company Considerations

We believe that we were not in 2006 a passive foreign investment company (“PFIC”) for US federal income tax purposes. However, because this determination is made annually at the end of each taxable year and is dependent upon a number of factors, some of which are beyond our control, including the value of our assets and the amount and type of our income, there can be no assurance that we will not become a PFIC or that the US Internal Revenue Service (the “IRS”) will agree with our conclusion regarding our PFIC status. In particular, depending upon the future value of our real estate assets, there is a substantial risk that the Company might be treated as a PFIC in subsequent years. If we are a PFIC in any year, US holders could suffer adverse consequences as discussed below.

In general, a corporation organised outside the United States will be treated as a PFIC in any taxable year in which either (i) at least 75 per cent. of its gross income is “passive income” or (ii) on average at least 50% of the value of its assets is attributable to assets that produce passive income or are held for the production of passive income. Passive income for this purpose generally includes, among other things, dividends, interest, royalties, rents and gains from commodities and securities transactions and from the sale or exchange of property that gives rise to passive income. In determining whether a non-U.S. corporation is a PFIC, a proportionate share of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25 per cent. interest (by value) is taken into account.

If we are a PFIC in any year during which a US holder owns the GDRs, such US holder could be liable for additional taxes and interest charges upon certain distributions by us or upon a sale, exchange or other disposition of the GDRs at a gain, whether or not we continue to be a PFIC. The tax will be determined by allocating such distributions or gain ratably to each day of such US holder’s holding period. The amount allocated to the current taxable year and any holding period of such US holder prior to the first taxable year for which we are a PFIC will be taxed as ordinary income (rather than capital gain) earned in the current taxable year. The amount allocated to other taxable years will be taxed at the highest marginal rates applicable to ordinary income for each such taxable year, and an interest charge will also be imposed on the amount of taxes for each such taxable year. In addition, if we are a PFIC, a person who acquires the GDRs from a deceased US holder generally will be denied the step-up of the tax basis for US federal income tax purposes to fair market value at the date of such deceased US holder’s death, which would otherwise be available with respect to a decedent dying in any year other than 2010. Instead, such person will have a tax basis equal to the lower of such fair market value or such US holder’s tax basis.

The above results may be eliminated if a “mark-to-market” election is available and a US holder validly makes such an election as of the beginning of such US holder’s holding period. If such election is made, such US holder generally will be required to take into account the difference, if any, between the fair market value of, and its adjusted tax basis in, the GDRs at the end of each taxable

year as ordinary income or, to the extent of any net mark-to-market gains previously included in income, ordinary loss, and to make corresponding adjustments to the tax basis of such GDRs. In addition, any gain from a sale, exchange or other disposition of the GDRs will be treated as ordinary income, and any loss will be treated first as ordinary loss (to the extent of any net mark-to-market gains previously included in income) and thereafter as capital loss. A mark-to-market election is available to a US holder only if the GDRs are considered “marketable stock”. Generally, stock will be considered marketable stock if it is “regularly traded” on a “qualified exchange” within the meaning of applicable US Treasury regulations. A class of stock is regularly traded during any calendar year during which such class of stock is traded, other than in de minimis quantities, on at least 15 days during each calendar quarter. A qualified exchange means (i) a national securities exchange that is registered with the Securities and Exchange Commission or the national market system established pursuant to Section 11A of the Securities Exchange Act of 1934 or (ii) a non-US securities exchange that is regulated or supervised by a governmental authority of the country in which the securities exchange is located and meets certain trading, listing, financial disclosure and other requirements set forth in US Treasury regulations.

The above results may also be eliminated if a US holder is eligible for and timely makes a valid “QEF election.” If a QEF election were made, such US holder generally would be required to include in income on a current basis its *pro rata* share of our ordinary income and net capital gains. In order for a US holder to be able to make a QEF election, we would be required to provide such US holder with certain information. As we do not expect to provide US holders with the required information, prospective investors should assume that a QEF election will not be available.

Prospective investors should consult their own tax advisers regarding the US federal income tax consequences of an investment in a PFIC.

Backup Withholding Tax and Information Reporting Requirements

Under certain circumstances, US backup withholding tax and/or information reporting may apply to US holders with respect to payments made on or proceeds from the sale, exchange or other disposition of the GDRs, unless an applicable exemption is satisfied. US holders that are corporations generally are excluded from these information reporting and backup withholding tax rules. Any amounts withheld under the backup withholding tax rules will be allowed as a credit against a US holder’s US federal income tax liability, if any, or will be refunded, if such US holder furnishes the required information to the IRS on a timely basis.

Reportable Transactions

A US holder that participates in any “reportable transaction” (as defined in US Treasury regulations) must attach to its US federal income tax return a disclosure statement on Form 8886. US holders are urged to consult their own tax advisers as to the possible obligation to file Form 8886 with respect to the sale, exchange or other disposition of any non-US currency received as a dividend on, or as proceeds from the sale of, the GDRs.

The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of GDRs or Shares. You should consult your tax advisor concerning the tax consequences of your particular situation.

THE OFFER

The Company	Kazakhstan Kagazy plc is the issuer of the Shares underlying the GDRs.
The Depository	The Bank of New York.
The Offer.....	We are offering up to 55 million Shares in the form of GDRs. Each GDR represents one Share. The GDRs are being offered outside of the United States in offshore transactions to selected investors in reliance on Regulation S and within the United States to “qualified institutional buyers” as defined in, and in reliance on, Rule 144A or another exemption from the registration requirements of the Securities Act.
EBRD Priority Participation Right	As part of the arrangements agreed with EBRD, we have given EBRD a priority right (without any obligation on EBRD) for it to acquire, at the Offer Price, up to US\$10 million of GDRs at the Offer Price. EBRD has elected to exercise this right. The Company has drawn down the subordinated loan facility of the EBRD Loan, in an amount equal to the EBRD’s election, which the EBRD will assign to us and cancel in consideration for the GDRs it acquires in the Offer. EBRD would additionally be entitled to an assignment fee in the amount of 10 per cent. of the amount of any such assignment in addition to any interest accrued on the assigned loan from the date of disbursement of the loan until the date on which EBRD exercised the priority right.
The Existing Shareholders.....	Oreo Limited and Pleco Limited. Immediately prior to the Offer, Oreo Limited and Pleco Limited directly each own 50 per cent. of our issued share capital.
Shares	As at the date of this prospectus, our issued share capital consists of 50,000,000 fully-paid Shares each with a par value of US\$0.10. See “Description of the Company and Certain Requirements of Isle of Man Law”. Immediately after the Offer, our issued share capital will consist of 105 million fully-paid Shares (assuming the Over-allotment Option is exercised in full). Our total share capital available for issue consists of 200 million Shares.
GDRs.....	Each GDR will represent one Share issued and delivered pursuant to the deposit agreement (the “Deposit Agreement”) to be dated on or about 23 July 2007 between the Company and the Depository. The Rule 144A GDRs will be evidenced by the Master Rule 144A GDR and the Regulation S GDRs will be evidenced by the Master Regulation S GDR. Separate certificates in definitive registered form may be issued in respect of GDRs in certain circumstances. For more information, see “Summary of Provisions Relating to the GDRs while in Master Form”. Pursuant to the Deposit Agreement, the Shares represented by the GDRs will be held by BNY (Nominees) Limited, as custodian, for the benefit of the Depository.
Offer Price	US\$5.00 per GDR.
Closing Date.....	25 July 2007.
Over-allotment Option.....	The Company has agreed with the Lead Manager that the Lead Manager may, acting as principal, acquire or procure acquirers for up to 7 million additional GDRs, representing additional Shares made available by the Company at US\$5.00 per GDR to effect stabilisation transactions.

Lock Up	<p>We have agreed that we will not, and that none of our subsidiaries nor any person acting on our or their behalf will, issue, offer, pledge, sell, contract to issue or sell, issue or sell any option or contract to purchase or subscribe, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, deposit into any depositary receipt facility or otherwise transfer or dispose of (or publicly announce any such issue, offer, pledge, sale, grant, deposit, transfer or disposal of) any Shares or GDRs or any securities convertible into or exercisable or exchangeable for Shares or GDRs or enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of the ownership of Shares or GDRs, without the prior written consent of the Lead Manager for a period of 360 days after the Closing Date except pursuant to the Offer as described in this prospectus.</p> <p>Each of our existing shareholders, Oreo Limited and Pleco Limited, has agreed, subject to certain exceptions, that they will not, and that no person acting on their behalf will, issue, offer, pledge, sell, contract to issue or sell, issue or sell any option or contract to purchase or subscribe, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, deposit into any depositary receipt facility or otherwise transfer or dispose of (or publicly announce any such issue, offer, pledge, sale, grant, deposit, transfer or disposal of) any Shares or GDRs or any securities convertible into or exercisable or exchangeable for Shares or GDRs or enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of the ownership of Shares or GDRs, without the prior written consent of the Lead Manager for a period of 360 days after the Closing Date except pursuant to the Offer as described in this prospectus.</p>
Transfer Restrictions	The GDRs will be subject to certain restrictions on transfer. See “Transfer Restrictions”.
Dividends and Dividend Policy	The Directors may recommend the declaration of dividends, which must be approved in our annual general meeting by shareholders, and/or declare interim dividends. We do not expect that the Directors will declare or pay any dividends in the foreseeable future as the Directors intend to reinvest net income into our business. However, we do not rule out paying dividends in future years. Such a decision will depend on our financial performance, cash flows, the results of the investment projects currently underway and constraints under our financing documents. See “Dividend Policy”.
Taxation	There are certain tax consequences of holding and purchasing GDRs as described in “Taxation”.
Reasons for the Offer and Use of Proceeds	<p>The reason for the Offer is to enable us to access capital from the international capital markets to repay existing indebtedness and make further investment into our business. Assuming full exercise of the Over-allotment Option, we expect that the net proceeds received by us pursuant to the Offer will be approximately US\$256 million.</p> <p>With these proceeds, we intend to use approximately:</p> <ul style="list-style-type: none"> ● US\$116 million for capital improvements to our paper production facilities (through 2012); ● US\$60 million to develop the PEAK Industrial Park; ● US\$50 million to refinance certain of our existing bank debt; and ● US\$30 million to develop the PEAK Logistics Centre and related infrastructure.

Up to US\$90 million of the amount allocated for capital improvements to our paper production facilities may be used to repurchase or redeem listed bonds issued by our subsidiary Kazakhstan Kagazy JSC. We may issue new bonds in the future as and when required for capital expenditures.

Assuming full exercise of the Over-allotment Option, the total commissions and expenses of the Offer are expected to be approximately US\$19 million.

Listing and Market Prior to the Offer, there has been no market for the GDRs. Applications have been made to the UK Financial Services Authority in its capacity as competent authority for the purposes of Part VI of FSMA for a block listing of up to 55 million GDRs to be admitted to listing on the Official List of the UKLA and to the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange's market for listed securities under the symbol "KAG".

Admission to the Official List together with admission to trading on the London Stock Exchange's market for listed securities constitute official listing on a stock exchange. Application has been made for the GDRs to be quoted on the London Stock Exchange's International Order Book. Application has also been made for eligibility to trading of the Rule 144A GDRs on PORTAL.

Conditional Dealings and Commencement of Trading on the London Stock Exchange.....

Conditional dealings in the GDRs will commence on a conditional basis on the London Stock Exchange on or about 19 July 2007. The earliest date for settlement of such dealings is expected to be 24 July 2007. It is expected that the admission will take place and unconditional dealings in the GDRs will commence on the London Stock Exchange on or about 25 July 2007. All dealings in the GDRs prior to the commencement of unconditional dealings will be on a conditional basis, will be of no effect if the admission does not take place, and will be at the sole risk of the parties concerned.

Settlement and Delivery of the GDRs.....

Payment for the GDRs issued pursuant to Regulation S, evidenced by the Master Regulation S GDR, will take place through Euroclear or Clearstream, Luxembourg in US Dollars in same-day funds. It is expected that such GDRs will be accepted into the settlement systems of Euroclear or Clearstream, Luxembourg. Payment for the GDRs issued pursuant to Rule 144A, evidenced by the Master Rule 144A GDR, will take place through DTC in US Dollars in same-day funds. It is expected that such GDRs will be accepted into the settlement systems of DTC. It is expected that the payment and delivery of the GDRs will be made on or about 24 July 2007. Upon acceptance by DTC, a single Master Rule 144A GDR will be held in book-entry form and will be issued to DTC and registered in the name of Cede & Co, as nominee for DTC. The Master Regulation S GDR will be registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for The Bank of New York, London Branch, as common depository for Euroclear and Clearstream, Luxembourg. Upon admission, the GDRs will be traded through the London Stock Exchange and prices will be quoted in US Dollars.

Voting

The Deposit Agreement contains arrangements allowing holders of GDRs to vote the underlying Shares in accordance with Isle of Man law. Holders of Shares are entitled to one vote per Share at a shareholders' meeting. See "Terms and Conditions of the GDRs—

Voting Rights” and “Description of the Company and Certain Requirements of Isle of Man Law—Memorandum and Articles of Association—General meetings”.

General Information

The security numbers for the GDRs offered under the terms of the Offer are as follows:

London Stock Exchange Trading Symbol: KAG

Regulation S GDRs:

ISIN: US48667M2035

Common Code: 030232097

CUSIP Number: 48667M 203

SEDOL: B1XK649

Regulation 144A GDRs:

ISIN: US48667M1045

Common Code: 030043936

CUSIP Number: 48667M 104

SEDOL: B1XK627

PORTAL: P48667M104

DIRECTORS, REGISTERED AGENT AND ADMINISTRATOR AND ADVISERS

Directors	Baglan Zhunussov Maksat Arip Thomas Johnson
Registered Agent and Administrator	Equity Limited 15 – 19 Athol Street Douglas Isle of Man IM1 1LB
Registered Office of the Company	15 – 19 Athol Street Douglas Isle of Man IM1 1LB
Global Co-ordinator, Bookrunner and Lead Manager	ING Bank N.V. 60 London Wall London EC2M 5TQ United Kingdom
Legal Adviser to the Global Co-ordinator and the Transaction as to English, Kazakh and US Law	Baker & McKenzie LLP 100 New Bridge Street London EC4V 6JA United Kingdom
Legal Adviser to the Company as to English law	Lovells Atlantic House Holborn Viaduct London EC1A 2FG United Kingdom
Legal Adviser to the Company as to Isle of Man law	Cains Advocates Limited 15 – 19 Athol Street Douglas Isle of Man IM1 1LB
Reporting Accountant in Respect of, and Auditors to, the Company	BDO Stoy Hayward LLP 8 Baker Street London W1U 3LL United Kingdom
Reporting Accountant in Respect of, and Auditors to, Kazakhstan Kagazy JSC	BDO Kazakhstanaudit LLP Building 56 “A” Microdistrict 6 Almaty, 050036 Kazakhstan
Property Appraiser	Scot Holland in association with CB Richard Ellis Premier Alatau Hotel Business Center 3rd Floor Dostyk 105 Almaty, 050051 Kazakhstan

Depository..... The Bank of New York
101 Barclay Street
22nd Floor
New York, New York 10286
United States

Master Planners Agiplan
Shabotovka 34
Moscow 115419
Russia

REASON FOR THE OFFER AND USE OF PROCEEDS

The reason for the Offer is to enable us to access capital from the international capital markets to repay existing indebtedness and further invest in our business. Assuming full exercise of the Over-allotment Option, we expect that the net proceeds received by us pursuant to the Offer will be approximately US\$256 million. With these proceeds, we intend to use approximately:

- US\$116 million for capital improvements to our paper production facilities (through 2012);
- US\$60 million to develop the PEAK Industrial Park;
- US\$50 million to refinance certain of our existing bank debt; and
- US\$30 million to develop the PEAK Logistics Centre and related infrastructure.

Up to US\$90 million of the amount allocated for capital improvements to our paper production facilities may be used to repurchase or redeem listed bonds issued by our subsidiary Kazakhstan Kagazy JSC. We may issue new bonds in the future as and when required for capital expenditures.

Assuming full exercise of the Over-allotment Option, the total commissions and expenses of the Offer are expected to be approximately US\$19 million.

DIVIDEND POLICY

Since its incorporation on 15 March 2007, the Company has not declared or paid dividends in respect of any of its issued share capital. Our current policy is to use profits for the development of our business, rather than for the distribution of dividends. As a result, we do not expect to declare or pay any dividends in the foreseeable future. However, we do not rule out paying dividends in future years, depending on our financial performance, cash flows, the results of the investment projects currently underway and constraints under our financing documents.

The Articles permit dividends to be made only out of profits of the Company, and not from its capital. In addition, dividends cannot be paid if this would result in the Company being unable to pay its debts as they fall due.

The EBRD Loan contains a restriction on the declaration of dividends by Kagazy Recycling LLP. The EBRD Loan does not restrict the payment of dividends by any other group company. Under the terms of the EBRD Loan, Kagazy Recycling LLP may declare and pay dividends at any time provided that:

- (a) it is in compliance with all covenants relating to the EBRD Loan and related agreements and will remain so following the payment of the dividend; and
- (b) until such time as Kagazy Recycling LLP has prepaid €8 million of the senior portion of the EBRD Loan, it prepays the loan on the next scheduled principal repayment date in an amount equal to the dividend to be paid.

In connection with the first requirement, Kagazy Recycling LLP must comply with the following financial ratios:

- (a) at all times after 1 July 2008, it must maintain a ratio of free cash flows to debt service of more than 1.3 to 1 for each 12 month period;
- (b) at all times starting from 30 June 2008, it must maintain a financial debt to shareholders' equity ratio of less than 1.2 to 1;
- (c) at all times starting from 30 June 2008, it must maintain a ratio of current assets to current liabilities of more than 1.5 to 1;
- (d) at all times starting on and from 1 January 2009, it must maintain a ratio of long-term debt to EBITDA of no more than 3 to 1; and
- (e) as at 30 June 2008, the shareholders' equity of Kagazy Recycling LLP shall be at least US\$67 million.

INDUSTRY OVERVIEW AND OUTLOOK

Overview of the Kazakh Paper Industry

General

Prior to the establishment of our operations, Kazakhstan did not have a domestic paper industry as the geography and lack of forests in Kazakhstan make it uneconomical to produce paper from wood pulp. We followed the example of paper mills in Western Europe in using recycled fibre (waste paper instead of virgin wood fibre, or cellulose) in our production. In addition to significant cost benefits, the use of recycled fibre is environmentally friendly in reducing both landfill waste and the demand for wood fibre from forests. Recycling is currently at an early stage in Kazakhstan, with most waste paper being either deposited in landfill sites or burnt. However, with the establishment of waste paper collection points, the proportion of recycled paper has increased and is expected to continue to increase.

The paper industry in Kazakhstan currently comprises recycled container board production and limited production of hygienic paper, which is primarily used for paper towels, toilet paper and facial tissues. Other products, such as office, offset and coated papers (which require a high proportion of virgin wood fibre) are imported from Russia, Scandinavia and China. From Almaty, the closest working paper mill is approximately 1,800 kilometres away, near Krasnoyarsk, Russia, and this mill produces container board solely for its own requirements. Management believes that container board accounts for approximately 21 per cent. of the total value of paper products sold in Kazakhstan. Hygienic paper accounts for approximately 27 per cent., fine papers for approximately 39 per cent. and newsprint for approximately 13 per cent. Currently, domestic production satisfies only approximately one-quarter of the Kazakh market. According to Pöyry, the Kazakh corrugated board market was, in 2005, shared between us and three other major producers. Our share of this market was 38.1 per cent., with Kazpoligraf LLP, KazUpak LLP and IKBK JSC having production market shares of 22.5 per cent., 18.1 per cent. and 8.6 per cent. respectively. We are the only Kazakh producer with a vertically integrated corrugated board production system encompassing waste paper collection, pulping, container board production and corrugated board production.

Container Board

With the exception of our production, practically all of the paper and container board consumed in Kazakhstan is imported. In Soviet times, Kazakhstan and the rest of Central Asia was supplied from Russia. However, following independence, Kazakhstan has imported container board from Scandinavia and other Eastern European countries in addition to Russia.

Corrugated Board and Packaging

Corrugated packaging production is generally located close to the facilities of end users because the product is usually customised to the customer's requirements and because transport costs are relatively high in relation to the cost of the product. In addition, customers generally prefer to purchase corrugated packaging in smaller batches from local producers to avoid storing the product, as the quality of corrugated packaging degrades over time. Management believes that Almaty is well situated for production because the surrounding region contains the largest number of consumers of packaging products and as it is comparatively close to other large Central Asian cities.

According to Pöyry, approximately 292 million square metres of corrugated packaging was consumed in Central Asia in 2006, of which Kazakhstan accounted for approximately 198 million square metres. Uzbekistan, Kyrgyzstan and Tajikistan represented approximately 51 million, 26 million and 17 million square metres, respectively. Total production of corrugated board and packaging in Central Asia and Kazakhstan in 2006 was 220 million square metres and 144 million square metres, respectively, according to Pöyry.

Hygienic Paper

Hygienic paper is primarily used for paper towels, toilet paper and tissues. Within Central Asia, Kazakhstan is the largest consumer of hygienic paper, with the approximately 12,500 tonnes consumed in Kazakhstan in 2006 representing more than 60 per cent. of hygienic paper consumed in all of Central Asia, according to Pöyry. Although there are a number of hygienic paper manufacturers in Kazakhstan, their production has generally been limited and of relatively low quality compared with foreign products. Pöyry estimates that approximately 70 per cent. of hygienic paper consumed in Kazakhstan is currently imported and expects that demand for these higher quality products will continue to increase as personal income in Kazakhstan increases and consumers

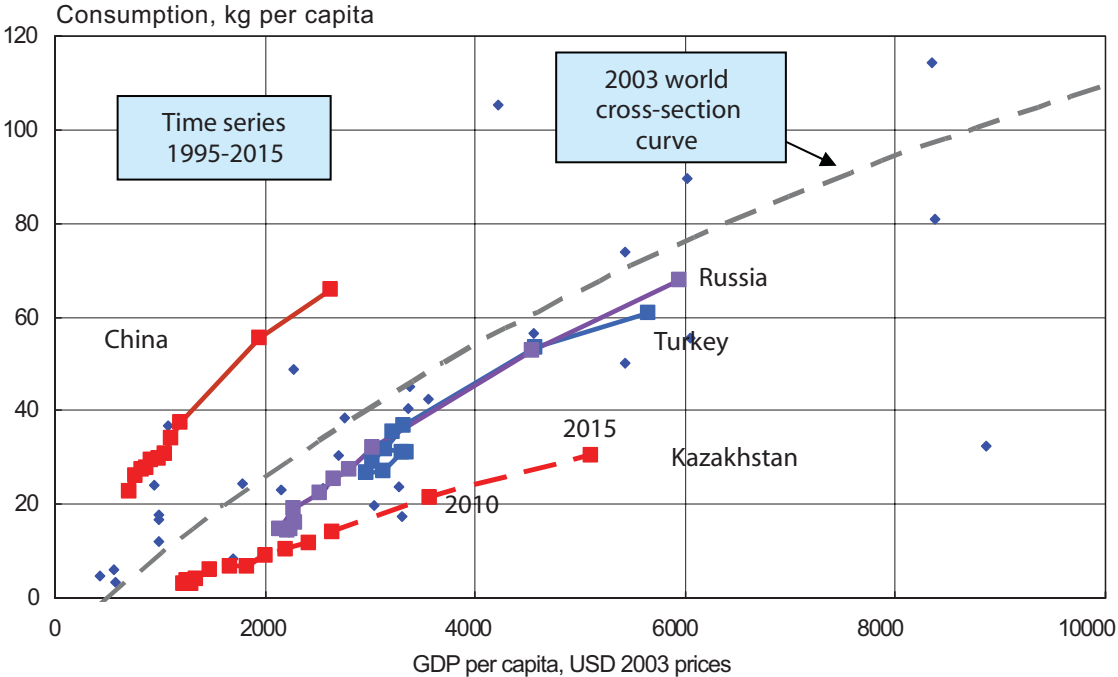
become more discerning. The nearest significant producer of high quality hygienic paper products is located outside Moscow, approximately 5,000 km from Almaty. Management believes that transport costs are a major expense for foreign producers as hygienic paper is relatively expensive to transport due to its high volume to weight ratio.

Outlook for the Kazakh Paper Industry

General

In Central Asia, paper consumption is relatively low, even compared to other emerging markets. Average per capita consumption of paper in Kazakhstan was 10.0 kilograms in 2005, which is estimated to be approximately one-half that of Russia, less than one-sixth that of Central Europe, and less than one-tenth that of average Western consumption levels, according to Pöyry. However, consistent with trends observed in other countries, the consumption of paper and paper products in Kazakhstan has grown in line with increasing income levels. Pöyry believes that per capita paper consumption will grow to in excess of 30 kilograms by 2015. In the medium term, Pöyry believes that the rate of demand growth in Kazakhstan is expected to exceed the rate of GDP increase as Kazakhstan catches up with the consumption levels of other emerging markets at a similar stage of economic development. Whilst Kazakh GDP is expected to grow at a rate of seven to eight per cent., the average annual growth rate for the period 2005 to 2015 for all types of paper is anticipated to be closer to 10 per cent., with container board, hygienic and fine paper expected to be in the region of 11 per cent.

The following table shows the per capita paper consumption of Kazakhstan compared to certain other countries for the period 1995 to 2015. As shown in the table, there is a significant correlation between per capita GDP and paper consumption.



Source: Pöyry

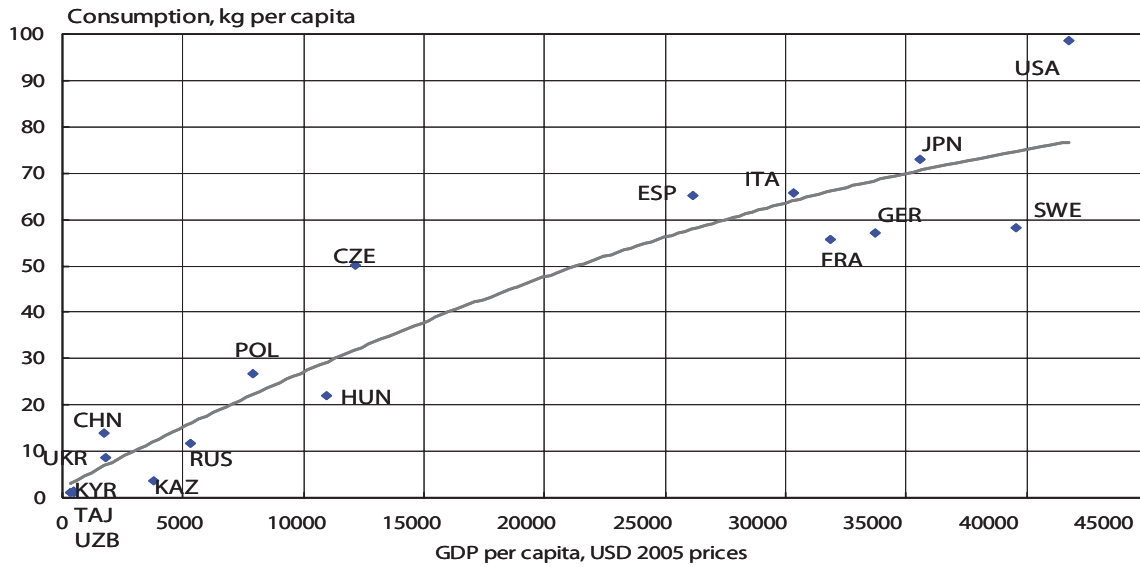
Container Board and Corrugated Board and Packaging

Container board (the paper used in the production of corrugated packaging) is used for the production of corrugated board and packaging which, in Kazakhstan, is used principally for the storage, transportation and distribution of goods. Approximately 52 per cent. of the container board used in Kazakhstan is imported from Russia.

In Kazakhstan, corrugated packaging is principally used in a number of industries, including: agriculture (for example, fruit, vegetables and flowers); food, including processed food; confectionary; beverages, including beer and spirits; building materials; tobacco; and durable goods (such as electronic household equipment and furniture). Demand for corrugated packaging is expected to continue to increase as a result of the growing demand for products that are typically packaged or shipped in corrugated board. In addition, the development of retail and consumer trends and the

development of supermarkets are expected to support increased demand for promotional packaging (i.e. product displays) and take-home packaging (such as six-packs). Production of promotional packaging requires more sophisticated design, production and printing equipment and these products typically have higher margins, although they require significant investment in more complex production equipment.

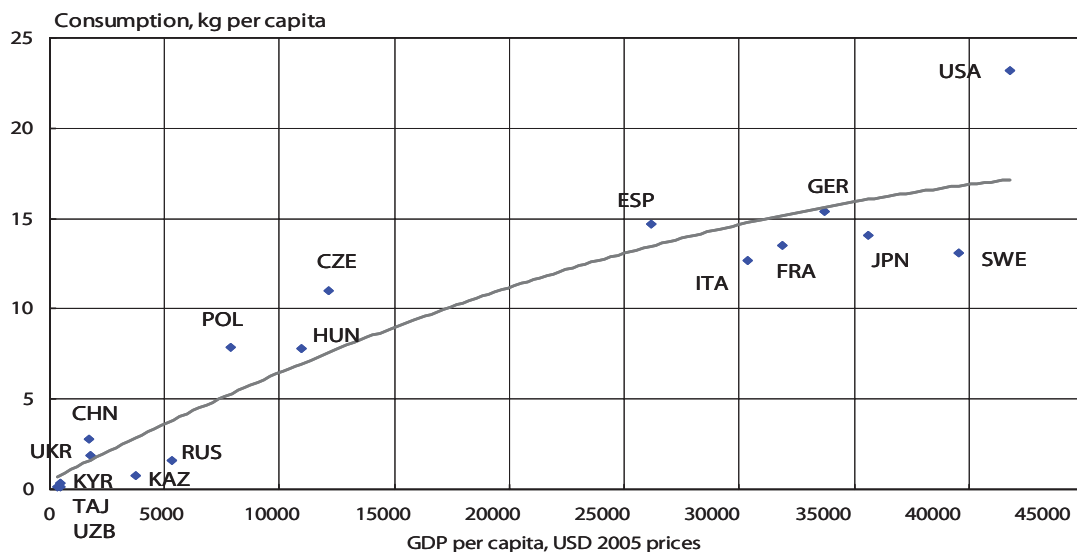
The following table shows per capita container board consumption in Kazakhstan (which in 2005 was less than 5.0 kilograms) and in other markets. The data indicates a broad correlation between consumption and GDP levels. Pöyry expects consumption levels in Kazakhstan to increase to approximately 12 kilograms per capita by 2015.



Source: Pöyry

Hygienic Paper

Pöyry estimates that the average annual per capita consumption of hygienic paper in 2005 was less than one kilogram in Kazakhstan, 1.6 kilograms in Russia and 13 kilograms in Europe. This disparity suggests that there is potential for a significant increase in hygienic paper consumption in Kazakhstan as income levels grow and lifestyles change. The following table shows the per capita paper consumption of hygienic paper in Kazakhstan and in other markets compared to GDP, which shows a similar correlation to that in the table above.



Source: Pöyry

Other Paper Products

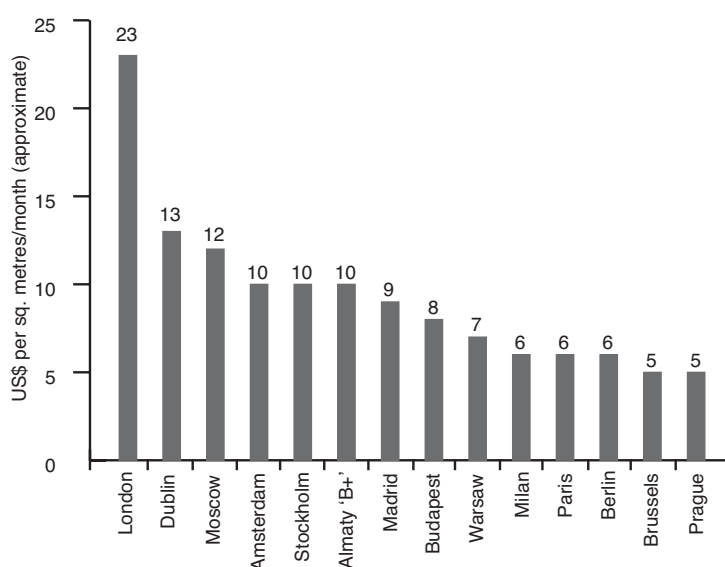
In relation to other paper products traded by us, there is expected to be a continued undersupply of newsprint and other paper products in the CIS, including in Kazakhstan, which is expected to lead to price increases. According to Pöyry, the markets for newsprint, offset paper, enamel paper, polygraph carton and sanitary and hygiene products are expected to grow by an average of approximately 10 per cent. per year over the next ten years, with the markets for label and office paper expected to grow by approximately 11 per cent. per year over the same period.

A significant share of locally consumed food products and other articles continues to be imported from Russia and Europe. We believe that, because margins on food products are generally low, food processing companies will seek to invest in local production facilities to save on transportation costs. Tobacco companies, which also have a significant demand for packaging products, were amongst the first foreign investors in Kazakhstan. We expect other large multinational corporations in the food and household goods industries to follow. These multinationals should increase demand for locally produced packaging and we believe that they will also increasingly require more sophisticated, and higher margin, packaging products.

Overview of the Industrial Warehousing and Logistics Industry

The Almaty region, in common with the rest of Kazakhstan, lacks modern warehousing facilities. Currently, the region has only approximately 58,000 square metres, or approximately 39 square metres per 1,000 inhabitants, of Class A and Class B+ (i.e. Class B warehouse space that has some of the features of Class A warehouse space) warehouse space, which are the highest classifications and are generally regarded as being suitable for most multinational companies. These levels are relatively low compared with the 290 to 1,230 square metres per 1,000 inhabitants of Class A and Class B space in Warsaw, Prague, Moscow and Budapest according to Jones Lang LaSalle. As at 30 August 2006, there were between approximately 450,000 and 650,000 square metres of warehouse space in the Almaty region, 84 per cent. of which was classified as Class C or Class D stock (principally simple sheds dating from the 1950s and 1960s). This stock does not meet modern standards and is generally unsuitable for the storage of consumer goods. In addition, approximately 70 per cent. to 80 per cent. of existing warehousing stock is located within Almaty's city limits and is not served by suitable transport links. The centre of Almaty is currently being re-zoned so that industrial operations will need to move outside the city limits, which we believe will increase demand for warehouse space located there.

The scarcity of appropriate warehouse space in and around Almaty has generally resulted in relatively high levels of competition for available space and rents for Class A warehouse space in excess of those for comparable warehouse space in a number of major western European cities such as Berlin, Warsaw and Madrid, as shown in the table below. The limited Class B+ warehouse space currently available in Almaty attracts monthly rents of in the region of US\$10 per square metre.



Source: Jones Lang LaSalle

The Almaty warehouse market is fragmented, and the available space generally has no integrated logistics facilities such as dedicated road and rail links or container terminals. Because of its size, the relatively large distance between cities and the fact that the country is landlocked, Kazakhstan is heavily dependent upon rail transportation. However, Almaty's existing freight stations are overloaded and currently only able to accept a limited amount of cargo.

Apart from a lack of warehouse space, there is also a shortage of dedicated industrial parks, both in the Almaty region and elsewhere in Kazakhstan. Industrial parks are dedicated sites catering exclusively to industrial, services and logistics companies. By purchasing or leasing sites within an industrial park, these companies benefit from the park's common infrastructure, logistics and support services. As with Almaty, the industrial zones of the major Kazakh cities are usually located in city centres, close to retail and residential areas. Their infrastructure is generally outdated, frequently dating from the Soviet era, and unable to satisfy current or projected demands. Whilst the Government is making a certain amount of infrastructure investment, management does not believe that the rate of investment will be able to track economic growth. As it is generally not economical for individual businesses to invest in providing this infrastructure themselves, privately developed industrial parks may offer businesses the only viable opportunity of access to adequate infrastructure and support.

For an industrial park to be successful, Jones Lang LaSalle believe that it must generally have the following characteristics:

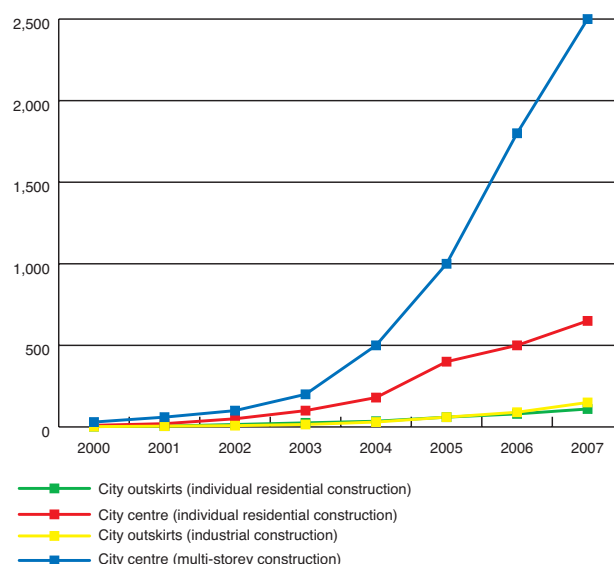
- a size of at least 100 hectares, in order to make the investment required in infrastructure and utilities viable and to ensure a revenue stream that justifies the developer's initial investment;
- good access to both road and rail transport links;
- close proximity to a major city (generally not more than 30 kilometres);
- dedicated engineering infrastructure (such as electricity, gas, water, telecommunications and security); and
- social and domestic infrastructure (for example catering services).

Although its warehousing and logistics facilities remain broadly undeveloped, Almaty is an important hub for the transportation of goods. The city lies along the "TRACECA" European/Caucasus/Asian road and rail transportation corridor, the modern equivalent of the silk road, and its airport is used for approximately 70 per cent. of all cargo brought into Kazakhstan by air. Almaty is also the largest railway interchange in Kazakhstan. The total annual volume transported along all branches of the TRACECA is currently in excess of 40 million tonnes and this figure is forecast to grow 40 per cent. by the year 2010, according to the TRACECA Coordination Bureau. The Kazakh Ministry of Finance has recently announced that imports into Kazakhstan increased by more than 18 per cent. in 2006 over 2005. A freight train service running from Almaty via Aktau and Baku to Poti, a Georgian port on the east coast of the Black Sea, commenced in 2005. Growth in goods movements through Kazakhstan is expected to be fuelled not only by the expanding Kazakh economy, but also by a number of Western-looking programmes that China is implementing.

Historical Land Prices in Almaty City Centre and Outskirts

The table below shows price trends, since 2000, for land prices in both the centre of Almaty and on the city's outskirts. Whilst land values have risen for the types of properties included in the table below for the period shown, there is now, in absolute terms, a greater gap between prices for properties located on the outskirts of Almaty compared to those for properties in the city centre.

Average (US\$ per square metre)	2000	2001	2002	2003	2004	2005	2006	2007
City outskirts – industrial construction.....	2	5	8	15	30	60	90	150
City outskirts – individual residential construction	2	5	15	25	35	60	80	110
City centre – multi-storey construction	30	60	100	200	500	1,000	1,800	2,500
City centre – individual residential construction.	10	20	50	100	180	400	500	650



Source: Scot Holland in association with CB Richard Ellis

Outlook for the Industrial Warehousing and Logistics Industry

We believe that demand for warehouse space and dedicated industrial parks in and around Almaty will be driven by a number of factors, including:

- Almaty's location along existing trade routes and the Government's development of an integrated transport policy for Almaty, which includes a proposed new outer ring toll road that will provide easier access to out-of-town industrial zones;
- increasing congestion within the centre of Almaty and the decision to re-zone Almaty to exclude non-retail businesses from the city limits, reducing the availability of existing warehouse space within the city;
- continued strengthening of the Kazakh economy, which is expected to lead to:
 - growth in per capita GDP;
 - an increase in land values, which will allow businesses to realise the value of existing sites within city centres and move to areas that are better suited to their needs;
 - continued inward investment and expansion of Kazakh companies, resulting in increased local production in the Almaty region;
 - an increase in the amount of goods transited through Kazakhstan;
- Kazakhstan's planned accession to the World Trade Organisation, which is expected to lead to the unification of tariffs and an increase in trade flows; and
- Government programmes to encourage international and domestic companies to establish their headquarters in the Almaty region.

Although a number of new warehousing developments are currently under construction in the Almaty region, (see "Business—Our Real Estate Business—Competition—Warehousing"), it is expected that demand will continue to exceed supply.

BUSINESS

Overview

We are the largest producer of paper, corrugated board and packaging products in Kazakhstan and Central Asia and, utilising the experience gained in this business, we have expanded into commercial real estate development. Through our subsidiary, Kagazy Recycling LLP, we operate a range of businesses connected with paper manufacturing and trading and waste paper recycling. Our subsidiaries own approximately 538 hectares of prime land, strategically located outside Almaty, on which we are developing commercial warehousing and logistics facilities. For the years ended 31 December 2005 and 2006, our revenues were approximately KZT 4,426 million (US\$33.3 million) and KZT 7,004 million (US\$55.6 million), respectively, and, as at 31 March 2007 we had total assets of approximately KZT 41,837.7 million (US\$337.8 million). Our subsidiary Kazakhstan Kagazy JSC has had a debt listing on the Kazakhstan Stock Exchange since 2005.

We produce a range of recycled container board as well as corrugated packaging. Our paper mill in Almaty has two paper machines, each with a capacity of approximately 100 tonnes per day. Located next to the mill is our corrugated board and packaging plant, which has an annual corrugated board capacity of approximately 120 million square metres. In addition, we are in the process of installing a further paper machine with an installed annual capacity of 15,000 tonnes that will enable us to produce hygienic paper products. We also recently installed a production unit to cut fine paper (offset and office paper) and cardboard into sheet formats. These manufacturing facilities are in the final stages of ISO 9001:2000 certification.

Our paper operations primarily use recycled fibre (i.e. waste paper, used corrugated containers and paper sacks) as raw materials. Waste paper is collected at our collection centres located in major cities in Kazakhstan, and through agents in southern Russia, Uzbekistan and Kyrgyzstan. The waste paper is sorted and pressed into bales at these collection centres before being transported to our paper mill. In 2006, we collected more than 38,000 tonnes of waste paper, which is the equivalent of approximately 150,000 cubic metres of wood, based on fibre content.

Our trading division sells our own paper products, as well as a range of imported paper from Russia and Scandinavia, throughout the Central Asian market. We seek to offer a complete range of paper products, with operations similar to European paper trading companies. The trading division currently has approximately 1,000 customers.

The land being developed by our real estate business is located near the intersection of a proposed new outer ring road, and is close to the main road and rail lines to Astana, Kazakhstan's capital, as well as other major transport routes. The land is divided into northern and southern plots, and each will be developed in stages. Master planning of the sites has been completed by Agiplan.

On the southern plot we are building the PEAK Logistics Centre, an integrated logistics hub with road and rail access (including a dedicated rail spur), loading and unloading facilities, warehousing, customs facilities and a container terminal. The initial phase of this development, which was completed at the end of June 2007, involves the construction of modern, climate-controlled Class B warehouses over ten hectares of land, which together will provide approximately 35,000 square metres of rentable space. In the second phase, to be completed in 2008, we intend to build an additional approximately 74,000 square metres of Class A warehousing as well as approximately 2,000 square metres of office space, a container terminal of approximately 142,000 square metres and additional sell-to-build space.

The northern plot will be developed as the PEAK Industrial Park, which has a design similar to Western European industrial parks. Construction of the first phase of the PEAK Industrial Park is scheduled to begin this year.

Our Chairman and CEO, Messrs. Zhunussov and Arip, are currently acquiring land outside Astana and researching potential land acquisitions outside other Kazakh cities. They will seek approvals to change the land use designation of newly acquired properties to allow commercial development. Following the change in land use, we have a right of first refusal to acquire the land at a discount to market value, as determined by an independent appraiser and approved by non-interested directors of the Company. These arrangements are intended to allow us to acquire land for new developments without assuming the risks associated with changing the land use. See "Future Developments—First Refusal Agreement".

Key Strengths

We believe that we benefit from the following strengths:

- **Established Paper Operations.** We established the first high volume paper mill in Kazakhstan following independence and we are currently the country's largest paper manufacturer. In addition, we are Kazakhstan's only packaging manufacturer using modern European equipment and international expertise, and the only domestic paper mill with its own recycled paper collection network.
- **Market Leader with a Competitive Advantage.** We are the largest producer of paper and packaging in Kazakhstan and Central Asia according to information published by Pöyry and PR Research Agency LLP. In addition, we believe that we currently face relatively limited domestic competition as a result of the following factors:
 - *Capacity.* With an installed annual capacity of 120 million square metres of corrugated board, we are the only packaging manufacturer able to satisfy orders for more than 5 million square metres per month. We estimate that the total combined annual capacity of our principal domestic competitors is approximately 96 million square metres.
 - *Quality.* Our three principal domestic competitors use older equipment to manufacture lower quality products. We believe that their current equipment is not capable of producing the increasingly sophisticated packaging that international companies often require.
 - *Customer focus.* We are the only Kazakh producer able to offer just-in-time production with the ability to adjust quickly to changing customer requirements, which helps customers to reduce their packaging inventory costs. In contrast to our competitors, we offer high-volume design and multicolour printing of sophisticated packaging solutions within Central Asia.

To match our levels of product quality, production and vertical integration would require substantial expenditure and time to acquire and install machinery and recruit and train staff.

- **Market Knowledge.** In addition to manufacturing, we are one of Kazakhstan's largest traders of paper products, according to information published by PR Research Agency LLP. Through these activities we believe that we are able to gain a better understanding of our competitors' activities and the changing demands of customers. This knowledge is also applied in our strategic planning, including our decision to expand into hygienic paper and fine paper cutting.
- **Cost Efficiencies.** We operate production facilities that are more energy efficient and less labour intensive than those of our competitors, which enables us to further reduce our production costs. In addition, we believe that our production facilities have a relatively high utilisation rate as they are more reliable and can change between specifications and customer orders with little or no production interruptions. We believe that this utilisation rate further helps us to lower costs and achieve higher margins.
- **Experience With Construction, Logistics and Warehousing.** We intend to capitalise on experience gained from our paper business in entering the real estate sector, including our experience with:
 - *Construction.* Our management supervised the construction of our fibre extraction and paper making operations, including coordinating the complex process of obtaining planning permissions and installing and commissioning machinery.
 - *Industrial logistics.* Management has planned and implemented our extensive waste paper collection network, which delivers an average of 200 railway wagons of waste paper each month, as well as our product distribution network.
 - *Development of infrastructure.* We created all of the basic infrastructure for our paper business, including the installation of dedicated electricity substations, aquifers and water purification equipment and gas pipes.

We believe that this experience will assist us in developing the real estate business, including identifying cost efficiencies in planning, construction and ongoing management of our developments.

- **Prime Land Holdings.** Our land plots are located only 20 kilometres outside the centre of Almaty, with direct access to main rail and road transport (including the proposed new outer ring road) and existing utilities. We believe that the location of our land plots will become more attractive in the future as a result of the rezoning of Almaty, which will restrict industrial activities within the city centre. In addition, we believe that our investment in infrastructure, including dedicated railway access, will significantly contribute to the desirability of this land.
- **Experienced and Skilled Management.** We benefit from the skills and experience of our strong management team. Our Chairman, Baglan Zhunussov, and CEO, Maksat Arip, have worked together for eight years and have experience in managing complex businesses in Kazakhstan. They are supported by a team of Kazakh and international managers with a broad portfolio of skills and experience. International experts, such as Messrs. van Lent and Ippoliti, are helping us to adopt global best practices, including ISO certifications.

Strategy

As part of our strategy we intend to:

- **Leverage Our Existing Position in the Paper Market.** We will seek to build upon our current position in the paper market by deepening relationships with existing customers and expanding the range of products and services we provide. In particular, we intend to expand our paper trading operations better to serve customers not only in Kazakhstan but throughout Central Asia. We will also seek to expand our product range to include more sophisticated packaging solutions, which we believe customers will increasingly demand.
- **Gradually Expand Our Paper Production Facilities.** Our paper production facilities have been planned and constructed to enable us to easily expand production with limited additional investment. As the paper market in Kazakhstan continues to grow, we expect to increase our output with “bolt on” capacity upgrades and new services and to expand our waste paper collection network.
- **Invest Further in Our Brand.** We have established a leading reputation in our market and will seek to build on this by producing products such as hygienic paper (toilet and tissue paper and paper towels) and (using our recently installed paper sheeting facility) fine paper under our own brand name, Kagazy.
- **Intelligently Use Our Market Knowledge.** Pöyry have projected that the container board, hygienic paper, printing paper and writing paper markets segments will experience the highest growth rates within the paper and packaging industry. We have focused on container board and, on the basis of market knowledge gained through our paper trading operations, we have made significant investments towards establishing production of hygienic paper and the installation of a paper sheeting facility. We intend to continue to use and develop our market knowledge to identify additional opportunities.
- **Leverage Our Real Estate Development Experience.** We completed the first phase of our initial real estate development, the PEAK Logistics Centre, at the end of June, and we have begun construction of the second phase. We intend to leverage the experience of our managers and expertise gained in our first real estate development in executing more ambitious projects, including the PEAK Industrial Park and potential developments outside the Almaty region through the arrangements with our current shareholders to acquire additional land in other Kazakh cities.

History

The following timeline represents an overview of our history:

- 2001** Our group began as a closed joint stock company under Kazakh law.
- 2002** We imported our first paper machine from Italy and a corrugator and converting machine from China and commenced manufacturing preparations.
- 2003** We began commercial manufacturing of paper for corrugated packaging products and expanded into paper trading. We also set up sales joint ventures in Uzbekistan and Kyrgyzstan, started to establish our network of collection centres for waste paper and began our logistics operations. Senior members of our current management joined our group.

2004 Messrs. Arip and Zhunussov acquired Kazakhstan Kagazy JSC in a management buyout and began to research potential land acquisitions, having identified a gap in the local market for warehousing and logistics developments. Separate trading, manufacturing and logistics divisions began operation.

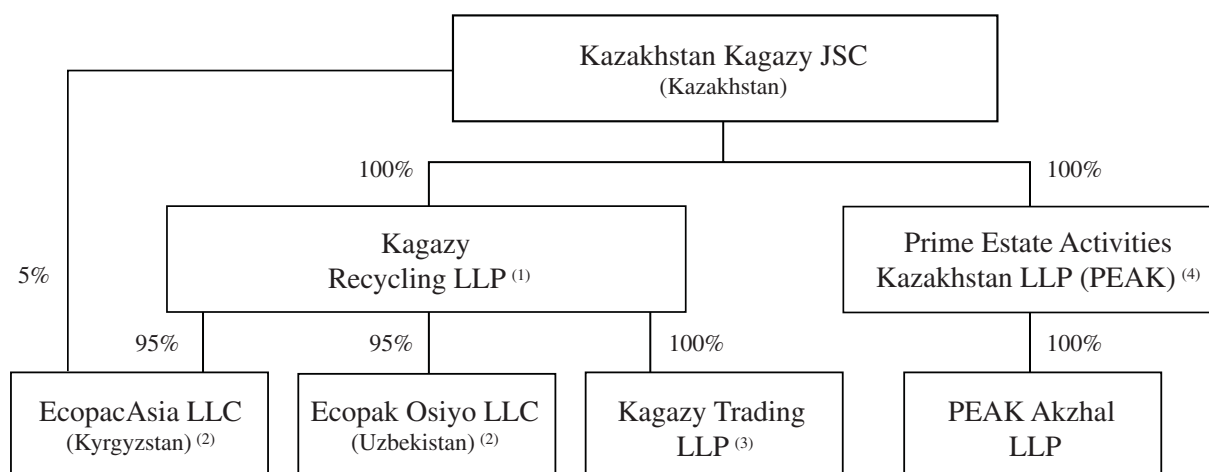
2005 We started acquiring land for our real estate business and began to put basic infrastructure in place. Our subsidiary Kazakhstan Kagazy JSC issued bonds that are listed in the category “A” segment on the Kazakhstan Stock Exchange. We commenced construction to expand our paper production facilities and recruited international expertise into our management team.

2006 We commissioned a second paper machine, thereby doubling the capacity of our plant and brought into operation a new corrugating plant incorporating modern equipment. We began construction of the first phase of the PEAK Logistics Centre, financed by the issue of a further tranche of bonds also listed in the category “A” segment on the Kazakhstan Stock Exchange. To diversify our funding sources, we commenced discussions with the European Bank for Reconstruction and Development.

2007 We completed our corporate reorganisation, pursuant to which we put in place our current corporate structure with the objective of offering investors in the Offer a tax efficient means of investing in Kazakhstan, on 10 May 2007. See “—Corporate Structure”. We also commenced preparations to list our GDRs on the Official List of the London Stock Exchange. We completed the first phase of the development of the PEAK Logistics Centre.

Corporate Structure

During the first and second quarters of 2007, our group was reorganised in preparation for the Offer. As part of this reorganisation, the Company was formed as an indirect holding company of Kazakhstan Kagazy JSC, our primary subsidiary in Kazakhstan. Set forth below is an organisational chart showing Kazakhstan Kagazy JSC and its operating subsidiaries. Further details including a full corporate structure chart of the Group are set out in “General Information—The Company and its subsidiaries”.



(1) Kagazy Recycling LLP operates our paper business and is organised into three divisions dealing with (i) container board, hygienic paper production, paper sheeting and waste paper collecting, (ii) corrugated board and packaging production and (iii) paper trading.

(2) EcopacAsia LLC and Ekopak Osiyo LLC are subsidiaries in Kyrgyzstan and Uzbekistan respectively that act as distribution centres for our corrugated cardboard products, fine paper and container board.

(3) Kagazy Trading LLP sells paper products in the Central Asian market that have been imported from Russia or produced by its parent, Kagazy Recycling LLP.

(4) Prime Estate Activities Kazakhstan LLP operates our real estate business.

Please see “Existing Shareholders and Related Party Transactions” for details of transactions effected in relation to the reorganisation.

Debt Listing on the Kazakhstan Stock Exchange

In 2005, our subsidiary Kazakhstan Kagazy JSC issued KZT 4 billion of bonds to finance the expansion of our corrugating plant. These unrated bonds are traded on the Kazakhstan Stock

Exchange, and currently carry a rate of 11.1 per cent (which is variable and linked to inflation). The bonds mature on 18 February 2010.

In 2006, the same subsidiary effected two issues of KZT 3.5 billion of bonds each. Both issues are within category “A” on the Kazakhstan Stock Exchange. One issue currently carries a rate of 10.0 per cent., maturing on 7 April 2011. The second issue currently carries a rate of 10.1 per cent, maturing on 22 August 2013. Both rates are variable and linked to inflation.

Our Paper Business

We are Kazakhstan’s largest manufacturer of paper, corrugated board and packaging products, according to PR Research Agency LLP. We produce a range of recycled container board, corrugated board and packaging. In addition, we import and cut white office paper and polygraphic paper and offer a wide range of other imported paper products. We are currently in the process of expanding our range to include hygienic paper products.

Production Capacity and Facilities

Our plant has the following annual production capacities:

- Container board, test liner and fluting from recycled paper fibre – 63,400 tonnes, which is expected to increase to 150,000 tonnes by 2016;
- Corrugated board – 120 million square metres (approximately 58,000 tonnes), which is expected to increase to 320 million square metres (approximately 153,000 tonnes) by 2016;
- Corrugated packaging – 90 million square metres per year with the intention of increasing production to 270 million square metres per year by 2016; and
- Sheeting (i.e. cut fine paper) – 25,000 tonnes.

In addition, we expect to commission equipment with the capacity to produce 15,000 tonnes of hygienic paper by 2008 (with the commissioning of a second hygienic paper machine to take production to a total of approximately 35,000 tonnes by 2015).

The table below sets forth historical production levels, as well as the expected production levels for 2007:

	2005	2006	2007⁽¹⁾	Installed Capacity	Current Utilisation
Container board (tonnes).....	36,657	37,177	53,000	72,000 ⁽²⁾	74%
Corrugated board and packaging (square metres).....	49,808,300	58,693,424	75,852,286	120,000,000	63%
Sheet formats (tonnes).....	—	219	9,442	25,000	38%

(1) Expected annual production based upon the current production plan is expected to increase throughout 2007 as a result of continued efforts to gradually increase production speeds.

(2) Actual annual capacity is 63,400 tonnes once servicing and repairs of up to 48 days per annum are taken into account.

Each of our production facilities is discussed separately below.

Paper mill

Our paper mill is located approximately seven kilometres from the outskirts of Almaty. The mill contains two paper machines, PM-1 and PM-2, which produce recycled fibre-based test liner and fluting. PM-1 was imported in 2001 and commissioned in 2002 and PM-2 was imported in 2002 and commissioned in 2006. Both paper machines were acquired second-hand but were extensively rebuilt. The installed capacity of each machine is 100 tonnes per day. We expect, in accordance with our expansion programme, discussed below, to increase the annual capacity of these machines from 63,400 tonnes currently to a total of approximately 85,000 tonnes by 2012 and to approximately 150,000 tonnes per year by 2016 through continuing refinements to our existing production processes and equipment upgrades.

Corrugating plant

We have a modern corrugating plant adjacent to our paper mill. This plant, which became operational in 2006, has a current annual production capacity of 120 million square metres of corrugated board. Alongside the newly installed equipment are a corrugator, a printer diecutting machine and two case makers. The corrugating plant currently produces approximately five million

square metres per month in two shifts, but subject to market demand will increase to three shifts for the last four to five months of the year, which is expected to increase monthly production by 50 per cent. By increasing the operating speed of the corrugating plant, we expect to be able to increase annual production to 150 million square metres. Our expansion plan is based on us achieving a planned target of approximately 320 million square metres per year by 2016, assuming three shifts and the commissioning of a second corrugating machine as part of our modernisation programme. The building housing the corrugating plant was designed in a modular fashion to allow the plant to be easily expanded with minimal disruption to existing production processes.

Our container board production division received ISO 9001:2000 certification in December 2006 and we expect our corrugating production division to have been certified by early 2008.

Hygienic paper

We purchased a hygienic paper machine in 2006, installation of which is expected to commence shortly. Production is scheduled to start in 2008, and the installed production capacity is expected to be 15,000 tonnes per year. Hygienic paper production is expected to comprise approximately 3,000 tonnes in 2008, increasing to approximately 15,000 tonnes by 2011, with a long-term intention of having annual production of up to 35,000 tonnes from two hygienic paper making machines. We also plan to install hygienic paper converting equipment to produce toilet paper, paper towels, tissues and other hygienic paper products.

Expansion programme

Over the past five years, we have expanded the size and capacity of both the paper mill and corrugating plant and have made provisions for further expansions. The proceeds of the Offer will fund, in part, an increase in the capacity of our paper mill to 150,000 tonnes annually, the installation of a second corrugator to take our capacity to 320 million square metres per year and an additional converting machine to increase capacity to 270 million square metres per year and an expansion of our annual hygienic paper production capability to 35,000 tonnes.

The total cost of the expansion programme is estimated to be approximately US\$125 million. We expect to invest approximately US\$70 million in the period from 2007 to 2010, including US\$34 million to upgrade our paper mills, US\$10 million to acquire additional corrugated packaging machinery, US\$18 million to acquire hygienic paper production equipment, US\$2 million to acquire paper and card cutting machinery and other equipment and US\$6 million to invest in water treatment and energy production facilities. We expect to fund this investment from the proceeds of the Offer and operating revenues, in addition to funds from the EBRD Loan. Beyond 2010, we expect the costs of our expansion programme to be split between investment in our corrugating plant, our paper mill and our hygienic paper making facilities.

In addition to using our own brand, we also intend to produce and distribute hygienic paper products using an established name, which we will seek to license from a third party. We believe that producing high quality hygienic paper products locally will enable us to compete effectively with importers.

We have also decided to import fine paper and cut this to different sheet formats, selling under our own brand, to extend further the range of products that we are able to offer. In 2006, we assembled and commissioned two machines for cutting paper into sheets with an installed capacity of 25,000 tonnes per year. We purchase high quality paper in rolls from European manufacturers and cut this into A3 and A4 formats on one line, with the second line cutting paper and cardboard into A1, A2, A3 and A4 formats as well as other sizes on request. Having this capability allows us to brand fine papers, which comprise a large segment of the market, in a range of sizes.

The Production Process

Paper

The production of paper is a multi-stage process, which begins with the production of its principal raw material, pulp. Waste paper is mixed with water to create the pulp, and waste materials that cannot be used in the production process, such as tape, straps, foil and coatings, are extracted. Cellulose wood fibre can also be added to strengthen the end product. The pulp is then fed to the paper machines. Our PM-1 produces paper in one layer (or one wire), and the paper produced on this machine can be schrenz, fluting or test liner 3. PM-2 can produce paper in two layers (or two wires) and can also produce test liner 1 (a combination of one layer of recycled material and one layer of cellulose (virgin fibre)). Test liner 1, also known as topline, can be made with a brown,

white or mottled surface and is used for the exterior layer of packaging. We expect to expand our product range to cover this product during 2007. Paper chemicals (mainly starch) can be added to create the required physical characteristics. The paper machines use a number of processes to dry, smooth and finally roll the paper for storage or further use in production.

Corrugated board

We currently produce three-layer corrugated cardboard and plan to add one more corrugating unit to our corrugated board machine in order to be able to produce five layer corrugated board. 90 per cent. of the corrugated board we use is produced by us. The paper types currently used for corrugated board production are wellenstof and fluting, with a density of 112 to 140 grams per square metre, as well as kraft liners and test liners, with a density of 100 to 180 grams per square metre.

The corrugated board and packaging production unit is primarily equipped with new European equipment from leading manufacturers. The plant's layout and working structure is based on European best practice. Paper is fed into the corrugator machine by rolls, where it is corrugated, forming the middle "fluted" layer. Environmentally friendly corn starch, and heat, is used to bind the fluting to the top and bottom liners that are also fed into the corrugator. Production is tailored to individual clients' requirements with respect to paper composition, size and design.

Our casemaking equipment is able to produce regular slotted containers to any required size and can be quickly reset without additional tools. Die cutting equipment is used to produce packaging with a prefabricated die form to any desired design and dimension. The finished packaging can be printed in up to three colours, and we have plans to increase this to up to six colours.

Sales

We sell our paper and corrugated packaging products to domestic and international customers, as well as via export through our trading company, Kagazy Trading LLP, to foreign customers located primarily in Central Asia. A proportion of our container board is sold to local corrugating plants, alongside sales directly to customers. The majority of contracts with customers are executed as framework contracts for periods of approximately one year, with batch orders requested by customers on an "as needed" basis. Payment terms vary depending on the customer. In some cases, we require prepayment in full, in other cases, we require prepayment of between 30 per cent. and 50 per cent. of the value of the goods with the balance due within 30 days of delivery. Historically, prices have been set with reference to local and regional market prices. As we have increased the quality of our products, we believe that we no longer compete with local producers based on price, and are gradually shifting to a "cost plus" pricing model. We expect that our average prices will continue to increase as we move to producing higher value products.

In 2006, we exported a total of approximately 11 per cent. of our paper production and 3 per cent. of our corrugated packaging production to Uzbekistan, Kyrgyzstan and Tajikistan, the first two being our most important export markets accounting for 4.0 and 1.4 per cent. of total revenue in 2006, respectively.

The table below sets forth our revenues by category of product for the periods presented:

	2004	2005	2006
		(\$'000)	
Container board	4,217	13,542	13,499
Corrugated board and packaging.....	11,548	17,401	21,266
Sheet formats	0	0	52
Fine paper trading.....	0	2,364	20,598
Services	0	0	135
Total	15,765	33,307	55,550

Sales network and marketing

We have an extensive regional sales network with branches in four cities throughout Kazakhstan (Aktobe, Semei, Shymkent and Karaganda) as well as offices in Tashkent (Uzbekistan) and Bishkek (Kyrgyzstan), each of which has wholesale and retail warehouses stocked with a wide range of our products. Given the diverse nature of our customer base, we take an individual approach to customer relations and are strengthening our sales operations to focus further on customer relations.

We undertake a range of marketing and promotional activities, including attending exhibitions and trade fairs, direct mailing of marketing materials to potential customers and advertising in the mass media and specialist publications. Our marketing strategy includes pricing policies intended to incentivise customers to make repeat or regular orders.

Customers

Our principal customers of container board are manufacturers of corrugated packaging who use our liner and fluting as raw materials, and our main corrugated packaging customers are enterprises in the food, beverage, domestic chemical products, cosmetics, electronics and construction industries who use our corrugated packaging materials to store, promote and transport their products. Our corrugated packaging client base currently includes international customers such as Heineken (beer), Gallagher (tobacco), Oriflame (cosmetics) and Tea House (tea), as well as a number of Kazakh companies such as Shahman (spirits), Raimbek (fruit juice and dairy), Ceramica (tiles) and Spice Food (food). Our ten largest packaging customers accounted for approximately 11 per cent. of total revenues in the year ended 31 December 2006. Our facilities are located close to those of several potential prospects including Efes, Dinal (part of the Heineken group), Phillip Morris, Coca Cola, Rakhat (confectionary) and Henkel. Customers in the Almaty region account for approximately 60 per cent. of our total corrugated packaging production, and these local prospects may present opportunities to increase our customer base further.

Through our trading company, Kagazy Trading LLP, we sell a wide range of fine paper and paper products that we have either produced ourselves or imported. These include container board, testliner, schrenz, wellenstof, fluting and other recycled papers used in packaging, newsprint (principally used for newspapers and magazines), offset paper (principally used for offset printing companies), coated paper (principally used for magazines and advertising materials), label paper (principally used for product labels in the food industry), office paper (principally used for office stationery, copy and print paper) and hygienic paper, which is used mainly for sanitary products such as toilet paper, paper towels and tissues.

We plan to expand our product range to produce micro-flute corrugated board, promotional packaging and to begin trading in polygraphic paper, self-adhesive label paper and office paper manufactured in Russia and Western Europe. In 2008, we plan to begin manufacturing and selling sanitary and hygiene products. We believe that the markets for chalk overlay and label papers (used in polygraphic printing processes for magazine printing, advertising materials and food labelling), sanitary and hygiene products and compound corrugated products, in particular, offer significant opportunities for expansion due to the lack of domestic production and increasing demand.

Raw Materials and Energy

The table below sets forth information concerning the raw materials and energy used in our production.

	Year Ended 31 December					
	2004		2005		2006	
	Usage (tonnes)	Cost (US\$000)	Usage (tonnes)	Cost (US\$000)	Usage (tonnes)	Cost (US\$000)
Waste paper.....	2,548	167	39,500	2,416	39,444	3,168
Chemicals for paper machine:						
Paper glue	55	36	5	3	3	2
Starch	79	108	95	105	122	131
Other paper chemicals	16	79	187	586	149	454
Paper and cardboard	10,801	4	12,734	6	13,871	7
Chemicals for corrugating shop:						
Sodium tetraborate	3	8	5	11	7	14
Glue	21	19	33	32	36	32
Paint	19	172	33	291	29	246
Corn starch	777	317	1,185	436	1,234	443
Natural gas	—	210	—	525	—	516
Electricity	—	175	—	487	—	730

We primarily use recycled fibre in manufacturing our paper products. The fibre is derived from waste paper and used corrugated packaging, which we collect through our recycling centres located in all of the major cities in Kazakhstan as well as through agents in southern Russia, Kyrgyzstan and Uzbekistan. In 2006, we collected 38,000 tonnes of paper and card for recycling, compared with 30,000 tonnes in 2005.

We own collection points in 17 centres across Kazakhstan. The staff that work at these centres are provided by Kazvtorsyr'e LLP, a company owned by a relative of Baglan Zhunussov, our Chairman. Further collection points have been established in southern Russia, with more planned in Russia, Uzbekistan and Kyrgyzstan. We expect these further centres to become operational in the second quarter of 2007. Approximately 45 per cent. of the waste paper we use comes from the Almaty region. Our principal aim in relation to our collection network is to increase gradually the volume of waste paper collected outside Almaty and other major cities. We expect that, with the new collection points, our network will satisfy all of our requirements for recycled paper. However, in the event of a waste paper shortage, our machinery is fully capable of switching to 100 per cent. virgin fibre (cellulose) based production.

We source fine paper, paper-related products and specialist paper for our trading operations from a number of suppliers pursuant to long-term supply contracts, including three suppliers of newsprint (Mondi Business Paper, Kondopoga and Kama PPM JSC); five manufacturers of offset paper (Mondi Business Paper, Krasnokamsk Goznak SE, UPM-Kymmene, Kama PPM JSC and Turinsk PPM); three manufacturers of enamel paper (AAP, M-Real International Limited and Arctic Paper); two manufacturers of label paper (M-Real International Limited and Stora Enso OYJ); and two manufacturers of office paper (M-Real International Limited and UPM-Kymmene).

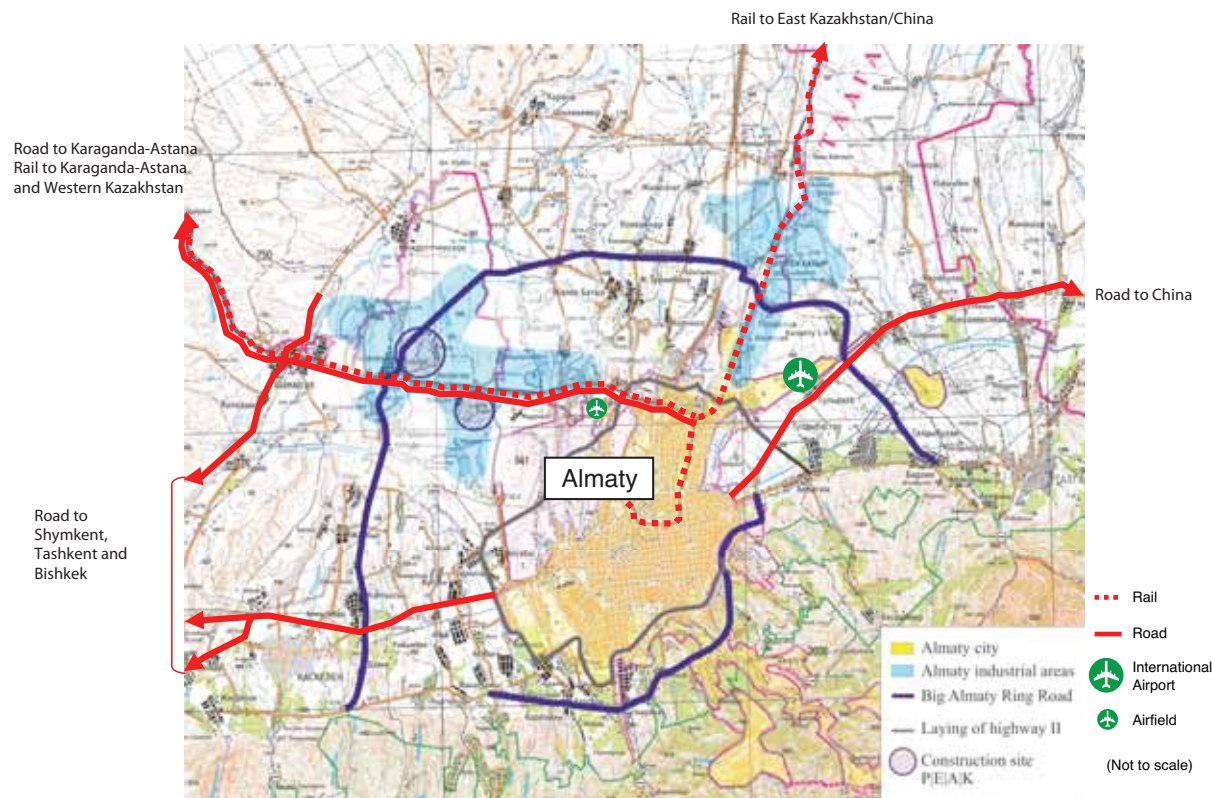
We source corn starch from local suppliers, chemicals for the production of corrugated materials from BASF and flexo inks from Sun Chemicals and other suppliers. Other production materials and tools are both sourced locally and imported.

Competition

There are currently twelve cardboard packaging manufacturers in Kazakhstan, although only three of these (IKBK JSC, KazUpack LLP and Kazpoligraf LLP) are of a significant size. Pöyry estimated that our share of the Kazakh market for corrugated packaging was approximately 38.1 per cent. in 2005. The market share of importers of cardboard packaging in Kazakhstan has recently declined as the production volumes of Kazakh manufacturers have increased. Our management expects there to be further increases in domestic production and hence in the level of competition as recycled and waste paper is collected more widely.

Our Real Estate Business

Through our subsidiaries, we own approximately 538 hectares of prime land in the Boraldai industry area outside Almaty, on which we are developing, in stages, commercial warehouses and logistics facilities with expert advice from Jones Lang LaSalle and Agiplan. In each case, these developments are located on land that is currently largely unused. Our land is located near the main railway line to Astana, Kazakhstan's capital city, and benefits from its own railway spur, as well as being close to the principal highway to Astana and one of the main intersections of the proposed new outer ring toll road around Almaty that is scheduled to be completed by 2010, according to the latest public statement by the mayor of Almaty.



The land that we currently own has been earmarked for three developments:

- *PEAK Logistics Centre – first phase.* The first phase of the PEAK Logistics Centre, which was completed at the end of June 2007, comprises a total of approximately 35,000 square metres of Class B warehousing and office space on a ten hectare plot of land.
- *PEAK Logistics Centre – second phase.* The second phase of the PEAK Logistics Centre, which will be adjacent to the first phase, is expected to comprise a total of approximately 74,000 square metres of multi-storey Class A warehousing space and 2,000 square metres of office space on a 51.7 hectare site. Construction commenced in March 2007 and is due to be completed by the third quarter of 2008.
- *PEAK Industrial Park.* This is a staged development that is currently at the design engineering stage and will be developed in stages on a site of approximately 477 hectares. We expect the development to comprise an industrial park with zones for different industries, including industrial and logistics facilities, a retail, technology and business park and hotels, along with estate management.

The land to be developed into the PEAK Logistics Centre will be developed and let. We intend to realise the value of the land that will be developed into the PEAK Industrial Park through either selling it in an undeveloped state or selling it subject to a pre-agreed construction contract. In both cases, we plan to retain overall control over the management of each of the developments and charge owners/tenants for the ancillary services that we will be providing. PEAK expects to receive ISO 9000:2001 certification by the end of this year.

We believe that we will be able to benefit directly from the Government's decisions to redevelop approximately 4,650 hectares in and around Almaty by 2020 and require the relocation of industry to

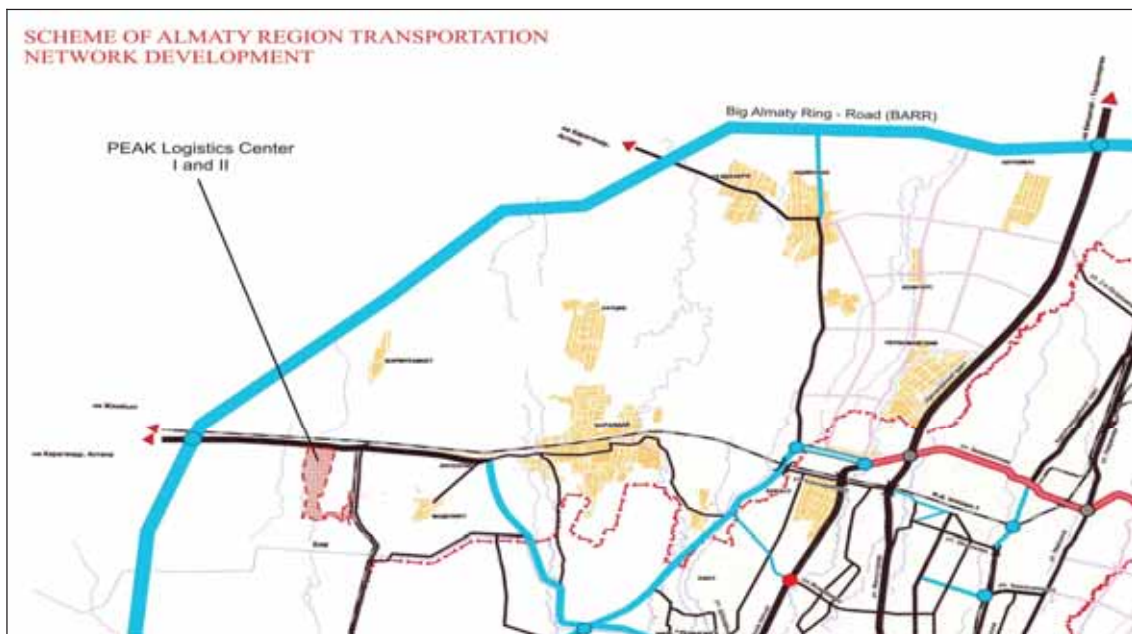
outside the Almaty city limits, which is similar to the approach taken by Moscow authorities. Tsentr Gradostroitel'nogo Proekta estimates that approximately 2,400 hectares (representing approximately 7.5 per cent. of the total Almaty city area) are currently classified as industrial land within Almaty city, of which approximately 1,200 hectares are thought to be particularly attractive for redevelopment.

It is expected that these governmental decisions will increase demand for land immediately outside the relocation area. Furthermore, whilst the Government is subsidising industries outside the oil and gas sectors to reduce the dependency on a narrow range of revenue sources, there is expected to be limited public investment in the infrastructure required to service the needs of these businesses. We therefore believe that the provision of privately owned infrastructure, such as the planned infrastructure of our developments, will become increasingly important.

Each of our developments is described in further detail below.

PEAK Logistics Centre

The PEAK Logistics Centre is located 13 kilometres from the outskirts of Almaty (and 20 kilometres from the centre of Almaty), close to the proposed new outer ring road and the TRACECA trade corridor. The following map shows the location of the development and the current and planned road and rail links, which are expected to be fully operational by mid 2008.



The PEAK Logistics Centre currently comprises 14 Class B warehouses each having a floor area of between 2,375 square metres and 2,625 square metres. The second phase of the centre is expected to comprise five Class A warehouses each having a floor area of between 9,216 and 18,432 square metres, as well as a bonded warehouse (of approximately 13,000 square metres), container terminal (of approximately 142,000 square metres) and space for further expansion or sell-to-build space. The PEAK Logistics Centre is also designed to offer, on completion, a range of utilities such as a pumping station, water reservoir for fire fighting and a sewage system as well as parking and shunting areas of approximately 120,000 square metres, container sites and more than 14 kilometres of rail road tracks. The layout of both phases is intended to facilitate quick loading and unloading of goods, whether these are transported to or from the development by rail or by road.

Each warehouse is constructed from a lightweight zinc-plated steel frame with an innovative lightweight inflatable roof having a life expectancy of approximately 20 years. The warehouses also incorporate the following additional features:

- individual lockable access;
- heating, lighting and ventilation;
- fire protection systems;
- loading bays and hydraulically driven levelling platforms to enhance efficiency and minimise loading and unloading times; and

- office space that can be adapted to an individual client's requirements.

Once fully completed, we intend that the PEAK Logistics Centre will additionally include the following:

- a customs point and certification department with a customs warehouse;
- a temporary storage warehouse;
- a container terminal;
- railhead and road access and bus terminal;
- parking for trucks and articulated vehicles with a dedicated road and rail transport fleet and weighbridge;
- a processing terminal for hazardous materials;
- packaging, sorting and bundling service;
- dedicated utilities (gas, electricity, telecommunications, water/wastewater, fire tender);
- an armed security service;
- a maintenance and utility service; and
- an express delivery service for small cargoes.

PEAK Industrial Park

In addition to the land earmarked for the PEAK Logistics Centre, we own a plot of approximately 477 hectares located close to the PEAK Logistics Centre and 14 kilometres from the outskirts of Almaty. The plot has an uneven shape and is relatively flat. It is bordered by existing road and rail routes and agricultural land, and is close to the existing production facilities of a number of companies including Coca-Cola, Pepsi and Efes. With respect to approximately 99 hectares, we are currently applying for change of use permission.

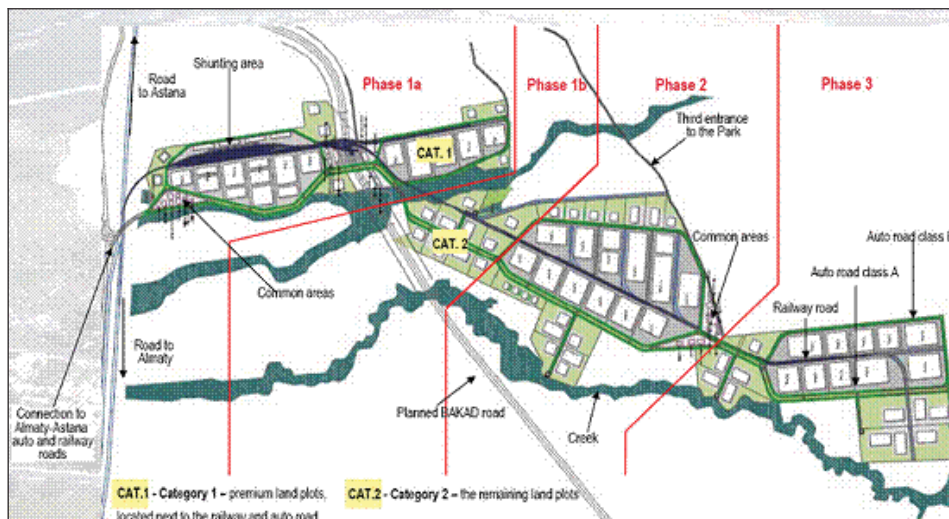
The plot is adjacent to the existing Almaty-Astana highway and railroad, and will be bisected by the proposed new outer ring road that is expected to be completed by 2010. Our project plan envisages the provision of dedicated services, including roads and railroads, electrical and gas distribution networks, a centralised water supply, drainage and sewage systems. In time, we plan to expand the facilities offered to cover canteens, bank branches, a bus terminal and a business and hotel centre.

Our advisers Jones Lang LaSalle and Agiplan have developed and finalised a strategy for the development of the land that will form the industrial park. After consideration of several models, we have decided to develop the site pursuant to an "archipelago" model, which separates the individual plots in the park into four distinct "islands" located along a central road and rail link and with a ring road on each of the "islands".

This concept offers the most efficient land usage, requires the lowest level of initial investment in traffic infrastructure and offers the most stable traffic system.



Source: Agiplan



Source: Agiplan

We intend to develop the site in stages over a five-year period, subcontracting the marketing, construction and project management. We anticipate starting the marketing and sale of individual plots within the industrial park in the third quarter of 2007, and construction is scheduled to begin in the second quarter of 2008. We envisage that sales will continue through the second quarter of 2011 as construction progresses. By selling the land over time we expect to benefit from increasing land prices.

As shown in the diagram above, we will market and develop the industrial park in three distinct phases. Phase 1 (a and b) will be developed between the second quarter of 2008 and the first quarter of 2009, phase 2 will be commenced in the first quarter of 2009 and be completed by the third quarter of 2010, with the final phase commenced during the second quarter of 2010 and completed by the third quarter of 2011.

Amongst other facilities, the PEAK Industrial Park is planned to include the following features:

- railhead access with loading and unloading bays;
- a container terminal;
- a customs post and storage warehouses;
- canteens;
- refuelling stations;

- bank branches and tax inspection centres;
- a bus terminal; and
- a business centre, hotel and residential units.

Future Developments – First Refusal Agreement

We have entered into arrangements with our Chairman and CEO, Messrs. Zhunussov and Arip, to acquire additional land in other regions of Kazakhstan. Messrs. Zhunussov and Arip are currently acquiring land outside Astana and researching potential land acquisitions outside other Kazakh cities and seeking approvals to change the land use designation of these properties to allow commercial development. Kazakhstan Kagazy JSC will have a right of first refusal to acquire any land that Messrs. Zhunussov and Arip acquire, with a view to this being developed into warehousing and logistics parks, following receipt of permission for a change of use of the land concerned. The consideration payable pursuant to the pre-emption agreement is the value of the land, as determined by an independent appraiser, less ten per cent. These arrangements are intended to allow us to acquire land for new developments without assuming the risk associated with changing the land use.

Competition

Warehousing

There are comparatively few companies providing warehousing space in the Almaty region and we expect that the following companies will be our principal competitors:

- *High Tech Logistics*, which operates the IKAR and Pervomaisky terminals located on the edge of Almaty along the motorway to Taldykurgan offering 17,000 and 16,000 square metres of space respectively. Both of these developments have been fully let.
- *TAU-Terminal*, which has just completed a Class A warehouse terminal approximately 14 kilometres outside Almaty, offering 19,000 square metres of customs terminal space. The terminal opened in late 2006 and is expected to triple in size by 2009.
- *Astana-Contract-Transportation*, which is constructing a logistics centre offering Class A warehousing space, the first phase of which was scheduled to open in October 2006. The centre is still under construction. It is developing further warehouse terminals in Astana, Aktobe and on the Kazakh-Chinese border, although no firm announcement of a completion date has yet been given.
- *Almaty International Logistics Terminal*, located seven kilometres outside Almaty city centre at Almaty International Airport. The terminal, offering 80,000 square metres of space, is due to be finished by late 2007 and will be used principally for storage and distribution of air freight.
- *USKO International*, located in the centre of Almaty and offering 5,000 square metres of Class B warehousing space. This development is unable to expand further and suffers from poor transport links. It is also possible that it will be affected by the rezoning of Almaty discussed above.

Within Almaty, there are few companies that provide logistics services and most warehousing is of Class C and Class D standard, built in the 1950s and 1960s. On the assumption that each of the above developments that has announced a completion date and our developments are completed as planned, there will be a total of approximately 230,000 square metres of Class A and Class B space.

We believe that the success of the warehousing developments being constructed in the Almaty region will depend on the overall quality of the warehouse space, ancillary services offered, location and access to transportation routes, as well as the continuing lack of significant competition, meaning that demand will continue to outstrip supply.

Industrial parks

There is currently very little land in the Almaty region that is suitable for development as an industrial park, principally because of a lack of nearby infrastructure. The industrial parks market is at a very early stage in Kazakhstan, and we are aware of only one other announced development. The DAMU industrial and logistics centre, located in the Baiserke area outside Almaty is currently at the design/engineering stage. The centre is being developed by High Tech Logistics on land of approximately 130 hectares. It will include a customs terminal and bonded warehouse and will be constructed in phases, although its actual design has not yet been determined.

We believe that the success of industrial park developments will depend on a number of factors, including the overall design quality of the development, available infrastructure facilities, type of construction, timing and proximity to transportation routes.

Principal Assets

The principal asset of our paper business is the paper and corrugating plant built in 2002 and the new corrugating plant built in 2006. The plant also comprises a number of ancillary buildings including the fire depot, reservoirs, the waste paper recycling and storage facilities and other buildings that we intend to bring into full production use by September 2007.

The principal assets of our property development business are the partially developed PEAK Logistics Centre, the first ten hectare phase of which has recently been completed, an undeveloped 51.7 hectare plot of land that will form the second phase and which is adjacent to the first phase and a number of plots of land totalling approximately 477 hectares that will be developed into the PEAK Industrial Park over the next five years. We own the land relating to the PEAK Logistics Centre. Of the 477 hectares, approximately 58 hectares have recently been purchased or awarded to us by the state, and we are in the process of having this land registered in our name, with the intention that this land will be developed as part of the PEAK Industrial Park development.

We own all of our administrative buildings and production facilities, and are completing formal registration of title to our recently constructed corrugating plant.

Employees, Employee Benefits, Health and Safety

We had a total of 965 employees as at 31 December 2006. Of these, 925 worked in our paper business, and 40 in our real estate business. We had 727 employees as at 31 December 2005.

We believe that we are in compliance with all mandatory employee-related obligations, including those related to pensions, social security payments and employee liability insurance. However, the Government has announced that it intends to enact a new labour code that will come into force on 1 January 2008. This new code is expected to extend employee rights and place further obligations on employers in relation to, for example, employees' minimum holiday entitlements, which will increase from 18 to 28 calendar days, employment protection rights during probationary periods and the right to a safe working environment and to be provided with work wear. As a result, our employee related obligations will likely increase in the future.

We believe that we currently pay above-average hourly wages to our employees, and we offer medical assistance. In addition, we have instituted a bonus system to further incentivise our employees.

To minimise risks to our employees' health and safety, we conduct regular and structured checks of employees' observance of applicable rules and regulations. Each employee is required to attend initial safety training. In 2002, we established an internal health and safety department and instituted a formal health and safety programme, which includes continuous monitoring of health and safety issues by senior management, regular medical check-ups for our staff, fire hazard minimisation, record keeping and investigation of work accidents. In addition, we have an on-site fire brigade composed of eight persons and two fire engines and a first aid post at our paper mill.

In the last three years, we have had two fatal employee accidents. The labour inspectorate investigation into the first of these accidents, which occurred in 2005, found both the deceased employee and us at fault in equal measure. The labour inspectorate investigation into the most recent accident, which occurred in March of this year, found that the cause was 90 per cent. attributable to the deceased employee's negligence and ten per cent. attributable to our negligence. The most recent matter is currently in the hands of our insurers. In Kazakhstan, following a workplace fatality, the employer will usually make efforts to provide financially for the deceased's family regardless of liability. We have made offers of financial help to both of the deceased employees' families, which have been accepted, and we do not expect that either incident will result in civil or criminal proceedings.

We are in the process of obtaining OHSAS 18001:1996 health and safety certification.

Environmental and other Licences

In January 2007, the Government enacted a stricter environmental code, which will require companies engaged in manufacturing or other environmentally hazardous activities, including members of our group, to carry mandatory environmental liability insurance at stated amounts and

to remediate any environmental damage resulting from their operations. Non-compliance with these insurance requirements could result in administrative fines or other penalties being imposed. We currently seek to comply with international environmental standards that we believe are more demanding than those required by existing Kazakh environmental laws, including conducting regular sample analysis to check waste water discharge levels. As a result, we do not expect the new environmental code to have a material effect on our operations.

Our group is subject to annual reporting obligations and inspections in respect of our compliance with environmental laws in Kazakhstan. We have incurred capital expenditure relating to our existing facilities with the aim of ensuring that these remain in compliance with all applicable environmental laws. We have implemented several environmental protection measures based on recommendations made by the public environmental body responsible for the Almaty region following previous environmental inspections in 2004 and 2005 (there were no inspections in 2006). These measures were all implemented within the allotted time set in connection with the relevant inspections. We have invested in technology to reduce the amount of water we use and have installed a steam condensing system that reduces the amount of energy required in our paper production business. We may incur additional capital expenditure to meet the requirements of the recently enacted environmental code, as well as in relation to ongoing cleaning and maintenance of our water purification facility.

Our subsidiary Kazakhstan Kagazy JSC holds a permit enabling it to extract groundwater and use low-level ionising radiation for measuring the thickness of paper. Under the terms of our existing permits, we are required to make payments based on our levels of permitted discharges. In 2006 we paid approximately KZT 2,064,875. Under the new environmental code, Kazakhstan Kagazy JSC will be required to apply for new environmental permits effective from 1 January 2008. Kazakhstan Kagazy JSC further has permits enabling it to operate an electricity sub-station and employ non-Kazakh nationals.

Kagazy Recycling LLP has not been granted any environmental permits, although it is required to obtain a permit to extract underground water and for air and sewage discharges. It is currently determining the levels of air and sewage discharges for which it wishes to apply and these levels will be submitted to the environmental authorities in the form of a report when applying for permits. Kagazy Recycling LLP expects to have obtained its environmental permits by November 2007. The most likely sanction that Kagazy Recycling LLP faces as a result of not having any environmental permits is the imposition of an administrative fine in an amount which is not expected to be material.

As a precondition to the EBRD Loan, an environmental audit of our existing facilities was undertaken in 2006 by an independent environmental consultant. The audit showed that our operations have only a limited environmental impact and our operations were determined generally to be in line with EU environmental standards, including the EU Integrated Pollution Prevention and Control guideline standards for pulp and paper manufacturing achievable with the use of best available techniques. However, the audit found that our production facilities produce high levels of waste water due to suboptimal water recirculation and a lack of proper effluent treatment. An environmental action plan has been developed to address this issue, which requires us to reduce the amount of waste water by improving water recirculation and to purchase only elementary or totally chlorine free pulp to eliminate chlorinated organic compounds from our waste water. The cost of these measures is estimated to be approximately US\$3 million and we expect them to be fully implemented by 2010. The EBRD has expressed its intention to evaluate compliance on an ongoing basis with the environmental action plan it has agreed with us.

We are in the process of applying for ISO 14000:2004 environmental certification of our manufacturing facilities.

The development of greenfield and brownfield sites by us for warehousing and distribution centres requires construction and operation permits for matters such as excavation and construction works and the installation of certain utilities services. These permits will either be held by the relevant member of our group or by the sub-contractor we engage to carry out specific works.

Failure to obtain and comply with licensing requirements could result in the imposition of an administrative fine.

Insurance

We insure our assets against risk of loss or damage caused by fire, lightning, explosions, arson, natural disasters, burglary, robbery and mechanical damage. We also insure our vehicles against the

risk of loss or damage. As required by law, we maintain statutory insurance against losses caused by damage to third parties by our employees, at our operational facilities, as a result of the operation of our vehicles and as a result of accidents in the course of constructing our facilities. We do not currently have business interruption insurance, although we are in the process of obtaining this coverage. We have recently arranged insurance for our paper plant and are in the process of arranging insurance for the first phase of the PEAK Logistics Centre development.

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which we are aware) during the period covering the 12 months prior to the date of this prospectus and that may have or have had in the recent past significant effects on our financial position or profitability.

Intellectual property

We do not have any patents or other protected intellectual property or technology that is material to our business, save for two trade marks – “*Kazakhstan Kagazy*”, used in our paper business, and “*PEAK*”, used in our property business. Applications were made for registration in Kazakhstan of the “*Kazakhstan Kagazy*” words by Kazakhstan Kagazy JSC on 10 November 2006 and of the “*PEAK*” word by Kagazy Invest LLP on 15 August 2006. Both applications have passed the first investigation stage and substantive examinations are expected to have been completed by late 2007. Kagazy Recycling LLP will be granted a licence to use the “*Kazakhstan Kagazy*” words. Kagazy Invest LLP will be assigning the “*PEAK*” trademark application to PEAK.

Taxation

Kazakhstan is currently implementing a programme of annual reductions in VAT and social tax rates (the latter is borne by employers and is a proportion of gross salary). With effect from January 2007, VAT was reduced from 15 per cent. to 14 per cent. and the social tax rate was reduced starting in January 2004 from a flat rate of 21 per cent. to a sliding scale of between 7 and 20 per cent. In addition, the rate of personal income tax, which was formerly a progressive scale ranging from 5 per cent. to 20 per cent., was fixed at a flat 10 per cent. rate with effect from 1 January 2007.

We believe that we have paid or accrued all taxes that are applicable to our operations. Where practice concerning tax law application is unclear, we have accrued tax liabilities based on our best estimates. Our policy is to accrue contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

We are not currently party to any other material legal or regulatory proceedings relating to any tax claims, nor are we aware of any threatened or unasserted legal or regulatory proceedings relating to any tax claims that we believe would be material to us. Based on a consideration of all relevant facts and circumstances, we do not believe the ultimate outcome of any currently pending matter against us either individually or in the aggregate will have a material adverse effect upon our business, financial condition or operating results.

In December 2006, our subsidiary Kagazy Recycling LLP agreed a series of tax holidays (which are granted in Kazakhstan to promote non-natural resources industries).

Our subsidiary Kazakhstan Kagazy JSC had previously been granted a tax holiday as a condition of which it was, amongst other things, required to operate our paper mill until that tax holiday expires in February 2008. We have been unable to terminate this pre-existing tax holiday prior to its expiration. Transferring the paper mill prior to the end of the tax holiday agreed by Kazakhstan Kagazy JSC would result in penalties as well as a repayment of the saved tax (and interest) becoming due. We have therefore decided that the paper mill will remain owned, until February 2008, by Kazakhstan Kagazy JSC and will then be transferred to Kagazy Recycling LLP (at which point it will have the benefit of the tax holiday that Kazakhstan Recycling LLP has agreed). Until then, the paper mill will benefit from the tax holiday agreed by Kazakhstan Kagazy JSC.

Under the terms of the December 2006 tax holiday agreed by Kagazy Recycling LLP, we are exempt from the following taxes:

- from property tax for a period of five years (given our developed real estate holdings, this is the most valuable tax benefit – property tax is chargeable at the rate of one per cent. of the book value of fixed assets and represents a saving of approximately KZT 52 million annually);
- from land tax for a period of five years (this is levied on the basis of the cadastral value of land, and represents a saving of approximately KZT 6 million annually); and
- from corporate income tax for a period of five years (corporate income tax is otherwise chargeable at a rate of 30 per cent.). It is hoped that this exemption will be extended to a total of ten years, following the Corporate Reorganisation, subject to us committing to make a certain level of local investments.

DIRECTORS AND SENIOR MANAGEMENT

Directors

The following table sets out details of the Company's current directors. Messrs. Zhunussov and Arip became directors of our principal Kazakh subsidiary, Kazakhstan Kagazy JSC, in 2004 and 2003 respectively.

Name	Age	Position	Year Appointed
Baglan Zhunussov	42	Director and Chairman	2007
Maksat Arip	33	Director and Chief Executive Officer	2007
Thomas Johnson	71	Independent Non-Executive Director	2007

The terms of office of the Directors will expire in accordance with the retirement provisions in the Articles.

Each of the Directors can be contacted at our principal place of business at Abai village, Karasay district, Almaty region 040905, Republic of Kazakhstan.

Baglan Zhunussov has been a director and the Chairman of the board of directors of Kazakhstan Kagazy JSC since 2004. From 2003 to 2004, Mr. Zhunussov was the Managing Director of Halyk Bank JSC. Prior to that time, from 2000 to 2003, he was President of KazTransCom JSC, the telecoms arm of state-owned oil and gas firm KazMunaiGaz. Mr. Zhunussov was the General Director of Spectrum LLP, a Kazakh-American mobile communications joint venture and an EBRD investee company, from 1996 to 2000. Mr. Zhunussov holds a Master of Business Administration from the International Academy of Business in Almaty.

Maksat Arip has been a director and the Chief Executive Officer of Kazakhstan Kagazy JSC since 2003. Mr. Arip was, between 2000 and 2003, the First Deputy to the Director General of KazTransCom JSC. From 1999 to 2000, he served as the Finance Director of Spectrum LLP. Mr. Arip has also held senior positions with the Tumar Insurance Company and the Kyz-Zhibek Investment Fund. Mr. Arip holds a Master of Business Administration from the International Academy of Business in Almaty and a law degree from the Kunayev Humanities University.

Thomas Johnson has been an independent non-executive Director since early 2007. He is Of Counsel with Denton Wilde Sapte, an international law firm, and has been advising clients on Central Asian matters since 1993, with a focus on banking and finance matters as well as real estate, construction and electricity. Prior to moving to Almaty, Mr. Johnson practised banking and finance law in New York and London. Mr. Johnson has a law degree from Harvard Law School.

Senior Management

Set out below are details of the members of senior management.

Name	Age	Current Position	Year Joined
Sergey Tulegenov	42	Director and Deputy General Director, Kazakhstan Kagazy JSC	2004
Alessandro Manghi	46	Group Investor Relations and Corporate Finance Director, Kazakhstan Kagazy JSC	2005
Aidar Akhmetov	38	Non-Executive Director, Kazakhstan Kagazy JSC	2007
Yuriy Bogday	37	Group Business Development Director, Kazakhstan Kagazy JSC	2003
Silvio Ippoliti	59	Director General, PEAK	2006
ErmeK Mubarakov	40	Paper and Cutting Production Director, Kagazy Recycling LLP	2004
Sabigazy Mangeldiev	35	Director of Recycling, Kagazy Trading LLP	2005
Nurlan Sharipov	38	Exploitation Director, PEAK	2005
Jos van Lent	51	Corrugated Packaging Division Director, Kagazy Recycling LLP	2005
Shynar Dikhanbayeva	32	Finance Director, Kazakhstan Kagazy JSC	2001
Irina Yevtushenko	41	Commercial Director, Kazakhstan Kagazy JSC	2004
Taissyia Kogutuk	25	Administrative Director, Kazakhstan Kagazy JSC	2003

Each of the senior managers can be contacted through our principal place of business at Abai village, Karasay district, Almaty region 040905, Republic of Kazakhstan.

Sergey Tulegenov has been a Director and Deputy General Director of Kazakhstan Kagazy JSC since 2004. From 2003 to 2004, he was a Director at Kazvtorsyryo, a waste paper collecting company. From 2001 to 2003, he served as Director of the Contract Department and Executive Director for general matters with KazTransCom JSC. From 1997 to 2001, Mr. Tulegenov was a branch director for Spectrum LLP. Mr Tulegenov holds a Master of Business Administration in management and economics from the International Academy of Business and a mechanical engineering qualification from the Kazakhstan National Technical University.

Alessandro Manghi has been a Managing Director of the companies within our group since 2005 and following the Corporate Reorganisation was appointed as Group Investor Relations and Corporate Finance Director of Kazakhstan Kagazy JSC in 2007. Mr. Manghi has over twelve years of finance and investment experience in Kazakhstan and other emerging markets. Prior to joining our group, Mr Manghi was the Chief Financial Officer of a London-based insurance management group that was active in Central Asia, the Caucasus and Eastern Europe. Between 1998 and 2001, Mr. Manghi was Senior Investment Manager at EBRD Eagle Kazakhstan, where he held the positions of Chairman of the Board of Directors of JSC Arna (part of Kazakhstan's largest private fixed-line and satellite telecoms operator), Rainbow Paint JSC (a paint production company) and Bauta LLP (a water desalination and packaging joint venture). Mr. Manghi was also a member of the Board of Directors of Spectrum LLP. He has several years of audit and transaction support experience with Price Waterhouse and Barents Group. Mr. Manghi is a qualified Chartered Accountant and a member of the Institute of Chartered Accountants in England and Wales.

Aidar Akhmetov has been a Non-executive Director of Kazakhstan Kagazy JSC since early 2007. He has been a Managing Director at Kazkommertsbank JSC since 1998. Previously, he was Chairman of the Management Board of ABN AMRO Asset Management in Kazakhstan. He is a graduate of the Almaty Foreign Language University in English and German and an economics graduate of the Kazakhstan State Management Academy.

Yuriy Bogday was appointed as Group Business Development Director in 2007, having been a director of Kagazy Trading LLP since 2004. He joined Kazakhstan Kagazy JSC as Business Director in 2003. Prior to joining the group, he was, from 2001 to 2002, the head of centre at Teletrade Siberia, a consulting and brokerage services company in the financial markets sector. From 1998 to 2001, Mr. Bogday was Training Manager and a financial analyst at Teletrade Almaty. Mr. Bogday holds a Bachelor's Degree in economics from the Kazakhstan State Management Academy and a Master of Business Administration from the International Academy of Business in Almaty.

Silvio Ippoliti is Director General of PEAK. Mr. Ippoliti joined the Kagazy Group on a consultancy basis in 2006 and on a full time basis earlier this year. Mr. Ippoliti has over ten years of construction experience in Kazakhstan, as well as in other emerging markets, principally as Director General of Renco Kat, part of the Italian Renco group which was, at the time, the largest foreign construction company in Kazakhstan. In 2005, he established the Kazakh operations of Marcora Stroi before returning to Italy to manage one of the largest construction developments in Milan. Mr. Ippoliti holds a mechanical engineering degree from Ancona Superior Technical Institute and a general management degree from Milan Commerce Polytechnic. He was knighted in 2003 for services to the Italian Republic.

Ermek Mubarakov has been the Paper and Cutting Production Director of Kagazy Recycling LLP since 2004. From 2002 to 2004, Mr. Mubarakov served as Deputy Director at Altaikrovlia Paper Co., a Russian paper manufacturing company. From 1991 to 2002, he held a number of positions, including Head of Production and Engineering Director, with Karton Polymer and Polygrafic Combine, a packaging producer, and has 15 years' experience in the paper industry. Mr. Mubarakov holds a Master's Degree in mechanical engineering from the Tomsk Polytechnical Institute in Russia.

Sabigazy Mangeldiev is Director of Recycling of Kagazy Trading LLP. Prior to joining us in 2005, Mr. Mangeldiev was a director of both Kazvtorsyryo, a waste paper collection company, and Nursat, a telecommunications equipment provider. Mr. Mangeldiev holds a Bachelor's Degree in radio engineering from the Almaty Institute of Power, Engineering and Telecommunications and a degree in international economics from the Kazakh Economic University.

Nurlan Sharipov is the Exploitation Director of PEAK. Between 2002 and 2005, Mr. Sharipov was General Director of NEK Alafreight JV LLP, an oil project logistics and freight forwarding

company. Between 1999 and 2002, he was Director of Terminal Ltd, a logistics company. Between 1996 and 1999, Mr. Sharipov was Executive Director of MPA Ltd, an Italian joint venture trading company, where he handled logistics issues. He has a degree in political science and philosophy from the Kazakh State University and a Master of Business Administration from the International Academy of Business in Almaty.

Jos van Lent has been the Corrugated Packaging Division Director of Kagazy Recycling LLP since 2005. Mr. van Lent has 26 years' experience in the paper industry and has worked in The Netherlands, Poland and Kazakhstan, mainly in corrugated packaging and solid board production. Prior to joining us, he served as Chief Operating Officer and Project Manager at Model Management AG, a Swiss company, in Poland from 2003 to 2005, where he was responsible for modernising and increasing sales in two corrugating plants. From 1997 to 2003, Mr. van Lent was a Project Manager and Managing Director at Kappa Packaging, a Dutch company. Mr. van Lent holds a qualification as a mechanical and industrial engineer from the Technology College of Mechanical Engineering in 's-Hertogenbosch in the Netherlands.

Shynar Dikhanbayeva has served as Finance Director since joining our group in 2001 and following the Corporate Reorganisation was appointed as Finance Director of Kazakhstan Kagazy JSC. Prior to that time, she was Finance Director at Seimar Investment Group, a Kazakh investment company. Ms. Dikhanbayeva is a Certified Accountant and member of the Kazakhstan Professional Accounting Association. She holds a Bachelor's Degree from Kazakhstan State Management Academy.

Irina Yevtushenko has served as Commercial Director of our group since joining in 2004 and following the Corporate Restructuring was appointed as Commercial Director of Kazakhstan Kagazy JSC. From 2000 to 2004, she was a Director and Financial Director of Spectrum LLP. She has held accounting and finance positions since 1989. Ms. Yevtushenko holds a Master of Business Administration from the International Academy of Business in Almaty.

Taissiya Kogutuk has been the Administrative Director of our group since 2003 and following the Corporate Reorganisation was appointed the Administrative Director of Kazakhstan Kagazy JSC in 2007. From 2002 to 2003, Ms. Kogutuk was the chief lawyer at KazTransCom. From 2001 to 2002, Ms. Kogutuk was the chief officer of the Customer Legal Support Department for Klipin & Partners LLP, a Kazakh law firm. Ms. Kogutuk holds a diploma in jurisprudence from the St. Petersburg Humanitarian University of Trade Unions.

Service Contracts and Compensation

The Directors have all signed letters of appointment or employment contracts with either the Company or one of its subsidiaries.

In the year ended 31 December 2006, the aggregate total remuneration paid (including contingent or deferred compensation) and benefits in kind granted to each of the directors of Kazakhstan Kagazy JSC and senior managers was approximately KZT 99.6 million. The total amount set aside or accrued to provide pension, retirement or other benefits to the directors of Kazakhstan Kagazy JSC and senior managers was KZT 7.6 million for the year ended 31 December 2006.

Certain of the Directors and senior managers will be entitled to a discretionary bonus payable on completion of the Offer. The bonus pool will equal 0.5 per cent. of the proceeds received by the Company plus US\$600,000. The Company will determine the allocation of bonus payments among the Directors and senior employees entitled to participate in the bonus pool.

Loans to the Directors and Senior Managers

As at 31 December 2005 and 2006, total loans outstanding, net, issued to directors of Kazakhstan Kagazy JSC and senior managers totalled KZT 7.1 million. Directors and senior managers may seek loans in an amount not exceeding four times their annual salary, typically used to finance relocation expenses and house purchases. The loans are interest free and terms range from a minimum of one month to a maximum of ten years. The loans are repaid through monthly deductions from the relevant borrowers' remuneration, in an amount not exceeding 50 per cent. of such remuneration. Upon termination, a Director or senior manager must immediately repay any outstanding amount borrowed, unless we agree an alternative repayment schedule and appropriate security arrangements.

Interests of the Directors and Senior Managers

The following table shows the beneficial ownership of Shares as of the date of this prospectus by the current Directors and senior managers.

Name	Position	Number of Shares Held
Baglan Zhunussov, held through Pleco Limited	Director and Chairman	25,000,000
Maksat Arip, held through Oreo Limited	Director and Chief Executive Officer	25,000,000

Litigation Statement about Directors and Senior Managers

Save as set out below, as of the date of this prospectus, no Director or senior manager has, for at least the five years prior to the date of this prospectus:

- any convictions in relation to fraudulent offences;
- been a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of a company.

Corporate Governance

As an overseas company with GDRs admitted to the Official List, the Company will not be required to comply with the provisions of the UK Combined Code on Corporate Governance. There are no corporate governance recommendations applicable to companies incorporated in the Isle of Man.

However, the Company intends, so far as it is able, having regard to its size and stage of development, to comply with the recommendations of the UK Combined Code on Corporate Governance and the Model Code as if it were a public company incorporated in England and Wales.

The Company's board is currently composed of three members, consisting of two executive directors and one independent non-executive director. The Combined Code recommends that at least half the members of the board of directors (excluding the chairman) of a public limited company incorporated in England and Wales should be independent in character and judgment and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgment and the Company intends to become compliant with this recommendation of the Combined Code when it is appropriate. The Company is in the process of appointing additional non-executive directors so that it will be able to comply fully with this recommendation.

The Combined Code also recommends that a board should appoint one of the independent non-executive directors as senior independent director and Thomas Johnson has been appointed to fill this role. The senior independent director should be available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or finance director has failed to resolve or for which such contact is inappropriate.

Committees

The Directors have established audit, remuneration and nomination committees, as described below, and will utilise other committees as necessary in order to ensure effective governance.

Audit Committee

The Audit Committee assists the Company's board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing our annual financial statements, reviewing and monitoring the extent of the non audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of our internal audit activities, internal controls and risk management systems. The ultimate responsibility for reviewing and approving the annual report and accounts and the half yearly reports remains with the Board.

The Audit Committee is comprised of all three of the current directors. One member of the Audit Committee is an independent non-executive director.

Remuneration Committee

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on our policy on executive remuneration, determining the individual remuneration and benefits package of each of the executive directors and recommending and monitoring the remuneration of senior management below Board level.

The Remuneration Committee is comprised of all three of the current directors. One member of the Remuneration Committee is an independent non-executive director.

Nomination Committee

The Nomination Committee's responsibilities include, among other things, reviewing the composition of the Board and making recommendations to the Board with regard to any changes.

The Nomination Committee is comprised of all three of the current directors. One member of the Nomination Committee is an independent non-executive director.

CAPITALISATION AND INDEBTEDNESS

The Company was incorporated on 15 March 2007 with nominal capitalisation and, in preparation for the Offer, has issued 50 million Shares of US\$0.10 each. As at 31 March 2007, the Company has no cash or indebtedness.

The following table sets forth the capitalisation and indebtedness of the Company's Subsidiary, Kazakhstan Kagazy JSC, through which our business has historically operated, as at 31 March 2007. The figures for capitalisation and indebtedness have been extracted, without material adjustment, from Kazakhstan Kagazy JSC's unaudited condensed consolidated interim financial statements for the period ended 31 March 2007.

This information should be read in conjunction with the Financial Statements and the related notes thereto beginning on page F-2 in this prospectus.

	As at 31 March 2007	
	(KZT million)	(US Dollars thousands)¹
Total current debt	347,644	2,808
Guaranteed	141,492	1,143
Secured.....	206,152	1,665
Unguaranteed/unsecured.....	—	—
Total non-current debt (excluding current portion of long term debt)	21,734,320	175,503
Guaranteed	—	—
Secured.....	21,734,320	175,503
Unguaranteed/unsecured.....	—	—
Shareholders' equity	14,024,687	113,248
Share capital	6,356,996	51,332
Share premium.....	3,953,000	31,920
Revaluation reserves	2,782,966	22,472
	13,092,962	105,724
Retained earnings	931,725	7,524

(1) Converted into US Dollars for convenience using an exchange rate of KZT 123.84 per US\$1.00, being the official Tenge to US Dollar exchange rate as reported by NBK as at 31 March 2007.

SELECTED HISTORICAL FINANCIAL AND OPERATIONAL INFORMATION

The Company was incorporated in preparation for the Offer on 15 March 2007. To provide historical financial information for the Company's business, the following table contains selected historical financial information of Kazakhstan Kagazy JSC as at and for the years ended 31 December 2004, 2005 and 2006 and for the three-month period ended 31 March 2007 extracted without material adjustment from the Financial Statements. The Balance Sheet Data as at 31 March 2006 is extracted, without material adjustment, from the management accounts of Kazakhstan Kagazy JSC. The unaudited interim consolidated results of Kazakhstan Kagazy JSC for the three-month period ended 31 March 2007 are not necessarily indicative of the results that may be expected for the year ended 31 December 2007. The information set out below has been prepared on the basis described in the Financial Statements. The Financial Statements include all adjustments which our management considers necessary for a fair presentation of our consolidated financial position and results of operations for the periods covered.

You should read the following selected historical financial and operational information in conjunction with the information contained in "Capitalisation and Indebtedness", "Operating and Financial Review and Prospects" and our consolidated financial statements and the related notes thereto beginning on page F-2 of this prospectus.

	Year Ended 31 December			Three Month Period Ended 31 March	
	2006	2005	2004	2007	2006
		(audited) (KZT '000)		(unaudited) (KZT '000)	
Balance Sheet Data (as of period end):					
Revenue ⁽¹⁾	7,004,313	4,425,936	2,144,649	1,686,597	1,426,321
Cost of sales ⁽²⁾	(5,183,269)	(3,009,114)	(1,390,897)	(1,115,176)	(1,047,757)
Gross profit	1,821,044	1,416,822	753,752	571,421	378,564
Selling expenses ⁽³⁾	(458,094)	(226,868)	(212,694)	(85,836)	(93,611)
Administrative expenses ⁽⁴⁾	(489,846)	(307,281)	(196,730)	(151,607)	(88,399)
Finance costs	(884,969)	(635,386)	(375,555)	(445,267)	(122,892)
Other income and expenses	185,348	34,941	298,397	124,369	125,863
Profit before tax	173,483	282,228	267,170	13,080	199,525
Income tax expense	(54,905)	(42,057)	(12,952)	(4,055)	(862)
Profit for the year/period	118,578	240,171	254,218	9,025	198,663
Balance Sheet Data (as of period end):					
Non-current assets					
Property, plant and equipment	22,561,504	10,543,225	5,316,934	26,105,827	10,924,782
Intangible assets ⁽⁵⁾	5,117	3,397	1,783	4,935	3,249
Non-current receivables	—	—	—	15,200	—
Prepayments in respect of construction contracts	2,887,336	293,473	354,889	4,211,795	293,473
VAT recoverable ⁽⁶⁾	1,100,645	—	—	1,100,645	—
Cash and cash equivalents on special deposits ⁽⁷⁾	345,000	—	—	175,000	—
	26,899,602	10,840,095	5,673,606	31,613,402	11,221,504
Current assets					
Inventories	6,094,200	1,094,415	321,385	6,320,000	1,752,979
Prepayments in respect of goods and construction contracts	7,590,292	1,104,153	755,832	1,770,543	2,069,804
Other current assets	790,728	5,621	895	769,293	18,106
Trade and other receivables	626,981	3,149,966	1,095,542	1,100,526	3,329,668
Cash and cash equivalents	80,584	43,557	37,897	263,917	324,914
	15,182,785	5,397,712	2,211,551	10,224,279	7,495,471
Total assets	42,082,387	16,237,807	7,885,157	41,837,681	18,716,975

	Year Ended 31 December			Three Month Period Ended 31 March	
	2006	2005	2004	2007	2006
		(audited)		(unaudited)	
		(KZT '000)		(KZT '000)	
Equity					
Share capital.....	6,356,996	4,380,496	657,039	6,356,996	4,380,496
Share premium	3,953,000	—	—	3,953,000	—
Revaluation reserve ⁽⁸⁾	1,822,202	872,406	1,034,098	2,782,966	853,871
Retained earnings.....	906,953	705,942	304,079	931,725	923,185
	13,039,151	5,958,844	1,995,216	14,024,687	6,157,552
Non-current liabilities					
Interest bearing loans and borrowings...	17,096,716	7,178,599	2,734,246	21,734,320	7,977,607
Deferred tax liabilities	998,728	508,673	476,888	1,421,287	508,673
Other long-term liabilities.....	—	—	17,367	—	—
	18,095,444	7,687,272	3,228,501	23,155,607	8,486,280
Current liabilities					
Interest bearing loans and borrowings...	6,163,829	961,821	1,582,020	347,644	807,372
Corporate income tax payable	9,488	9,098	—	8,420	9,645
Other tax liabilities ⁽⁹⁾	65,331	23,114	11,087	47,536	199,446
Trade and other payables.....	4,709,144	1,597,658	1,068,333	4,253,787	3,056,680
	10,947,792	2,591,691	2,661,440	4,657,387	4,073,143
Total equity and liabilities.....	42,082,387	16,237,807	7,885,157	41,837,681	18,716,975

- (1) Revenue is derived from: (i) the sale of the finished paper and packaging products we produce; (ii) goods for resale as part of our trading operations; and (iii) ancillary services provided to customers, including design services.
- (2) Cost of sales comprises the direct costs relating to production, including labour, materials, energy costs, depreciation and other production overhead costs, in addition to the costs attributable to products resold through our trading operations.
- (3) Selling expenses comprises transportation and warehousing costs incurred in the distribution of products, wages and salaries of sales and production personnel, rental expenses and marketing and advertising costs.
- (4) Administrative expenses relate to general administrative costs, such as wages and salaries of administrative personnel, property taxes and bank fees.
- (5) Intangible assets primarily comprise computer software licences.
- (6) VAT recoverable relates to VAT credits and excess VAT paid and is recoverable in the normal course of business.
- (7) Cash and cash equivalents on special deposits relate to interest-bearing deposits reserved for bond interest payments.
- (8) Revaluation reserve relates to the cumulative surplus value of property, plant and equipment in excess of historic cost, less amounts transferred to retained earnings representing the amount of any cumulative surplus recognised in the income statement in respect of depreciation of revalued property.
- (9) Other tax liabilities relate to taxes other than corporate income tax, such as social tax and social insurance, employees' income tax, withholding tax on non-residents' income and certain environmental payments.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion in conjunction with our combined financial statements included in this prospectus. In addition, you should read "Business" for more information about us.

Overview

We are the largest producer of paper, corrugated board and packaging products in Kazakhstan and Central Asia and, utilising the experience gained in this business, we have expanded into commercial real estate development. Through our subsidiary, Kagazy Recycling LLP, we operate a range of businesses connected with paper manufacturing and trading and waste paper recycling. Our subsidiaries own approximately 538 hectares of prime land, strategically located outside Almaty, on which we are developing commercial warehousing and logistics facilities. For the years ended 31 December 2005 and 2006, our revenues were approximately KZT 4,426 million (US\$33.3 million) and KZT 7,004 million (US\$55.6 million), respectively, and, as at 31 March 2007, we had total assets of approximately KZT 41,837.7 million (US\$337.8 million). Our subsidiary Kazakhstan Kagazy JSC has had a debt listing on the Kazakhstan Stock Exchange since 2005.

Financial Statements Discussed

Our paper and packaging products business operates principally in Central Asia and offers a broad range of products that we either produce ourselves or trade, and we derive revenue from both of these activities. Approximately 95 per cent. of our revenue is generated in Kazakhstan. Our paper and packaging business has a high degree of vertical integration as we use most of the paper that we produce in our production of corrugated packaging.

Our real estate development business currently generates no revenue, but we expect to generate revenue in the future through the sale or letting of properties that we are developing. We also expect to generate revenue from fees for the use of common infrastructure and other services that we intend to provide in connection with our real estate developments.

Demand for our paper, packaging and real estate products and services is generally driven by the overall level of economic growth and activity in the geographic areas that we serve. In particular, the level of investment in Kazakhstan from domestic and multinational companies typically influences the demand for packaging and for warehousing and logistics space. We believe that demand for our real estate developments will also depend on our ability to provide a competitive and complete logistics service.

The profitability of our paper and packaging business depends to a large extent on the following costs:

- (i) the cost of collecting waste paper and transporting it to our paper mill in Almaty and the purchase of other raw materials, such as top liner, cellulose and chemicals;
- (ii) financing expenses;
- (iii) energy costs, as our production facilities use large amounts of gas, electricity and water in the extraction of recycled fibre and the production of paper and packaging; and
- (iii) ongoing maintenance costs related to our production facilities.

We are in the process of planning and developing the PEAK Logistics Centre, to be developed on our southern plot in two phases, from which we expect to generate rental income. We are also planning the PEAK Industrial Park, from which we expect to derive income from the sale of plots and from the provision of ancillary services. We will retain ownership of the common infrastructure within the PEAK Industrial Park, such as the roads, rail network and utilities. The main ongoing costs of our real estate developments on the southern plot will be the maintenance and upkeep of this common infrastructure.

Primary Factors Affecting Results

We expect that our paper and packaging business will be affected by the following trends:

- (i) *Raw materials.* Management expects that raw material costs will continue to increase as Kazakhstan develops and competition for these resources increases. Our most significant raw material is fibre for paper manufacturing. Although energy prices are currently heavily

subsidised in Kazakhstan, we expect these subsidies to be reduced over time so that energy prices will rise to international levels. We seek to manage energy costs by using modern, energy efficient equipment.

- (ii) *Pricing policies.* We are implementing a new pricing policy to gradually increase our prices in line with international market prices as we move toward providing more sophisticated packaging solutions.
- (iii) *Labour costs.* Management expects that labour costs in Kazakhstan will increase faster than GDP growth, which will increase our production costs. Management expects that increases in these costs will be partially offset by productivity gains.
- (iv) *Financing expenses.* Financing costs are a significant portion of our total expenses. We expect our financing expenses to decrease as we move to third party financing sources offering lower interest rates and as we repay indebtedness using proceeds of the Offer, the EBRD Loan and revenue from our increasing production. Finance costs for the year ended 31 December 2006 were US\$6.79 million. The EBRD Loan, which was entered into on 25 May 2007, comprises:
 - a senior €33 million loan with an interest rate based on six-month EURIBOR plus 4 per cent. (falling to EURIBOR plus 3 per cent. once certain ratios are met);
 - a subordinated loan of US\$10 million with an interest rate depending on financial performance;
 - a US\$33 million loan from Kazkommertsbank JSC as a co-lender with an 11 per cent. interest rate; and
 - US\$9 million in financial leases from Kazkommertsbank JSC, with a 9 per cent. interest rate.

The EBRD loan will be used to refinance debt that currently has an effective interest rate ranging from seven to 14 per cent. per annum.

- (v) *Transportation costs.* Transportation costs have increased in recent years in Kazakhstan. Although we have reduced our dependence on external transport services through the development of an internal logistics capability, we expect increasing transportation costs to affect our future financial results.

We believe that our real estate business will be affected by the following trends:

- (i) *Property prices.* Management believes that property prices will continue to increase as Kazakhstan develops, and that these increases will positively affect the sales and rental income from our real estate operations.
- (ii) *Construction costs.* Increases in global steel prices and the costs of other construction materials, as well as increasing costs of transporting raw materials and increasing labour and utilities costs, will likely affect our real estate developments.
- (iii) *Financing expenses.* As described above, we expect that our real estate business will be affected by costs related to our financing.
- (iv) *Ability to source new projects.* According to our strategy, we will seek to develop properties in other cities in Kazakhstan. The growth of our real estate business will, therefore, depend upon our ability to identify and develop additional properties.

Results of Operations

The following table sets forth historical selected financial data for the periods presented and the same data as a percentage of our total revenue. The information below is presented in Tenge, the Group's functional currency.

	Year ended 31 December						Three months ended 31 March			
	2006		2005		2004		2007		2006	
	(KZT millions)	(%)	(Audited) (KZT millions)	(%)	(KZT millions)	(%)	(Unaudited) (KZT millions)	(%)	(KZT millions)	(%)
Revenue.....	7,004.3	100.0	4,425.9	100.0	2,144.6	100.0	1,686.6	100.0	1,426.3	100.0
Cost of sales.....	5,183.3	74.0	3,009.1	68.0	1,390.9	64.9	1,115.2	66.1	1,047.8	73.5
Gross profit.....	1,821.0	26.0	1,416.8	32.0	753.8	35.2	571.4	33.9	378.6	26.5
Selling expenses.....	458.1	6.5	226.9	5.1	212.7	9.9	85.8	5.1	93.6	6.6
Administrative expenses.....	489.8	7.0	307.3	6.9	196.7	9.2	151.6	9.0	88.4	6.2
Finance costs.....	885.0	12.6	635.4	14.4	375.6	17.5	445.3	26.4	122.9	8.6
Other income and expenses...	185.3	2.7	34.9	0.8	298.4	13.9	124.4	7.4	125.9	8.8
Profit before tax.....	173.5	2.5	282.2	6.4	267.2	12.5	13.1	0.8	199.5	14.0
Income tax expense.....	54.9	0.1	42.1	1.0	13.0	0.6	4.1	0.2	0.9	0.1
Profit for the year.....	118.6	1.7	240.2	5.4	254.2	11.9	9.0	0.5	198.7	13.9

Three Months Ended 31 March 2007 Compared to Three Months Ended 31 March 2006

Revenue is derived from: (i) the sale of the finished paper and packaging products we produce; (ii) goods resold by us as part of our trading operations; and (iii) ancillary services provided to customers, including design services. Revenue increased by KZT 260.3 million, or 18.3 per cent., to KZT 1,686.6 million in 2007 from KZT 1,426.3 million in 2006, as follows:

	Three months ended 31 March	
	2007	2006
	(KZT millions)	
Finished products	917.1	686.5
Goods for resale	720.9	739.8
Services	48.6	—
Total	1,686.6	1,426.3

The increase in revenue from finished products was primarily due to the expansion of our paper and packaging production facilities as, in autumn 2006, we commissioned a new German-manufactured corrugating machine and a second paper machine.

The decrease in goods for resale relates to lower trading volume in the first quarter of 2007. We believe that this was primarily due to our increased production as we sold more products manufactured by us in lieu of products produced by others.

In addition, beginning in 2007, after the first quarter, we began recording revenue from services, which are primarily fees for delivery of products to customers. Previously, these fees were recorded in the finished products or goods for resale line items.

Cost of sales comprises the direct costs relating to production, including labour, materials, energy costs, depreciation and other production overhead costs, in addition to the costs attributable to products resold through our trading operations. Cost of sales increased KZT 67.4 million, or 6.4 per cent., to KZT 1,115.2 million in the three months ended 31 March 2007 from KZT 1,047.8 million in the three months ended 31 March 2006. This increase was principally due to higher sales volumes in the first quarter of 2007. However, the cost of sales, expressed as a percentage of revenue, decreased from period to period as a result of improved production processes and equipment which reduced waste losses and more efficiently utilised materials, energy and other consumables.

Gross profit increased KZT 192.8 million, or 50.9 per cent., to KZT 571.4 million in the three months ended 31 March 2007 from KZT 378.6 million in the three months ended 31 March 2006, as a result of the foregoing.

Selling expenses comprises transportation and warehousing costs incurred in the distribution of products, wages and salaries of sales and production personnel and marketing and advertising costs. Selling expenses decreased KZT 7.8 million, or 8.3 per cent., to KZT 85.8 million in the three months ended 31 March 2007 from KZT 93.6 million in the three months ended 31 March 2006. This decrease principally resulted from a KZT 16.8 million decrease in marketing and advertising expenses, as we had invested the majority of our initial marketing expenses in 2006. It was also attributable to a KZT 7.6 million decrease in rental/warehousing expenses due to the implementation of a logistics and storage optimisation programme, including the addition of owned storage space and increasing use of just-in-time production by our customers, as well as a KZT 4.9 million decrease in transportation expenses as more customers elected to pick up products rather than have us deliver them. These decreases were partially offset by a KZT 16.7 million increase in wage expenses related to increased headcount.

Administrative expenses relate to general administrative costs, such as wages and salaries of administrative personnel, property taxes and bank fees. Administrative expenses increased KZT 63.2 million, or 71.5 per cent., to KZT 151.6 million in the three months ended 31 March 2007 from KZT 88.4 million in the three months ended 31 March 2006. This increase was principally as a result of a KZT 45.2 million increase in wages and salaries due to higher administrative headcount and a KZT 6.3 million increase in social tax payments on behalf of these additional employees. In addition, property tax increased KZT 14.2 million due to the acquisition of additional properties in late 2006 and the expiration of a property tax holiday.

Finance costs increased KZT 322.4 million, or 262.3 per cent., to KZT 445.3 million in the three months ended 31 March 2007 from KZT 122.9 million in the three months ended 31 March 2006. This increase was principally the result of a KZT 336.8 million increase in bank loan interest due to increased borrowing to finance construction of our industrial park.

Other income and expenses decreased KZT 1.5 million, or 1.2 per cent., to KZT 124.4 million in the three months ended 31 March 2007 from KZT 125.9 million in the three months ended 31 March 2006. This decrease was principally as a result of a KZT 19.3 million decrease in the gain on disposal from assets in the ordinary course of business and a KZT 29.2 million decrease in foreign exchange profit, although this was partially offset by a KZT 15.4 million increase in interest income from the proceeds of a new issuance of bonds pending the use of these funds for construction, as well as a KZT 31.6 million increase in other income, which includes late payment fees.

Profit before tax decreased KZT 186.4 million, or 93.4 per cent., to KZT 13.1 million in the three months ended 31 March 2007 from KZT 199.5 million in the three months ended 31 March 2006, as a result of the foregoing.

Income tax expense increased KZT 3.2 million, or 355.6 per cent., to KZT 4.1 million in the three months ended 31 March 2007 from KZT 0.9 million in the three months ended 31 March 2006. This increase results from the difference in the rates of asset depreciation used for accounting and for tax. Assets are mostly depreciated over a shorter period for tax purposes, and the amount of the difference between the two rates is recorded, at the prevailing tax rate, as deferred income tax expense and is reversed over time as the asset is depreciated.

Profit for the year decreased KZT 189.7 million, or 95.5 per cent., to KZT 9.0 million in the three months ended 31 March 2007 from KZT 198.7 million in the three months ended 31 March 2006, as a result of the foregoing.

Year ended 31 December 2006 Compared to Year Ended 31 December 2005

Revenue increased KZT 2,578.4 million, or 58.2 per cent., to KZT 7,004.3 million in 2006 from KZT 4,425.9 million in 2005 as follows.

	Year ended 31 December	
	2006	2005
	(KZT millions)	
Finished products	3,829.0	3,434.6
Goods for resale	3,158.3	991.3
Services	17.0	—
Total	7,004.3	4,425.9

The KZT 394.4 million increase in revenue from finished products was primarily due to the expansion of our paper and packaging production facilities as, in autumn 2006, we commissioned a new German-manufactured corrugating machine and a second paper machine. The KZT 2,167.1 million increase in goods for resale was primarily due to the increase in the volume of re-sales of imported paper.

Cost of sales increased KZT 2,174.2 million, or 72.3 per cent., to KZT 5,183.3 million in 2006 from KZT 3,009.1 million in 2005. The increase reflected our increased production and trading sales in 2006, although these costs, as a percentage of revenue, increased to 74.0 per cent. in 2006 from 68.0 per cent. in 2005. This was primarily due to the increased volume of trading, as traded products have a higher associated cost of sales, and lower margin, than finished products.

Gross profit increased KZT 404.2 million, or 28.5 per cent., to KZT 1,821.0 million in 2006 from KZT 1,416.8 million in 2005, as a result of the foregoing.

Selling expenses increased KZT 231.2 million, or 101.9 per cent., to KZT 458.1 million in 2006 from KZT 226.9 million in 2005. As a percentage of revenue, selling expenses increased 1.4 per cent. The increase was primarily due to the increase in our production and selling activities in 2006. Labour costs increased KZT 61.2 million due to increased headcount; marketing and advertising expenses increased KZT 26.5 million; operating rental costs increased KZT 45.9 million due to increased rental of warehousing space; and transportation costs increased KZT 12.1 million due to the expansion of our waste paper collection network. Bad debt write-offs also increased KZT 42.8 million due to a large write-off in 2006 as part of a re-evaluation of credit policies and the implementation of more rigorous credit controls.

Administrative expenses increased KZT 182.5 million, or 59.4 per cent., to KZT 489.8 million in 2006 from KZT 307.3 million in 2005, although these costs decreased slightly as a percentage of revenue to 7.1 per cent. in 2006 from 7.3 per cent. in 2005. The increase generally reflects the growth in our business. Administrative wages and salaries increased KZT 37.4 million and social tax increased KZT 8.7 million. Depreciation increased KZT 24.8 million and we had increased maintenance expenses. We also had to pay an increased amount of property tax, reflecting the accumulation of real estate as we continued to make investments into our real estate business.

Finance costs increased KZT 249.6 million, or 39.3 per cent., to KZT 885.0 million in 2006 from KZT 635.4 million in 2005. Whilst the weighted average interest rate on our external borrowings fell in 2006 as compared to 2005, we borrowed a greater amount of money, resulting in an overall increase in financing expenses.

Other income and expenses increased KZT 150.4 million to KZT 185.3 million in 2006 from KZT 34.9 million in 2005. This increase principally reflects the effect of exchange rate movements.

Profit before tax decreased KZT 108.7 million, or 38.5 per cent., to KZT 173.5 million in 2006 from KZT 282.2 million in 2005, as a result of the foregoing.

Income tax expenses increased KZT 12.8 million, or 30.5 per cent., to KZT 54.9 million in 2006 from KZT 42.1 million in 2005. However, as a percentage of revenue, income tax expenses decreased from 1.0 per cent. in 2005 to 0.1 per cent. in 2006. This change was due to timing differences related to deferred income tax expense as described in the discussion of first quarter results above.

Profit for the year decreased by KZT 121.6 million, or 50.6 per cent., to KZT 118.6 million in 2006 from KZT 240.2 million in 2005, as a result of the foregoing.

Year Ended 31 December 2005 Compared to Year Ended 31 December 2004

Revenue increased KZT 2,281.3 million, or 106.4 per cent., to KZT 4,425.9 million in 2005 from KZT 2,144.6 million in 2004, as shown in the table below.

	Year ended 31 December	
	2005	2004
	(KZT millions)	
Finished products	3,434.6	2,102.0
Goods for resale	991.3	42.6
Total	4,425.9	2,144.6

This increase was principally due to commencement of paper trading operations in 2005 and an upgrade of our existing paper mill and corrugator, which were both undertaken in 2005.

Cost of sales increased KZT 1,618.2 million, or 116.3 per cent., to KZT 3,009.1 million in 2005 from KZT 1,390.9 million in 2004. These costs broadly increased in line with an increase in revenue, although our trading division, which carries a lower profit margin than our production division, grew at a faster rate.

Gross profit increased KZT 663.0 million, or 88.0 per cent., to KZT 1,416.8 million in 2005 from KZT 753.8 million in 2004, as a result of the foregoing.

Selling expenses increased KZT 14.2 million, or 6.7 per cent., to KZT 226.9 million in 2005 from KZT 212.7 million in 2004, but decreased as a percentage of revenue from 9.9 per cent. in 2004 to 5.1 per cent. in 2005. The KZT 13.1 million increase in wages of sales and production personnel and KZT 18.6 million increase in rental expenses were offset by a KZT 26.7 million decrease in transportation expenses. These changes were the result of an increase in production and customers purchasing more of the goods made by in lieu of goods produced by others and sold through our trading operations.

Administrative expenses increased KZT 110.6 million, or 56.2 per cent., to KZT 307.3 million in 2005 from KZT 196.7 million in 2004, but decreased as a percentage of revenue from 9.2 per cent. in 2004 to 6.9 per cent. in 2005. Within administrative expenses, the largest increases were attributable to administrative wages (KZT 25.7 million) and transportation expenses (KZT 19.4 million). These changes occurred due to an increase in the number of administrative staff and a corresponding increase in the administrative staff transportation costs.

Finance costs increased KZT 259.8 million, or by 69.2 per cent., to KZT 635.4 million in 2005 from KZT 375.6 million in 2004. These costs decreased as a percentage of revenue from 17.5 per cent. in 2004 to 14.4 per cent. in 2005 principally as a result of the issue of our Kazakhstan Stock Exchange listed bonds during 2005, which lowered the average interest rates of our indebtedness.

Other income and expenses decreased KZT 263.5 million, or 88.3 per cent., to KZT 34.9 million in 2005 from KZT 298.4 million in 2004. This decrease principally reflected the effect of exchange rate movements.

Profit before tax increased KZT 15.0 million, or 5.6 per cent., to KZT 282.2 million in 2005 from KZT 267.2 million in 2004, as a result of the foregoing.

Income tax expense increased KZT 29.1 million, or 224.7 per cent., to KZT 42.1 million in 2005 from KZT 13.0 million in 2004. The income tax expense increased due to a KZT 18.8 million increase in deferred tax expense arising from differences in depreciation rates, as described above, and a KZT 10.3 million increase in current income tax expense related to higher earnings.

Profit for the year decreased by KZT 14.0 million, or 0.7 per cent., to KZT 240.2 million in 2005 from KZT 254.2 million in 2004, as a result of the foregoing.

Changes in and Disagreements With Accountants and Financial Disclosure

We have not changed, nor have we had any disagreements with, our accountants.

Impact of Inflation

The results of our operations for the periods discussed have not been materially affected by inflation.

Seasonality

The cash flow in our paper business is lowest in the first calendar quarter and increases steadily throughout the year. The fourth calendar quarter and the early part of the first calendar quarter are our busiest periods, and cash flow is lowest in the first quarter as our production and sales decrease sharply towards the end of the first quarter, whilst fixed costs remain static. Our production levels fluctuate by up to approximately 25 per cent. between our busiest and least busy periods.

Liquidity and Capital Resources

General

Our liquidity requirements primarily relate to meeting ongoing debt service obligations and to fund capital expenditures and working capital requirements.

The Company believes that the cash generated from operations, proceeds from the Offer and other cash on hand, together with its available borrowings under its existing credit facilities, will be sufficient to meet its expected liquidity needs. If, however, these resources together fall below our expectations, or we incur liabilities sooner or in amounts not currently anticipated, then we may have to consider other alternatives to maintain sufficient liquidity, or our expansion and investment plans may be adversely affected. No assurances can be given that the Company will be able to do so on satisfactory terms, if at all.

Following the Offer, and the application of the proceeds as described in “Reason for the Offer and Use of Proceeds”, the Company’s principal sources of funds are expected to be cash from operations and amounts available under its existing credit facilities.

Future drawings under existing credit facilities will be available only if, among other things, the financial and other covenants contained in those facilities are complied with. The ability to meet these financial covenants will depend on our results of operations, which may be affected by factors beyond our control.

Historical Cash Flow

The following table sets forth our cash flow statement data for the years ended 31 December 2006, 2005 and 2004, as well as for the three months ended 31 March 2007 and 2006.

	Year ended 31 December			Three months ended 31 March	
	2006	2005	2004	2007	2006
		(Audited)		(Unaudited)	
		(KZT millions)		(KZT millions)	
Cash flow from operating activities.....	(2,691.9)	(1,698.0)	(1,131.8)	4,680.9	(48.8)
Cash flow from investing activities.....	(13,703.8)	(2,896.2)	(1,415.2)	(2,546.9)	(422.6)
Cash flow from financing activities.....	16,432.7	4,599.8	2,576.8	(1,950.6)	752.7

Cash flow from operating activities was a net inflow of KZT 4,680.9 million in the three months ended 31 March 2007 and a net outflow of KZT 48.8 million in the three months ended 31 March 2006. This change was primarily attributable to the receipt of KZT 5,819.7 million as a repayment of a previous advance for construction services, a KZT 324.5 million increase in interest expense and a KZT 765.7 million decrease of working capital items and taxes. This item represented a net outflow of KZT 2,691.9 million, KZT 1,698.0 million and KZT 1,131.8 million in 2006, 2005 and 2004, respectively. These changes reflected the continuing increase in our expenditures on interest, construction contracts and investments in working capital.

Cash flow from investing activities was a net outflow of KZT 2,546.9 million in the three months ended 31 March 2007 and a net outflow of KZT 422.6 million in the three months ended 31 March 2006. This change was mainly due to the increase in expenditure incurred on construction in progress, including advance payments in respect of construction contracts (KZT 2,182.8 million). This item represented a net outflow of KZT 13,703.8 million in 2006, a net outflow of KZT 2,896.2 million in

2005 and a net outflow of KZT 1,415.2 million in 2004. Proceeds from sale of property, plant and equipment rose by KZT 128.6 million, capitalised borrowing costs increased by KZT 19 million but expenditure on the purchase of property, plant and equipment fell by KZT 51.2 million. The balance of KZT 154.8 million is attributable to the outflow of cash into special deposits and non-current receivables that occurred during the three months ended 31 March 2007 but did not occur during the three months ended 31 March 2006.

The summary of changes in cash flows from investing activity for the years ended 31 December 2006, 2005 and 2004 is as follows:

	2006 vs. 2005	2005 vs. 2004
	(KZT '000)	
<i>Increase (decrease) in expenditure</i>		
Purchase of property, plant and equipment	1,444,604	700,248
Purchase of intangible assets	238	422
Proceeds from sale of property, plant and equipment and construction in progress	(294,836)	(19,025)
Expenditure on construction in progress including advance payments in respect of construction contracts.....	8,987,665	679,921
Capitalised borrowing costs on construction in progress.....	324,970	119,431
Payments of cash and cash equivalents into special deposits.....	345,000	—
Total change	10,807,641	1,480,997

Cash flow from financing activities was a net outflow of KZT 1,950.6 million in the three months ended 31 March 2007 and a net inflow of KZT 752.7 million in the three months ended 31 March 2006. This item represented a net inflow of KZT 16,432.7 million in 2006. Cash flow from financing activities represented a net inflow of KZT 4,599.8 million in 2005 and a net inflow of KZT 2,576.8 million in 2004.

Set out below is a summary of cash flows from financing activities during the years ended 31 December 2006, 2005 and 2004.

	2006	2005	2004
	(KZT '000)		
Proceeds from the issue of bonds.....	6,380,874	3,814,713	—
Receipt of bank loans.....	9,617,623	1,659,262	4,473,844
Proceeds from the issue of shares.....	1,231,112	903,712	656,959
Settlement of bank loans	(796,869)	(1,760,513)	(2,390,080)
Redemption of non-current liabilities.....	—	(17,367)	(163,966)
<i>Net cash used in financing activities</i>	16,432,740	4,599,807	2,576,757

Borrowings

As at the date of this prospectus, we had the following borrowings:

- KZT 4,000 million discounted floating rate bonds due 18 February 2010 bearing interest at 2.5 per cent plus inflation per annum;
- KZT 3,500 million discounted floating rate bonds due 7 April 2011 bearing interest at 1.5 per cent plus inflation per annum;
- KZT 3,400 million discounted floating rate bonds due 22 August 2013 bearing interest at 1.5 per cent plus inflation per annum;
- US\$10 million subordinated loan facility from EBRD and approximately US\$42 million in loans and leases provided under a Kazkommertsbank JSC facility; the subordinated loan has equal bullet repayments in 2014 and 2015. The interest rate for the subordinated loan is calculated by reference to the EBITDA of Kagazy Recycling LLP for the previous financial year end and is up to four per cent. of EBITDA, depending on amounts outstanding under the subordinated loan; and

- total financial leasing liabilities of KZT 805.2 million due August 2013, which incur interest at 11 per cent per annum.

In addition, we have credit facilities with Kazkommertsbank JSC and Alliance Bank JSC as set out below:

Kazakhstan Kagazy JSC has a number of loans from Kazkommertsbank JSC:

- a US\$8,099,997 credit line Agreement, due at 20 August 2013, which bears interest at 11 per cent. per annum. As at 28 June 2007, US\$8,202,148 had been drawn down under this facility (including capitalised interest).
- a US\$222,611.94 loan facility, due at 20 August 2013, bearing interest at 11 per cent. per annum. As at 28 June 2007, US\$239,899 had been drawn down under this facility (including capitalised interest).
- a US\$2,944,196 loan facility, due at 6 August 2013, bearing interest at 11 per cent. per annum. As at 28 June 2007, US\$2,520,202 had been drawn down under this facility.
- a US\$204,600 loan facility, due at 20 August 2013, bearing interest at 11 per cent. per annum. As at 28 June 2007, US\$220,012 had been drawn down under this facility (including capitalised interest).
- a US\$1,029,120 loan facility, due at 12 August 2013, bearing interest at 11 per cent. per annum. As at 28 June 2007, US\$1,113,434 had been drawn down under this facility (including capitalised interest).
- a US\$1,136,363 loan facility, due at 20 August 2013, bearing interest at 11 per cent. per annum. As at 28 June 2007, US\$1,222,402 had been drawn down under this facility (including capitalised interest).
- a US\$159,091 loan facility, due at 8 August 2013, bearing interest at 11 per cent. per annum. As at 28 June 2007, US\$172,371 had been drawn down under this facility (including capitalised interest).
- a US\$2,068,185 loan facility, due at 20 August 2013, bearing interest at 11 per cent. per annum. As at 28 June 2007, US\$2,228,790 had been drawn down under this facility (including capitalised interest).

In addition, PEAK Akzhal LLP has obtained three loans from Kazkommertsbank JSC in the amounts of US\$6 million, US\$12,173,000 and US\$1,827,000 respectively. The loans mature on 2, 3 and 2 March 2009, respectively, and bear interest at 13 per cent. per annum. As at 28 June 2007, US\$6 million, US\$12,173,000, and US\$1,827,000 had been drawn down under these facilities, respectively.

Kagazy Recycling LLP has two leasing agreements with Kazkommertsbank JSC for KZT 649,522,221 and KZT 230,794,375, respectively. The settlement date of the facilities is 20 August 2013 and they bear interest at 11 per cent. per annum. As at 28 June 2007, KZT 593,709,276 and KZT 211,472,651 had been drawn down under these facilities, respectively.

Kazakhstan Kagazy JSC has a number of loans from Alliance Bank JSC:

- a KZT 1,054,081,000 loan facility, due at 1 April 2013, bearing interest at 10.8 per cent. per annum. As at 28 June 2007, KZT 913,082,494 had been drawn down under this facility.
- a €220,000 letter of credit, due at 20 August 2007, bearing interest at 8.608 per cent. per annum. As at 28 June 2007, €220,000 had been drawn down under this facility.
- a RUR 3,620,278 letter of credit, due at 10 March 2008, bearing interest at 10.6 per cent. per annum. As at 28 June 2007, RUR 3,620,278 had been drawn down under this facility.
- a RUR 1,243,931 letter of credit, due at 20 March 2008, bearing interest at 10.6 per cent. per annum. As at 28 June 2007, RUR 1,243,931 had been drawn down under this facility.
- a RUR 1,238,484 letter of credit, due at 28 April 2008, bearing interest at 10.6 per cent. per annum. As at 28 June 2007, RUR 1,238,484 had been drawn down under this facility.

Kagazy Trading LLP has a US\$10,592,776 loan facility with Alliance Bank JSC, due at 1 April 2013, bearing interest at 10.8 per cent. per annum. As at 28 June 2007, US\$10,319,978 had been drawn down under this facility.

PEAK LLP has a €29,968,323 loan facility with Alliance Bank JSC, due at 1 November 2013, bearing interest at 14 per cent. per annum. As at 28 June 2007, €29,968,323 had been drawn down under this facility.

The loan agreements described above require the borrower to observe and to procure that its affiliates observe certain customary covenants including covenants related to the provision of accurate and reliable financial information. The agreements also contain certain negative covenants that restrict the Group from creating security interests and making disposals of pledged as loan security assets. They also require us to pay customary arrangement and account management fees. Loans drawn from Kazkommertsbank JSC are subject to the capitalisation of interest, which is added to the principal amount during the period of one year from receipt of the loan.

The loan agreements further contain a number of customary events of default, including those dealing with the failure to pay and insolvency proceedings. In the case of interest or loan payment untimely payment the borrower is bound to pay certain penalties and fines. The borrower must use funds borrowed under loan agreements only for the purposes for which they are drawn. Importantly, failure to perform, keep or observe any of the terms, provisions, conditions of covenants of the agreements will constitute an event of default. Upon the occurrence and during the continuation of an event of default, the lender has the right to declare all or any portion of the loan immediately due and payable. An event of default would generally trigger the right of the lender to exercise its rights under any security interests relating to the loan (which in relation to most of our loans covers our real property, equipment and bank deposits). In the event of default the security interest can be arrested by the lender and realised to settle its liability in respect of fines and penalties, interest and loan principal.

The following table summarises our commitments for future expenditures related to long-term debt as of 31 March 2007. The table does not include the additional loan draw-downs in the amounts of US\$1.8 million, €5 million and US\$10 million since 31 March 2007. :

	Repayments due within				Total
	1 year	1-2 years	2-5 years	5+ years	
	(KZT millions)				
Bonds ⁽¹⁾	—	—	7,314.4	3,224.7	10,539.1
Bank loans.....	199.4	4,469.1	6,069.1	—	10,737.6
Financial leases.....	148.2	187.7	469.3	—	805.2
Total	347.6	4,656.8	13,852.8	3,224.7	22,081.9

(1) Net of discount.

Technology Upgrades and Modernisation Programmes

As part of our business plan, we intend, among other things, to continue a programme of modernising and expanding the capacity of our facilities, including the introduction of equipment capable of manufacturing hygienic paper products. In relation to our two existing paper machines, upgrades will be made to increase their capacity and to add additional corrugating machines to expand capacity. We currently estimate that through to the end of 2016, we will make capital expenditures of approximately US\$380 million, as follows:

- US\$125 million for capital improvements to our paper production facilities;
- US\$177 million to develop the PEAK Industrial Park;
- US\$62 million to develop the PEAK Logistics Centre and related infrastructure; and
- US\$16 million to provide working capital for our paper and real estate businesses.

These capital expenditures are part of our technical modernisation programme to improve the quality and range of our products, replace outdated equipment, implement newer technologies, reduce the environmental impact of our production and reduce our raw materials and energy costs. We anticipate using part of the monies earmarked for capital improvements initially to repurchase bonds issued by our subsidiary Kazakhstan Kagazy JSC.

Contractual Obligations and Commitments

Following completion of the Offer, our contractual obligations and commitments will consist primarily of periodic repayments of amounts drawn under its credit facilities. The following table summarises our commitments in connection to such indebtedness as of 31 December 2006:

	Repayments due within				Total
	1 year	1-2 years	2-5 years	5+ years⁽¹⁾	
	(KZT millions)				
Current liabilities.....	4,709	—	—	—	4,709

We do not currently have any off-balance sheet arrangements.

Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments. We are exposed to market risks related to foreign currency exchange rates, interest rates and raw material commodity prices. These exposures may change over time as business practices evolve and could have a material adverse impact on our financial results. We have not entered into any transactions involving derivative financial instruments.

Foreign Currency Risk

Foreign currency risk is the risk that we will incur economic losses due to adverse changes in foreign currency exchange rates. As currency exchange rates change, translation of the financial statements of our international business into Tenge affects year-to-year comparability of our results of operations. Appreciation of the Tenge, our reporting currency, against the US Dollar or Euro decreases our revenue and costs. Conversely, depreciation of the Tenge against the US Dollar and Euro increases our revenue and costs. The appreciation or depreciation of the Tenge against the US Dollar or Euro, therefore, impacts our reported net income or net loss.

The financial statements of our non-Kazakh operations are translated into Tenge, our reporting currency, using the year-end exchange rate for balance sheet items (other than shareholders' equity) and the weighted average exchange rate for items in the statements of operations. Gains and losses arising from translation are reported separately in the foreign currency translation adjustment account as part of other comprehensive income.

The Group also incurs currency transaction risk whenever one of its operating members enters into either a purchase or sales transaction using a currency other than its functional currency. Our currency risk arises from foreign currency receivables as well as from firm commitments to purchase services and supplies in the future in currencies other than the subsidiary's functional currency. Most of the Group's revenue and costs, except for equipment and consumables imported from abroad, is denominated in Tenge. We are drawing loans in foreign currencies for financing our long-term investment programmes.

We have not hedged any currency transaction risks.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our debt obligations and listed bonds. As at 31 December 2006, approximately 60 per cent. of the Group's long-term indebtedness, equal to KZT 10,267.8 million, bore interest at floating rates. Management estimates that a change in interest rates of one per cent. would result in interest expense fluctuating approximately KZT 102.7 million per year. The Group also has fixed-rate borrowings in Euros and US Dollars. The Group does not use any derivative instruments to hedge its interest risk in Tenge or foreign currencies because such instruments are not currently available in the Kazakh market.

Commodity Price Risk

We are subject to market risk with respect to commodities since virgin fibres are a significant component of cost of goods sold in our paper production business. Any increase in the cost of virgin fibre will increase cost of goods sold, resulting in decreased profitability unless there is a corresponding increase in the prices we charge our customers. We may be limited in how much of a cost increase, if any, we are able to pass on to customers or how quickly we are able to pass on a

cost increase to customers. In addition, increases in prices may result in a decrease in revenue. We do not enter into futures contracts on commodity markets to hedge our exposure to raw materials prices.

In addition, one of our principal costs of production is energy costs. Any increase in energy costs will also increase the cost of goods sold, and we may be unable to pass all of these additional costs on to customers in full, resulting in decreased profitability.

Credit Risk

We are exposed to credit risk from credit sales. It is our policy to assess the credit risk of new customers before entering into contracts, and we generally seek to trade mainly with established long-term customers.

Critical Accounting Policies and Estimates

The preparation of the Group's consolidated financial statements requires management to make reasonable estimates and assumptions that affect the reported amounts of assets and liabilities as reflected in its financial statements at the reporting date, as well as the disclosure of amounts of revenue and expenses for the period being reported on. These estimates are primarily made in respect of fair values of financial instruments, impairment losses, deferred income tax, allowances for bad debts and provisions for employees' vacation leave payments, as well as the useful life and residual values of property, plant and equipment. These estimates are subject to measurement uncertainty. Actual results could differ from and affect the results reported in these consolidated financial statements.

The principal provisions of the Group's accounting policies, which were used in the preparation of the consolidated financial statements, are given below. Unless otherwise stated, these provisions would be applied to transactions of a similar nature in all reported periods submitted to ensure consistency of preparation and comparability.

Additional significant accounting policies are described in note 4 to the consolidated financial statements.

Carrying Values of Property, Plant and Equipment ("PP&E")

The Group monitors internal and external indicators of impairment relating to its PP&E. Management considers whether any indicators of impairment have arisen relating to either the Group's paper business, or property business, particularly with respect to the expected revenue and profits from the operation of our paper business and external valuations.

Carrying Values of Trading Properties

The Group monitors internal and external indicators of the net realisable value of its trading properties. Management has considered whether any indicators of a significant reduction in net realisable values have arisen relating to the Group's trading properties, particularly with reference to external valuations.

Useful Lives of Intangible Assets and PP&E

Intangible assets and PP&E are amortised or depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Due to the long lives of certain assets, changes to the estimates used can result in significant variations in their carrying value.

Fair Value of Financial Instruments

The Group determines the fair value of financial instruments that are not quoted, based on estimates using present values or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Where market prices are not readily available, fair value is either based on estimates obtained from independent experts or quoted market prices of comparable instruments. In that regard, the derived fair value estimates cannot be substantiated by comparison with independent markets and, in many cases, cannot be realised immediately.

Income Taxes

The Group is subject to income tax in the Republic of Kazakhstan and significant judgement is required in determining any provisions for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Group recognises tax liabilities based on estimates of whether additional taxes and

interest will be due. These tax liabilities are recognised when, despite the Group's belief that its tax return positions are supportable, the Group believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

Legal Proceedings

In accordance with IFRS, the Group only recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where these criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Realisation of any contingent liabilities not currently recognised or disclosed in the financial statements could have a material effect on the Group's financial position. Application of these accounting principles to legal cases requires management to make determinations about various factual and legal matters beyond its control. The Group reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of management as to how it will respond to the litigation, claim or assessment.

EXISTING SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Existing Shareholders

The following table sets forth information regarding the ownership of the Shares as of the date of this document and after the Offer, assuming that the Over-allotment Option is exercised in full:

Owner	Shares owned before the Offer		Shares owned after the Offer	
	Number	%	Number	%
Oreo Limited	25,000,000	50	25,000,000	23.8
Pleco Limited.....	25,000,000	50	25,000,000	23.8

Neither of the existing shareholders has voting rights different from the other holders of Shares.

Related Party Transactions

The following are details of our transactions with related parties from 1 January 2004 up to the date of this prospectus.

Raw Materials

The staff that work at the Group's waste paper collection centres are provided by Kazvtorsyr'e LLP, a company owned by a relative of Baglan Zhunussov, our Chairman, under the terms of an outsourcing contract that is on arm's length terms. The waste paper collected at the collection centres is largely bought by Kazvtorsyr'e LLP for cash, and the Group in turn buys this waste paper from Kazvtorsyr'e LLP. Kazvtorsyr'e charges the Group on the basis of cost plus an arm's length administrative charge.

Corporate Transfers and Services Provided Prior to the Corporate Reorganisation

Under the terms of a sale and purchase agreement between our subsidiary Kagazy Investment Ltd LLP and Kagazy Invest LLP, a company jointly owned and controlled by our Chairman and CEO, Kagazy Invest LLP agreed to sell all of the shares in Kazakhstan Kagazy JSC, historically our principal holding company, to Kagazy Investment Ltd LLP. The purchase price due under the agreement, KZT 10,309,996,000, was equal to the sum of the nominal value of all of the shares in Kazakhstan Kagazy JSC and the amount recorded on the share premium account of Kazakhstan Kagazy JSC. This amount currently remains outstanding and owing to Kagazy Invest LLP but will be satisfied in the short term without cost to the Group.

Since 1 January 2004, members of the Group have engaged in transactions with related parties, such as the sales of products and assets and the provision of services. Management believes that each of these transactions was conducted on arm's length terms.

The following transactions were effected as part of the Corporate Reorganisation in 2006:

- Kagazy Processing LLP, a company indirectly wholly owned by our Chairman and CEO, sold paper cutting machinery to the Group for consideration of KZT 2,413,378,000; following the sale, Kagazy Processing LLP ceased to trade and is now dormant;
- the Group sold land and cutting equipment to Kagazy Processing LLP for consideration of KZT 205,812,000 and land and cutting equipment to Kagazy Gofrotara LLP, a company indirectly wholly owned by our Chairman and CEO, for consideration of KZT 102,757,000;
- Kagazy Gofrotara LLP sold corrugating machinery to the Group for consideration of KZT 2,831,289,000; following the sale, Kagazy Gofrotara LLP ceased to trade and is now dormant.

In addition, during the year ended 31 December 2005, the Group provided transport and communication services and work clothing to Kagazy Gofrotara LLP for KZT 19,570,000. During the period ended 31 March 2007, Kagazy Gofrotara LLP sold corrugating machinery and spare parts to the Group for KZT 917,578,000.

Kazvtorsyr'e LLP, a company wholly owned by a relative of our Chairman, Baglan Zhunussov, provided staff that worked at and ran our waste collection centres and sold waste paper and equipment (as part of the Corporate Reorganisation) to the Group. The value of the services provided and assets transferred during 2005, 2006 and the first three months of 2007 was KZT 37,719,000, KZT 509,841,000 and KZT 121,503,000, respectively.

In 2006, Papcel Kazakhstan LLP, a company in which Kagazy Invest LLP, a company indirectly wholly owned by our Chairman and CEO, is a shareholder, sold a waste paper compacter to the Group for consideration of KZT 146,363,000. Papcel Kazakhstan LLP sold spare parts for production equipment to the Group in 2005 for consideration of KZT 235,000,000, and in that year the Group sold paper and cardboard to Papcel Kazakhstan LLP for consideration of KZT 235,000,000. During 2004, Papcel Kazakhstan LLP provided construction and installation services to the Group for consideration of KZT 346,428,000.

In 2006, Holding Invest LLP, a company wholly owned by our Chairman and CEO, transferred real property to the Group for consideration of KZT 64,894,000. During 2005, the Group provided consulting services to Holding Invest LLP for consideration of KZT 278,261,000.

In 2005, K-Vtorsyr'e LLP, a company wholly owned by a relative of our Chairman, sold waste paper and rented vehicles to the Group. The value of the waste paper sold and services provided was KZT 214,252,000. In 2004, K-Vtorsyr'e LLP supplied waste paper to the Group, the value of which was KZT 102,823,000.

In 2005, the Group sold corrugated products to Kontakt Service Plus LLP, a company in which Yuriy Bogday, one of our senior managers, is a shareholder, for consideration of KZT 235,513,000.

In 2005, the Group provided consulting services and office equipment to Kagazy Invest LLP, a company indirectly wholly owned by our Chairman and CEO, for consideration of KZT 21,890,000.

Property Acquisitions

We have entered into arrangements with our Chairman and CEO, to acquire additional land for development. These arrangements are described in “Business—Future Developments—First Refusal Agreement”.

Loans to Directors and Senior Managers

Loans to Directors and senior managers are described in “Directors and Senior Management—Loans to the Directors and Senior Managers”.

DESCRIPTION OF THE COMPANY AND CERTAIN REQUIREMENTS OF ISLE OF MAN LAW

Share Capital of the Company

Immediately prior to the Offer, the amount of share capital available for issue is US\$15,000,000 divided into 150 million Shares. At incorporation the subscribers to the Company's memorandum and Articles, Oreo Limited and Pleco Limited, each subscribed for one Share.

The shares in the Company are in registered form; Isle of Man companies are not able to issue shares warrants to bearer. The Articles permit shares to be held in certificated or uncertificated form. The register of members of the Company will be held at 15-19 Athol Street, Douglas, Isle of Man by its administrator and registered agent, Equity Limited.

The amount of share capital available for issue at the date of this prospectus and the issued share capital of the Company at the date of this prospectus and forthwith following admission to listing of the GDRs (assuming full exercise of the Over-allotment Option) is and will be as follows:

Share capital	Number of Shares	Par value
Available for issue.....	150,000,000	US\$0.10
Issued and fully paid up share capital.....	50,000,000	US\$0.10
Issued and fully paid up share capital following the Offer (assuming full exercise of the Over-allotment Option)	105,000,000	US\$0.10

Save as set out above, since the date of incorporation of the Company, no share or loan capital of the Company has been issued or agreed to be issued, or is now proposed to be issued for cash or any other consideration and no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any such capital.

Neither the Articles nor any requirements of Isle of Man company law oblige the Company to make a pre-emptive offer of any Shares proposed to be issued in the future to existing holders of Shares (unless the Company by special resolution otherwise directs).

Memorandum and Articles of Association

Memorandum of Association

The company has, subject to the Isle of Man Companies Act 2006, unlimited capacity to carry on or undertake any business or activity, to do, or to be subject to, any act or to enter into any transaction.

Articles of Association

For the purposes of this section, "Act" means the Isle of Man Companies Act 2006 and "Uncertificated Regulations" means the Isle of Man Uncertificated Securities Regulations 2006.

Votes of members

Subject to any special terms as to voting on which any shares in the Company may have been issued or may for the time being be held and to any suspension or abrogation of voting rights pursuant to the Articles, at any general meeting every member who (being an individual) is present in person or by proxy, not being himself a member entitled to vote, shall on a show of hands have one vote and on a poll every member present in person or by proxy shall have one vote for each share in the Company of which he is the holder.

Dividends

Subject to the provisions of the Articles, the Company may, subject to the satisfaction of the solvency test (as defined in section 49 of the Act), by resolution declare that out of profits available for distribution in accordance with Isle of Man law, dividends be paid to members according to their respective rights and interests in the profits of the Company. However, no dividend can exceed the amount recommended by the Board. There is no fixed date on which an entitlement to dividend arises.

General meetings

The Board shall convene in each year a general meeting of the members of the Company called the annual general meeting; any annual general meeting shall be held at such time and place as the Board may determine.

All general meetings other than annual general meetings shall be called extraordinary general meetings.

The Board may convene an extraordinary general meeting whenever it thinks fit. At any meeting convened on requisition (or any meeting requisitioned pursuant to section 67(2) of the Act) no business shall be transacted except that stated by the requisition or proposed by the Board. If there are not sufficient members of the Board to convene a general meeting, any Director or any member of the Company may call a general meeting.

Any annual general meeting and an extraordinary general meeting convened for the passing of a special resolution or a resolution appointing a person as a Director shall be convened by not less than twenty-one clear days' notice in writing. Other extraordinary general meetings shall be convened by not less than fourteen clear days' notice in writing. Notwithstanding that a meeting is convened by shorter notice than that specified in the Articles, it is deemed to have been properly convened if it is so agreed by all the members entitled to attend and vote at the meeting.

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum does not preclude the choice or appointment of a Chairman, which is not treated as part of the business of the meeting. Subject to the provisions of the Articles, two persons entitled to attend and to vote on the business to be transacted, each being a member present in person or a proxy for a member, constitute a quorum. The provisions of section 67(4) of the Act, which permit a member of the Company to be deemed present at a meeting of the members of the Company if such member participates by telephone or other electronic means, are excluded in the Articles. If within fifteen minutes (or such longer interval not exceeding one hour as the Chairman in his absolute discretion thinks fit) from the time appointed for the holding of a general meeting a quorum is not present, or if during a meeting such a quorum ceases to be present, the meeting, if convened on the requisition of members, is dissolved. In any other case, the meeting is adjourned to later on the same day, to the same day in the next week at the same time and place, or to such other day and at such time and place as the Chairman (or, in default, the Board) determines, being not less than fourteen nor more than twenty-eight days later. If at such adjourned meeting a quorum is not present within fifteen minutes from the time appointed for holding the meeting, one member present in person or by proxy or (being a corporation) by a duly authorised representative constitutes a quorum. If no such quorum is present or if during the adjourned meeting a quorum ceases to be present, the adjourned meeting is dissolved. The Company is required to give at least seven clear days' notice of any meeting adjourned through lack of quorum (where such meeting is adjourned to a day being not less than fourteen nor more than twenty-eight days later).

Board meetings

The management and control of the business of the Company is conducted in and from the Isle of Man. Subject to the provisions of the Act, the memorandum of association of the Company, the Articles and any directions given by special resolution of the Company, the business of the Company is managed by the Company's board, which may exercise all the powers of the Company whether relating to the management of the business or not. No alteration of the memorandum of association, or of the Articles and no such direction given by the Company can invalidate any prior act of the Board which would have been valid if such alteration had not been made or such direction had not been given. The Board may from time to time:

- (a) delegate or entrust to and confer on any director of the Company holding executive office (including a managing director) such of its powers, authorities and discretions (with power to sub-delegate) for such time on such terms and subject to such conditions as it thinks fit; and
- (b) revoke, withdraw, alter or vary all or any of such powers.

The Board can delegate any of its powers, authorities and discretions (with power to sub-delegate) for such time on such terms and subject to such conditions as it thinks fit to any committee consisting of one or more directors and (if thought fit) one or more other persons provided that:

- (a) a majority of the members of a committee shall be directors or alternate directors;
- (b) no resolution of a committee shall be effective unless a majority of those present when it is passed are directors or alternate directors; and
- (c) any such committee shall only meet and exercise its powers, authorities and discretions from outside Kazakhstan, the United Kingdom and the Netherlands.

Any committee so formed may exercise its power to sub-delegate by sub-delegating to any person or persons (whether or not a member or members of the Board or of the committee).

The Board may confer such powers either collaterally with or to the exclusion of and in substitution for all or any of the powers of the Board in that respect and may from time to time revoke, withdraw, alter or vary any of such powers and discharge any such committee in whole or in part. Insofar as any power, authority or discretion is so delegated, any reference in the Articles to the exercise by the Board of such power, authority or discretion is to be construed as if it were a reference to the exercise of such power, authority or discretion by such committee. Subject to any terms and conditions expressly imposed by the Board, the proceedings of a committee with two or more members are governed by such of the Articles as regulate the proceedings of the Board so far as they are capable of applying.

The Board may further establish any local group or divisional boards or agencies for managing any of the affairs of the Company in any specified locality either in the Isle of Man or elsewhere outside Kazakhstan, the United Kingdom and the Netherlands and may appoint any persons to be members of such local or divisional board or any managers or agents, fix their remuneration and remove any person so appointed. The Board may delegate to any local group or divisional board manager or agent so appointed any of its powers, authorities and discretions other than the power to borrow and make calls (with power to sub-delegate) and may authorise the members for the time being of any such local or divisional board or any of them to fill any vacancies and to act notwithstanding vacancies, and any such appointment or delegation may be made for such time on such terms and subject to such conditions as the Board thinks fit. The Board may confer such powers either collectively with or to the exclusion of and in substitution for all or any of the powers of the Board in that respect and may from time to time revoke, withdraw, alter or vary all or any of such powers. Subject to any terms and conditions expressly imposed by the Board, the proceedings of any local group or divisional board or agency with two or more members is governed by such of the Articles as regulate the proceedings of the Board, so far as they are capable of applying.

Variation of rights

Subject to the provisions of the Act, if at any time the share capital of the Company is divided into shares of different classes, any of the rights for the time being attached to any share or class of shares in the Company (and notwithstanding that the Company may be or be about to be placed in liquidation) may (unless otherwise provided by the terms of issue of the shares of that class) be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of any such provision, either with the consent in writing of the holders of not less than three quarters in par value of the issued shares of the class or with the sanction of a special resolution passed at a separate general meeting of the holders of shares of the class duly convened and held, as provided in the Articles. This also applies to the variation or abrogation of the special rights attached to some only of the shares of any class as if each group of shares of the class, differently treated formed a separate class, the separate rights of which are to be varied. Subject to the terms of issue or the rights attached to any shares, the rights or privileges attached to any class of shares are deemed not to be varied or abrogated by the Board resolving that a class of shares is to become or cease to be a share or class of shares or a renounceable right of allotment of a share, title to which is permitted to be transferred by means of a relevant system in accordance with the Uncertificated Regulations.

Alteration of capital

The Company in general meeting may from time to time by ordinary resolution:

- (a) increase its share capital by such sum to be divided into shares of such amount as the resolution in question prescribes;
- (b) consolidate and/or divide, re-designate or redenominate or convert all or any of its share capital into shares of larger or smaller par value, into shares having a purchase price of another currency or into different classes of shares than its existing shares;
- (c) cancel any shares which at the date of the passing of the resolution in question have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; and
- (d) sub-divide its shares or any of them into shares of smaller par value and determine that as between the shares resulting from such sub-division, one or more of the shares may, as compared with the others, have any such preferred, deferred or other special rights or be subject to any such restrictions as the Company has power to attach to unissued or new

shares but so that the proportion between the amount paid up and the amount (if any) not paid up on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived.

Subject to the compliance with the solvency test (as defined in section 49 of the Act) and to any rights for the time being attached to any shares, the Company may by special resolution reduce its share capital, any share premium account or any undistributable reserve in any manner.

Pre-emption rights

There are no statutory pre-emption rights under Isle of Man law.

Unless the Company by special resolution otherwise directs, unissued shares in the capital of the Company are allotted by the Directors generally on such terms as they think fit and no holder has any right of pre-emption in relation to the allotment or issue of any unissued shares.

Transfer of shares

Each member may transfer all or any of his shares in the case of certificated shares by instrument of transfer in writing in any usual form or in any form approved by the Board or in the case of uncertificated shares with a written instrument in accordance with the Uncertificated Regulations. Any written instrument must contain the business or residential address of the transferee and be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee. The transferor is deemed to remain the holder of such share until the name of the transferee is entered in the Company's register of members as the holder of the share.

No transfer of any share can be made:

- (a) to a minor; or
- (b) to a bankrupt; or
- (c) to any person who is, or may be, suffering from mental disorder and either:
 - (i) has been admitted to hospital in pursuance of an application for admission for treatment under the Mental Health Act 1983 or any similar statute relating to mental health (whether in the United Kingdom, the Isle of Man or elsewhere); or
 - (ii) an order has been made by any court having jurisdiction (whether in the United Kingdom, the Isle of Man or elsewhere) in matters concerning mental disorder for his detention or for the appointment of a receiver, curator bonis or other person to exercise powers with respect to his property or affairs

and the directors are required to refuse to register the purported transfer of a share to any such person.

The Board may in its absolute discretion and without giving any reason refuse to register any transfer of a certificated share unless:

- (a) it is in respect of a share which is fully paid up;
- (b) it is in respect of a share on which the Company has no lien;
- (c) it is in respect of only one class of shares;
- (d) it is in favour of a single transferee or not more than four joint transferees;
- (e) it is duly stamped (if so required);
- (f) it is delivered for registration to the registered agent of the Company, or such other person as the Board from time to time appoints, accompanied (except in the case of a transfer where a certificate has not been required to be issued) by the certificate for the shares to which it relates and such other evidence as the Board reasonably requires to prove the title of the transferor and the due execution by him of the transfer or if the transfer is executed by some other person on his behalf, the authority of that person to do so; and
- (g) the holding of such share would not result in a regulatory, pecuniary, legal, taxation or material administrative disadvantage for the Company or its shareholders as a whole.

provided that the Board's discretion may not be exercised in such a way as to prevent dealings in the shares from taking place on an open and proper basis.

The Board must refuse to register any transfer of shares which is not made (i) in accordance with Regulation S, (ii) pursuant to registration under the Securities Act or (iii) pursuant to an available exemption from registration under the Securities Act.

The registration of transfers of shares or of any class of shares may be suspended at such times and for such periods (not exceeding thirty days in any year) as the Board from time to time determines (subject to the Uncertificated Regulations in the case of any shares of a class which is a Participating Security (as defined below)). Notice of closure of the register of members of the Company is given in accordance with any requirements of the Act.

The Board is required to register a transfer of title to any uncertificated share or the renunciation or transfer of any renounceable right of allotment of a share which is a share or class of shares or a renounceable right of allotment of a share (“Participating Security”), title to which is permitted to be transferred by means of a relevant uncertificated system in accordance with the Uncertificated Regulations, held in uncertificated form in accordance with the Uncertificated Regulations, except that the Board can refuse (subject to any relevant requirements applicable to the recognised investment exchange(s) to which the shares of the Company are admitted) to register any such transfer or renunciation which is in favour of more than four persons jointly or in any other circumstance permitted by the Uncertificated Regulations.

Disclosure of interest

Every person who is to his knowledge interested in the voting rights of three per cent. or more of the issued shares of any relevant class of shares in the capital of the Company shall without delay give to the Company notice in writing of the following information:

- (a) the amount of shares of the relevant class in which he was to his knowledge directly or indirectly interested immediately after the obligation arose and the percentage of voting rights in the Company held through those shares (and/or any other direct or indirect holding of qualifying financial instruments in such shares); and
- (b) the following information: (i) the identity and address of each registered holder of those shares (and person(s) entitled to exercise voting rights on behalf of such registered holder, if applicable) and the amount of shares then held by each such holder; (ii) the chain of controlled undertakings through which voting rights are effectively held, if applicable; (iii) the date on which the three per cent. threshold was reached or crossed; and (iv) in respect of any notification of voting rights arising from the holding of financial instruments by that shareholder, the following shall be required:
 - (i) the resulting situation in terms of voting rights;
 - (ii) if applicable, the chain of controlled undertakings through which the financial instruments are effectively held;
 - (iii) the date on which the threshold was reached or crossed;
 - (iv) for financial instruments with an exercise period, an indication of the date or time period when shares will or can be acquired, if applicable;
 - (v) the date of maturity or expiration of the financial instrument;
 - (vi) the identity of the holder; and
 - (vii) the name of the underlying issuer of such financial instrument.

Suspension of rights

The Board may at any time serve a notice (“Information Notice”) upon a member requiring that member to disclose to the Board in writing within such period (being no less than ten days and not more than thirty days) as may be specified in the notice information relating to any beneficial interest of any third party or any other interest of any kind whatsoever which a third party may have in relation to any or all shares registered in the member’s name. If a member has been issued with an Information Notice and has failed in relation to any shares that are the subject of the Information Notice (“Relevant Shares”) to furnish any information required by such notice within the time period specified therein, then the Board may at any time following fourteen days from the expiry of the date on which the information required to be furnished pursuant to the relevant Information Notice is due to be received by the Board serve on the relevant holder a notice (“Disenfranchisement Notice”) whereupon the following sanctions shall apply:

(a) Voting

The member shall not with effect from the service of the Disenfranchisement Notice be entitled in respect of the Relevant Shares to be present or to vote (either in person or by representative or proxy) at any general meeting of the Company or at any separate meeting of the holders of any class of shares of the Company or on any poll or to exercise any other right conferred by membership in relation to any such meeting or poll.

(b) Dividends and transfers

Where the Relevant Shares represent at least 0.25 per cent. in par value of their class:

- (i) any dividend or other money payable in respect of the Relevant Shares shall be withheld by the Company, which shall not have any obligation to pay interest on it and the member shall not be entitled to elect pursuant to the Articles to receive shares instead of that dividend; and
- (ii) subject in the case of uncertificated shares to the relevant Uncertificated Regulations, no transfer, other than an approved transfer, of any Relevant Shares held by the member shall be registered unless the member is not himself in default as regards supplying the information required pursuant to the relevant Information Notice and the member provides to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares which are the subject of the transfer.

Borrowing powers

Subject to the other provisions of the Articles and to the Act, the directors may exercise all the powers of the Company to borrow money, to guarantee, to indemnify and to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital or any part or parts thereof and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Retirement by rotation

At every annual general meeting, one third of the directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to but not exceeding one third shall retire from office by rotation provided that if there is only one director who is subject to retirement by rotation, he shall retire.

Return of capital

If the Company is wound up, the surplus assets remaining after payment of all creditors are to be divided among the members in proportion to the capital which at the commencement of the winding up is paid up on the shares held by them respectively and, if such surplus assets are insufficient to repay the whole of the paid up capital, they are to be distributed so that as nearly as may be the losses are borne by the members in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively, subject to the rights attached to any shares which may be issued on special terms or conditions.

If the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by law, divide among the members in specie the whole or any part of the assets of the Company and may for that purpose value any assets and determine how the division shall be carried out as between the members or different classes of members. Any such division may be otherwise than in accordance with the existing rights of the members but if any division is resolved otherwise than in accordance with such rights, the members shall have the same right of dissent and consequential rights as if such resolution were a special resolution passed pursuant to Section 222 of the Isle of Man Companies Act 1931. The liquidator may with the like sanction vest the whole or any part of the whole of the assets in trustees on trust for the benefit of the members as he with the like sanction shall determine but no member shall be compelled to accept any assets on which there is a liability.

A special resolution sanctioning a transfer or sale to another company duly passed pursuant to Section 222 of the Isle of Man Companies Act 1931 may in the like manner authorise the distribution of any shares or other consideration receivable by the liquidator among the members otherwise than in accordance with their existing rights and any such determination shall be binding on all the members, subject to the right of dissent and consequential rights conferred by the said section.

Directors' interests, fees and indemnity

A Director who to his knowledge is in any way (directly or indirectly) interested in any contract, arrangement, transaction or proposal with the Company or any of its subsidiaries shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract, arrangement, transaction or proposal is first considered if he knows his interest then exists or, in any other case, at the first meeting of the Board after he knows that he is or has become so interested.

Except as provided below, a Director shall not vote on or be counted in the quorum in relation to any resolution of the Board or of a committee of the Board concerning any contract, arrangement, transaction or any proposal whatsoever to which the Company or any of its subsidiaries is or is to be a party and in which he has (directly or indirectly) an interest which is material (other than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through the Company) unless his duty or interest arises only because the resolution relates to one of the matters set out in the following sub-paragraphs, in which case he shall be entitled to vote and be counted in the quorum:

- (a) the giving to him of any guarantee, security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (b) the giving to a third party of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part either alone or jointly with others, under a guarantee or indemnity or by the giving of security;
- (c) where the Company or any of its subsidiaries is offering securities in which offer the director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the director is to participate;
- (d) relating to another company in which he and any persons connected with him (within the meaning of section 346 of the UK Companies Act 1985) do not to his knowledge hold an interest in shares (as that term is used in sections 198 to 211 of the UK Companies Act 1985) representing one per cent. or more of either any class of the equity share capital, or the voting rights, in such company;
- (e) relating to an arrangement for the benefit of the employees of the Company or any of its subsidiaries which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or
- (f) concerning insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons including Directors.

A Director shall not vote or be counted in the quorum on any resolution of the Board or committee of the Board concerning his own appointment (including fixing or varying the terms of his appointment or its termination) as the holder of any office or place of profit with the Company or any company in which the Company is interested. Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment or termination) of two or more Directors to offices or places of profit with the Company or any company in which the Company is interested, such proposals may be divided and a separate resolution considered in relation to each Director. In such case each of the Directors concerned (if not otherwise debarred from voting under these Articles) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

The Directors (other than alternate Directors) shall be entitled to receive by way of fees for their services as Directors such sum as the Board may from time to time determine (not exceeding £150,000 per annum or such other sum as the Company in general meeting shall from time to time determine). Executive Directors may be paid money in addition to any fee payable to him for his services as a director. Each Director is entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by him in the performance of his duties as a Director.

Subject to the Act, the Company may indemnify every Director, alternate director or other officer of the Company (other than an auditor) to the fullest extent permitted by law.

Isle of Man Generally

The Isle of Man is an internally self-governing dependent territory of the British Crown. It is politically and constitutionally separate from the UK and has its own legal system and jurisprudence based on English common law principles. The UK government is, however, responsible for the Island's foreign affairs and defence and, with the Island's consent, the UK parliament may legislate for the Island in some areas of common concern (such as nationality and immigration matters).

The Isle of Man's relationship with the European Union is set out in Protocol 3 of the Act of Accession annexed to the Treaty of Accession 1972, by virtue of which the UK became a member of the European Community. The Island is neither a member state nor an associate member of the European Community. By virtue of Protocol 3, the Island is part of the customs territory of the EU. Therefore the common customs tariff, levies and other agricultural import measures apply to trade between the Island and non-member countries. There is free movement of goods and agricultural products between the Island and the EU, but the EU provisions which relate to trade in financial services and products and those in respect of the free movement of persons, services and capital do not apply to the Island. Consequently, European Community law has direct application to the Isle of Man only for very limited purposes.

Corporate Law in the Isle of Man

The Isle of Man Companies Act 2006 came into force on 1 November 2006 and introduced a new simplified Isle of Man corporate vehicle (based on the international business company model available in a number of other jurisdictions). The Act is largely a stand alone piece of legislation and companies incorporated under the Act ("2006 Companies") co-exist with present and future companies incorporated under the existing Isle of Man Companies Acts 1931-2004 ("1931 Companies").

Key features of a 2006 Company

A 2006 Company is a legal entity in its own right, separate from its members, and will continue in existence until it is dissolved (in the same way as 1931 Companies).

Every 2006 Company is required, at all times, to have:

- (a) a registered agent in the Isle of Man who holds the appropriate licence granted by the Isle of Man Financial Supervision Commission (ensuring that there is a licensed professional on the Isle of Man overseeing the administration of the company); and
- (b) a registered office address in the Isle of Man.

Power and capacity

The doctrine of ultra vires does not apply to 2006 Companies. The Act expressly states that, notwithstanding any provision to the contrary in a company's memorandum or articles of association and irrespective of corporate benefit and whether or not it is in the best interests of a company to do so, a company has unlimited capacity to carry on or undertake any business or activity, to do, or to be subject to, any act and to enter into any transaction.

Notwithstanding this, the directors of 2006 Companies are still subject to the various duties imposed on directors by common law and statute as well as fiduciary duties (such as the duty to act *bona fide* in the best interests of the company).

Directors

Unlike a 1931 Company, a 2006 Company is permitted to have a single director which may be an individual or, subject to compliance with certain requirements, a body corporate. However, the Company has elected not to take advantage of this provision.

Members

The Act contains very few prescriptive rules relating to members' meetings. Companies are not required to hold annual general meetings and the Act allows members' meetings to be held at such time and in such places, within or outside the Isle of Man, as the convener of the meeting considers appropriate. However, as is the case with the Company's constitutional documents, more prescriptive requirements relating to members' meetings can be included in a company's articles of association.

Subject to contrary provision in the Act or in a company's memorandum or articles of association, members exercise their powers by resolutions:

- (a) passed at a meeting of the members; or

- (b) passed as written resolutions.

The concept of “ordinary”, “special” and “extraordinary” resolutions is not recognised under the Act and resolutions passed at a meeting of the members only require the approval of a member or members holding in excess of 50% of the voting rights exercised in relation thereto. However, as permitted under the Act, the Company’s articles of association incorporate the concept of a “special resolution” (requiring the approval of members holding 75% or more of the voting rights exercised in relation thereto) in relation to certain matters.

Shares

The provisions relating to shares and share capital in the Act are more relaxed than the equivalent provisions applying to 1931 Companies.

The Act provides that shares in a company may (without limitation):

- (a) be convertible, common or ordinary;
- (b) be redeemable at the option of the shareholder or the company or either of them;
- (c) confer preferential rights to distributions;
- (d) confer special, limited or conditional rights, including voting rights; or
- (e) entitle participation only in certain assets.

Distributions and the solvency test

The Act introduces a new definition of “distribution” in relation to a distribution by a 2006 Company of its assets to its members. A “distribution” essentially means the direct or indirect transfer of company assets or the incurring of a debt by a company to or for the benefit of a member and includes the payment of dividends and the redemption, purchase or other acquisition by a company of its own shares.

The Act permits the directors of a company to authorise a distribution by the company to its members at such time and of such amount as they think fit if they are satisfied, on reasonable grounds, that the company will, immediately after the distribution, satisfy the solvency test.

A company satisfies the “solvency test” if:

- (a) it is able to pay its debts as they become due in the normal course of its business; and
- (b) the value of its assets exceeds the value of its liabilities.

The solvency test replaces the traditional capital maintenance requirements which apply to 1931 Companies. Provided that the solvency test has been satisfied, dividends may be paid and shares redeemed or purchased out of any capital or profits of the company.

Accounting records

The accounting requirements imposed on 2006 Companies under the Act are far less prescriptive than those imposed on 1931 Companies. The Act simply requires a company to keep reliable accounting records which:

- (a) correctly explain the transactions of the company;
- (b) enable the financial position of the company to be determined with reasonable accuracy at any time; and
- (c) allow financial statements to be prepared.

Offering documents

The Act does not distinguish between public and private companies and (subject to any restrictions in a company’s memorandum or articles of association) a 2006 Company can offer its securities to the public.

If an offering document is issued in relation to a 2006 Company, the criteria with which that offering document must comply are far less prescriptive than the traditional prospectus requirements which apply to 1931 Companies. The Act simply requires the directors of a 2006 Company to ensure that any offering document issued in relation to that company:

- (a) contains all material information relating to the offer or invitation contained therein (i) that the intended recipients would reasonably expect to be included therein in order to enable them make an informed decision as to whether or not to accept the offer or make the application referred to therein and (ii) of which the directors or proposed directors

were aware at the time of issue of the offering document or of which they would have been aware had they made such enquiries as would have been reasonable in all the circumstances; and

- (b) sets out such information fairly and accurately.

Statutory Books

Originals or copies (as appropriate) of various documents, including the constitutional documents, statutory books and accounting records of a 2006 Company, are required to be kept at the office of the 2006 Company's registered agent.

Squeeze-out Rights and Takeover Provisions

The Company is subject to the City Code on Takeovers and Mergers which, *inter alia*, provides that if any person, or company of persons acting in concert, acquires shares carrying 30 per cent. or more of the voting rights exercisable in general meetings, that person shall be required to make an offer for all of the issued shares not already held by him (or persons acting in concert with him) in cash at the highest price paid by that person, or any person acting in concert with him during the twelve month period prior to the purchase of shares that triggered the obligation. The Act provides that if an offer is made for the issued share capital of the Company, the offeror is entitled to acquire compulsorily any remaining shares if it has received acceptances or purchased shares subsequent to the making of the offer amounting (in aggregate) to 90 per cent. of the shares to which the offer relates. Certain time limits apply.

TERMS AND CONDITIONS OF THE GDRS

The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:

The Global Depositary Receipts (“GDRs”) represented by this certificate are each issued in respect of one ordinary share of par value US\$0.10 each (the “Shares”) in Kazakhstan Kagazy plc (the “Company”) pursuant to and subject to an agreement dated 23 July 2007, and made between the Company and The Bank of New York in its capacity as depositary (the “Depositary”) for the “Regulation S Facility” and for the “Rule 144A Facility” (such agreement, as amended from time to time, being hereinafter referred to as the “Deposit Agreement”). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed BNY (Nominees) Limited as Custodian (the “Custodian”) to receive and hold on its behalf any relevant documentation respecting certain Shares (the “Deposited Shares”) and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the “Deposited Property”). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the “Conditions”), references to the “Depositary” are to The Bank of New York and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the “Custodian” are to BNY (Nominees) Limited or any other custodian from time to time appointed under the Deposit Agreement and references to the “Main Office” mean, in relation to the relevant Custodian, its head office in the city of London or such other location of the head office of the Custodian in England as may be designated by the Custodian with the approval of the Depositary (if outside the city of London) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

The GDRs will upon issue be represented by interests in a Regulation S Master GDR, evidencing Regulation S GDRs, and by interests in a Rule 144A Master GDR, evidencing Rule 144A GDRs (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in “Summary of Provisions Relating to the GDRs while in Master Form” for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the Master GDR.

References in these Conditions to the “Holder” of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the “Register”) as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the “Depositary” in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

1. Withdrawal of Deposited Property and Further Issues of GDRs

- 1.1 Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:
- (i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or the Isle of Man of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;

- (ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;
 - (iii) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and
 - (iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out either (a) in Schedule 3, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered during the Distribution Compliance Period (such term being defined as the 40 day period beginning on the latest of the commencement of the Offer, the original issue date of the GDRs, and the issue date with respect to the additional GDRs, if any, issued to cover over-allotments) in respect of surrendered Regulation S GDRs, or (b) in Schedule 4, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.
- 1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:
- (i) a certificate (if any) for, or other appropriate instrument of title (if any) to, or evidence of, a book-entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
 - (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;
- PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):
- (a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or
 - (b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);
- in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in the Isle of Man of any Agent as designated by the surrendering Holder in the order accompanying such GDR.
- 1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.
- 1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3, Part A of the Deposit Agreement (*which is described in the following paragraph*) by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) Schedule 4, Part A of the Deposit Agreement (*which is described in the second following paragraph*) by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith,

so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of Schedule 3, Part A, of the Deposit Agreement certifies, among other things, that the person providing such certificate is not a US person (as defined in Regulation S under the US Securities Act of 1933, as amended (the "Securities Act")), is located outside the United States and will comply with the restrictions on transfer set forth under "Transfer Restrictions".

The certificate to be provided in the form of Schedule 4, Part A, of the Deposit Agreement certifies, among other things, that the person providing such certificate is a qualified institutional buyer (as defined in Rule 144A under the Securities Act ("QIB")) or is acting for the account of another person and such person is a QIB and, in either case, will comply with the restrictions on transfer set forth under "Transfer Restrictions".

- 1.5 Any further GDRs issued pursuant to Condition 1.4 which (i) represent Shares which have rights (whether dividend rights or otherwise) which are different from the rights attaching to the Shares represented by the outstanding GDRs, or (ii) are otherwise not fungible (or are to be treated as not fungible) with the outstanding GDRs, will be represented by a separate temporary Master Regulation S GDR and/or temporary Master Rule 144A GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master Regulation S GDR and/or a Master Rule 144A GDR (by increasing the total number of GDRs evidenced by the relevant Master Regulation S GDR or Master Rule 144A GDR by the number of such further GDRs, as applicable).
- 1.6 The Depository may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a "Pre-Release" as defined in Condition 1.7.
- 1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depository may execute and deliver GDRs or issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, prior to the receipt of Shares (a "Pre-Release"). The Depository may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depository knows that such GDR has been Pre-Released. The Depository may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the "Pre-Releasee") that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depository in its capacity as such and for the benefit of the Holders, (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depository, disposing of such Deposited Property or GDRs, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depository determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depository on not more than five (5) business days' notice, and (d) subject to such further indemnities and credit regulations as the Depository deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; provided, however, that the Depository reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depository will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depository deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depository as security for the performance of the Pre-Releasee's obligations in connection herewith, including the Pre-Releasee's obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom a Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A of the Deposit Agreement. The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 Part A of the Deposit Agreement.

2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its reasonable opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts representing Shares are listed on a US securities exchange or quoted on a US automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company, is closed or generally or in one or more localities suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

3. Transfer and Ownership

The GDRs are in registered form, each representing one Share. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Master Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "US Securities Act"). Prior to expiration of the Distribution Compliance Period, no owner of Regulation S GDRs may transfer Regulation S GDRs or Shares represented thereby except in accordance with Rule 903 or Rule 904 of Regulation S under the US Securities Act or to, or for the account of, a QIB in a transaction meeting the requirements of such Rule 144A. There shall be no transfer of Regulation S GDRs by an owner thereof to a QIB except as aforesaid and unless such owner (i) withdraws Regulation S Shares from the Regulation S Facility in accordance with Clause 3.5 of the Deposit Agreement and (ii) instructs the Depositary to deliver the Shares so withdrawn to the account of the Custodian to be deposited into the Rule 144A Facility for issuance thereunder of Rule 144A GDRs to, or for the account of, such QIB. Issuance of such Rule 144A GDRs shall be subject to the terms and conditions of the Deposit Agreement, including, with respect to the deposit of Shares and the issuance of Rule 144A GDRs, delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying

that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11;

PROVIDED THAT:-

- (a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and
- (b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights (after consultation with the Company where reasonably practicable to do so) in the manner described below:-

- (i) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in US Dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or
- (ii) if and to the extent that the Depositary shall at its discretion deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or
- (iii) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, PROVIDED THAT Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.
- (iv) (a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the “Primary GDR Rights Offering”), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder’s GDRs (“Additional GDR Rights”) if at the date and time specified by the Depositary for the conclusion of the Primary GDR Rights Offering (the “Instruction Date”) instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder’s instructions to subscribe for such Additional GDR Rights (“Additional GDR Rights Requests”) shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the “Maximum Additional Subscription”) and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto (“Unsubscribed Rights”), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in US Dollars or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).

- (b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Rights Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.
- (c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depositary shall be entitled to receive such opinions from Isle of Man counsel and US counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel reasonably satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(iv) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary and the Company that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (i), (ii), (iii) and (iv) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is

denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any Payments

Any distribution of cash under Condition 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.

Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. Capital Reorganisation

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding Taxes and Applicable Laws

11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Isle of Man and other withholding taxes, if any, at the applicable rates.

11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in the Isle of Man in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required

under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent, registration or permit, or to file any such report. The Depositary may at its discretion, where assistance is reasonably requested by the Company, assist the Company, at the Company's expense, to obtain any authorisation, consent, registration or permit, or to file any report to a governmental or administrative authority, required to be obtained or filed by the Company pursuant to this clause, provided that the Depositary shall in no circumstances take any action pursuant to this clause which is in conflict with market practice or is in a capacity other than its capacity as Depositary.

12. Voting Rights

12.1 Holders will have the right to instruct the Depositary with regard to the exercise of voting rights with respect to the Deposited Shares in accordance with this Condition 12. The Company has agreed to notify the Depositary of any resolution to be proposed at a General Meeting of the Company and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor as well as written requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against each and any resolution specified in the agenda for the meeting or abstain from voting, which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23. The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to appoint or procure the appointment of a representative to attend the relevant meeting and vote on behalf of the registered owner of the Shares.

12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.

12.3 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.

12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permitted by Isle of Man law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Isle of Man law, calculate from the voting instructions that it has received from all Holders (i) the aggregate number of votes in favour of a particular resolution and (ii) the aggregate number of votes against such resolution and cast or cause to be cast in favour of or against such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes against such resolution.

12.5 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received and in accordance with those instructions, except that if no voting instructions are received by the Depositary (either because no voting instructions are returned to the Depositary or because the voting instructions are incomplete, illegible or unclear) from a Holder with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the

Depository, such Holder shall be deemed to have instructed the Depository to give a discretionary proxy to a person designated by the Company with respect to such Deposited Shares, and the Depository shall give a discretionary proxy to a person designated by the Company to vote such Deposited Shares, PROVIDED THAT no such instruction shall be deemed given, and no such discretionary proxy shall be given, with respect to any matter as to which the Company informs the Depository (and the Company has agreed to provide such information in writing as soon as practicable) that (i) the Company does not wish such proxy to be given, or (ii) such matter materially and adversely affects the rights of holders of Shares.

- 12.6 If the Depository is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Isle of Man law or the Depository determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3, 12.4 or 12.5 the Depository shall not vote or cause to be voted such Deposited Shares.
- 12.7 Where the Depository is to vote in respect of each and any resolution in the manner described in Conditions 12.3, 12.4 or 12.5 above the Depository shall notify the Chairman of the Company and appoint a person designated by him as a representative of the Depository to attend such meeting and vote the Deposited Shares in the manner required by this Condition. The Depository shall be entitled to request the Company to provide to the Depository, and where such request has been made shall not be required to take any action required by this Condition 12 unless it shall have received, an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depository) at the expense of the Company to the effect that such voting arrangement is valid and binding on Holders under Isle of Man law and the statutes of the Company and that the Depository is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depository will not be deemed to be exercising voting discretion.
- 12.8 By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition as it may be amended from time to time in order to comply with applicable Isle of Man law.
- 12.9 The Depository shall not, and the Depository shall ensure that the Custodian and its nominees do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.

13. Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depository

The Depository shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the "Charges") shall be payable by the Holder thereof to the Depository at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depository may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depository from the Holder pursuant to Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depository for the payment of Charges shall be made by giving notice pursuant to Condition 23.

14. Liability

- 14.1 In acting hereunder the Depository shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.
- 14.2 Neither the Depository, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of the Isle of Man or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depository, the Custodian, any Agent

or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

- 14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.
- 14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including, without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.
- 14.5 The Depositary shall make reasonable endeavours to effect any such sale as is referred to or contemplated in Condition 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.
- 14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.
- 14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- 14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.
- 14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.
- 14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and (subject to Condition 14.13 below) shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.

- 14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary (subject to Condition 14.13 below) shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.
- 14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorised by a director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- 14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.
- 14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on its own behalf in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable, and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.
- 14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.
- 14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.
- 14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement, except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.

14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Isle of Man law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.

14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

16.1 The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

- (i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: US\$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;
- (ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;
- (iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of US\$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;
- (iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of US\$0.02 or less per GDR for each such dividend or distribution;
- (v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: US\$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution; and
- (vi) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of US\$0.05 or less per GDR;
- (vii) a fee of US\$0.02 or less per GDR (or portion thereof) for depositary services, which shall accrue on the last day of each calendar year and shall be payable as provided in paragraph (viii) below; and
- (viii) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against

Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions),

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges, costs and expenses as specified in a separate agreement between the Company and the Depositary.

17. Agents

17.1 The Depositary shall be entitled to appoint one or more agents (the “Agents”) for the purpose, *inter alia*, of making distributions to the Holders.

17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18. Listing

The Company has undertaken in the Deposit Agreement to use all reasonable endeavours to maintain, so long as any GDR is outstanding, a listing for the GDRs on the Official List and admission to trading on the market for listed securities of the London Stock Exchange.

For that purpose the Company will pay all fees and sign and deliver all undertakings required by the Financial Services Authority and the London Stock Exchange in connection with such listings. In the event that the listing on the Official List and admission to trading on the market for listed securities of the London Stock Exchange is not maintained, the Company has undertaken in the Deposit Agreement to use all reasonable endeavours with the reasonable assistance of the Depositary (provided at the Company’s expense) to obtain and maintain a listing of the GDRs on any other internationally recognised stock exchange in Europe.

19. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Custodian or, as appropriate, the Depositary giving 30 days’ notice in accordance with the terms of the relevant custody agreement entered into by the Custodian and the Depositary, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian’s resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in the Isle of Man, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in the Isle of Man, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited

Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

20.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 120 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 120 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the Financial Services Authority and the London Stock Exchange.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use all reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably practicable following notice of such termination or resignation, and to notify the Depositary of such appointment. As soon as reasonably practicable after receipt by the Depositary of notification from the Company of any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the Financial Services Authority and the London Stock Exchange.

20.2 Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

21. Termination of Deposit Agreement

21.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(i) and Clause 10.1.1(a) for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.

21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the

Depository shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

22. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by agreement between the Company and the Depository in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depository, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depository, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, and payment by the Holder of the charge specified in Condition 16.1(i) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depository which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

23. Notices

23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class; if overseas, first class airmail) or air courier, or by telex or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address, telex or facsimile number of such Holder as it appears on the transfer books for GDRs of the Depository, or, if such Holder shall have filed with the Depository a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.

23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by telex transmission, as provided in this Condition, shall be effective when the sender receives the answerback from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depository or the Company may, however, act upon any telex or facsimile transmission received by it from the other or from any Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.

24. Reports and Information on the Company

24.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depository with six copies in the English language (and to make available to the Depository, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of:-

- (i) in respect of the financial year ending on 31 December 2007 and in respect of each financial year thereafter, the consolidated balance sheets as at the end of such financial year and the consolidated statements of income for such financial year in respect of the Company, prepared in conformity with IFRS and reported upon by independent public accountants selected by the Company, as soon as practicable after the end of such year;

- (ii) if the Company publishes semi-annual financial statements for holders of Shares, such semi-annual financial statements of the Company, as soon as practicable, after the same are published; and
- (iii) if the Company publishes quarterly financial statements for holders of Shares, such quarterly financial statements, as soon as practicable, after the same are published.

24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

24.3 For so long as any of the GDRs remains outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the US Securities Act, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the US Exchange Act, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the US Securities Act to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the Securities Act. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company’s expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

26. Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Governing Law

- 28.1 The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedules 3 and 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Isle of Man law. The Company has submitted in respect of the Deposit Agreement and the Deed Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in the Borough of Manhattan, New York City. The Company has also agreed in the Deposit Agreement and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes (as defined below) are resolved by arbitration.
- 28.2 The Company has irrevocably appointed Law Debenture Corporate Services Limited as its agent in England to receive service of process in any Proceedings (as defined below) in England based on the Deed Poll and also appointed Law Debenture Corporate Services Inc. as its agent in New York to receive service of process in any Proceedings in New York. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.
- 28.3 The courts of England are to have jurisdiction to settle any disputes (each a “Dispute”) which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs (“Proceedings”) may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.
- 28.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).
- 28.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.
- 28.6 The Depositary irrevocably appoints The Bank of New York, London Branch, (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILE IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Master Regulation S GDR in registered form and (ii) a single Master Rule 144A GDR in registered form. The Master Regulation S GDR will be deposited with The Bank of New York, London branch as common depository for the respective accounts of Euroclear and Clearstream, Luxembourg and registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for such common depository, and the Master Rule 144A GDR will be deposited with The Bank of New York as custodian for, and registered in the name of, Cede & Co. as nominee for DTC. The Master Regulation S GDR and the Master Rule 144A GDR contain provisions which apply to the GDRs while they are in master form, some of which modify the effect of the Terms and Conditions of the GDRs set out in this prospectus. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the terms and conditions of the GDRs shall have the same meaning herein. The numbering of any Conditions shall refer to the numbering as set out in the Deposit Agreement.

Exchange

The Master Regulation S GDR and the Master Rule 144A GDR will only be exchanged for certificates in definitive registered form evidencing GDRs in the circumstances described in (i), (ii), (iii) or (iv) below, in whole but not in part. The Depository has irrevocably undertaken in the Master Regulation S GDR and the Master Rule 144A GDR to deliver certificates evidencing GDRs in definitive registered form in exchange for either the Master Regulation S GDR or the Master Rule 144A GDR (at the expense of the Company) to holders of GDRs within 60 days in the event that:

- (i) Euroclear or Clearstream, Luxembourg (in the case of the Master Regulation S GDR) or DTC (in the case of the Master Rule 144A GDR), or any successor thereto, advises the Company in writing that it is unwilling or unable to continue as depository and a successor depository is not appointed within 90 calendar days; or
- (ii) in the case of the Master Rule 144A GDR, DTC or any successor ceases to be a “clearing agency” registered under the Exchange Act; or
- (iii) either Euroclear or Clearstream, Luxembourg (in the case of the Master Regulation S GDR) or DTC (in the case of the Master Rule 144A GDR) is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does, in fact, do so and no alternative clearing system satisfactory to the Depository is available within 45 days; or
- (iv) the Depository has determined that, on the occasion of the next payment in respect of the relevant GDRs, the Depository or its agent would be required to make any deduction or withholding from any payment in respect of the relevant GDRs which would not be required were the relevant GDRs represented by certificates in definitive registered form, provided that the Depository shall have no obligation to so determine or attempt to so determine.

Any exchange shall be at the expense (including printing costs) of the relevant GDR holder. A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear, Clearstream, Luxembourg or DTC.

Upon any exchange of a part of the Master Regulation S GDR or the Master Rule 144A GDR for certificates evidencing GDRs in definitive registered form, any exchange of interests between the Master Regulation S GDR and the Master Rule 144A GDR or *vice versa*, any distribution of GDRs pursuant to Conditions 5, 7 or 10 or any reduction in the number of GDRs evidenced by the Master Regulation S GDR or the Master Rule 144A GDR following any withdrawal of Deposited Property (as defined in the Deposit Agreement) pursuant to Condition 1, the relevant details will be entered by the Depository on the register maintained by the Depository, (which shall be maintained at all times outside the UK) whereupon the number of Shares evidenced by the Master Regulation S GDR or the Master Rule 144A GDR will be reduced or increased (as the case may be). If the number of GDRs represented by either the Master Regulation S GDR or the Master Rule 144A GDR is reduced to zero, the Master Regulation S GDR or the Master Rule 144A GDR (as the case may be) shall continue in existence until the Company’s obligations under the Deposit Agreement and the obligations of the Depository pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) in respect of the GDRs evidenced by the Master Regulation S GDR or the Master Rule 144A GDR will be made by the Depositary through Euroclear and Clearstream, Luxembourg (in respect of the Master Regulation S GDR) and through DTC (in the case of the Master Rule 144A GDR), on behalf of persons entitled thereto upon receipt of funds therefore from the Company. A free distribution or rights issue of shares to the Depositary on behalf of the holders of the GDRs may result in the records maintained by the Depositary being adjusted to reflect the enlarged number of GDRs evidenced by the Master Regulation S GDR and/or Master Rule 144A GDR. Payments of dividends and other cash distributions payable in respect of the GDRs represented by the Master Rule 144A GDR and the Master Regulations S GDR will be made by the Depositary in US Dollars.

Holders of GDRs represented by the Master Regulation S GDR or the Master Rule 144A GDR will have voting rights in respect of the underlying shares as set out in Condition 12. Subject as provided in Condition 12, voting rights will be exercised by the Depositary only upon receipt of written instructions in accordance with the Conditions and the Deposit Agreement and if permitted by law, and shall be (if so requested by the Depositary in accordance with Condition 12.7) subject to an opinion being given by the Company's legal counsel that the Depositary can do so. In the absence of a legal opinion (where such opinion has been requested by the Depositary), the Depositary shall not exercise any voting rights and shall have no liability to the Company or any Holder for any action taken or not taken as the case may be.

Surrender of GDRs

Any requirement in the Terms and Conditions of the GDRs relating to the surrender of a GDR to the Depositary shall be satisfied by the production by Euroclear or Clearstream, Luxembourg, in respect of the Master Regulation S GDR, or DTC, in respect of the Master Rule 144A GDR, on behalf of a person entitled to an interest therein, of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other document issued by Euroclear, Clearstream, Luxembourg or DTC (or if relevant an alternative clearing system), as the case may be. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian (as both of those terms are defined in the Deposit Agreement), of the title of such person to receive (or to issue instructions for the share of) all moneys or other property payable or distributable, and to issue voting instructions, in respect of the Deposited Property evidenced by such GDRs.

Notices

For so long as the Master Regulation S GDR is registered in the name of Euroclear or Clearstream, Luxembourg (as the case may be) or their respective nominees and the Master Rule 144A GDR is registered in the name of DTC or its nominee, notices to holders of the GDRs may be given by the Depositary by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg in respect of the Master Regulation S GDR, or to DTC in respect of the Master Rule 144A GDR, for communication to holders in substitution for delivery of notices required by Condition 23.

The Master Regulation S GDR and the Master Rule 144A GDR shall be governed by and construed in accordance with English law.

THE REPUBLIC OF KAZAKHSTAN

The information contained in this section has been extracted from documents and other publications released by, and is presented on the authority of, various officials and other public and private sources, including participants in the capital markets and financial sectors in Kazakhstan. There is not necessarily any uniformity of views among such sources as to the information provided therein. Accordingly, we only accept responsibility for accurately reproducing such extracts as they appear in this section. We accept no further or other responsibility in respect of such information.

Introduction

Kazakhstan is a sovereign republic and, after Russia, is the largest in terms of landmass of the nations formed upon the dissolution of the Soviet Union in 1991. The country is rich in natural resources, including oil, gas and minerals. The Government began implementing market-based economic reforms in 1991. Reforms included the implementation of a significant privatisation programme, the promotion of foreign direct investment, particularly in the oil and gas sector, and the introduction of an extensive legal framework. In recent years, Kazakhstan has experienced strong economic growth, with GDP increasing by 9.6 per cent. in 2004, by 9.4 per cent. in 2005 and by 10.6 per cent. in 2006. The Economist Intelligence Unit estimated in 2006 that inflation would be unlikely to exceed seven to eight per cent. per annum for the period 2007 - 2009. Kazakhstan has been recognised by both the European Union and the United States as having a market economy. In September 2002, Kazakhstan became one of the first countries in the former Soviet Union to receive an investment-grade credit rating from a major international credit rating agency, when Moody's rated Kazakhstan's foreign currency bonds and notes at Baa3. A year later, Fitch upgraded Kazakhstan's local currency rating to BBB+/Stable.

Area and Population

Kazakhstan is the ninth largest country in the world. It is located in Central Asia and is bordered by Russia to the north and west, China to the east, Kyrgyzstan, Uzbekistan and Turkmenistan to the south and the Caspian Sea to the West. The capital, Astana, is located in central Kazakhstan but Almaty, in the south east of the country, is the principal financial centre and the largest city. The country covers an area of approximately 2.7 million square kilometres, approximately the same size as Western Europe, and spans two time zones from the Caspian Sea in the west to the Altai Mountains in the east.

As at 31 December 2006, the population of Kazakhstan was around 15.4 million making it a relatively sparsely populated country, with an average population density of less than six people per square kilometre. The population of Kazakhstan is ethnically diverse. Kazakhs are the largest among the country's many different ethnic groups, accounting for more than half of the population. More than a quarter of the population are Russians. Other ethnic groups include Ukrainians, Germans, Uzbeks, Uigurs and Tatars. Historically, Kazakhstan belongs to the Turkic-speaking world. Kazakh, the official state language, is spoken by more than half of the population. Russian is spoken by more than three-quarters of the population and is also officially recognised for use. The literacy of the population is near 100 per cent.

Constitution, Government and Political Parties

Executive Branch

Kazakhstan is a constitutional republic with a presidential form of governance. Under the country's constitution, ratified by referendum in 1995, the President is the head of state and its highest official, with primary responsibility for domestic and foreign policy and the function of representing Kazakhstan in international relations, including the power to negotiate and sign international treaties. The President is also Commander-in-Chief of the armed forces. The President has the power to issue decrees and orders having the force of law (provided they are consistent with the constitution), to determine the priority of legislation before parliament and to call a national referendum on matters of special importance. The President also has the power, in certain circumstances, to dissolve parliament.

Under the constitution, the President also enjoys significant powers of appointment, including the power to appoint the Prime Minister, subject to the approval of the lower chamber of the parliament. The President may also dismiss the Prime Minister with prior parliamentary approval. In addition, the President has the power to appoint and remove the Governor of Kazakhstan's central

bank, the NBK, whose appointment is subject to the approval of the higher chamber of the parliament (the Senate). The constitution provides that the President be elected to office by popular vote for a term of five years. The constitution also provides for early termination of the President's term of office in the event of death, resignation or impeachment.

The Government comprises the Prime Minister (currently Mr. Karim Massimov) as its executive head, deputy prime ministers and ministers as members of the cabinet. The Government is formed by the President, based on recommendations of the Prime Minister, and is automatically dissolved after each presidential election, to allow for the formation of a new administration by the incoming President. Neither the Prime Minister nor the members of the Government are members of parliament. The Government is responsible for implementing laws, decrees and international agreements, preparing and implementing the budget, establishing fiscal policy and carrying out social policy.

Whilst the Kazakh constitution provides for separation of powers, the President wields considerable control over all three branches of the Government and determines national policy priorities.

Mr. Nazarbayev, then the First Secretary of the Communist Party of Kazakhstan, became President upon the formation of the newly independent state in December 1991, and has held the position of head of state since that time. President Nazarbayev was re-elected in elections held in April 1995, January 1999 and December 2005 and his current term of office expires in 2012. The next presidential election is due to be held in December 2012. After the 2005 re-elections, President Nazarbayev opened his new term in office with a promise to put Kazakhstan among the 50 'most competitive' countries in the world.

Previously, under the Kazakh constitution, the same person could not be elected to the office of President for more than two terms. However, pursuant to an amendment to the constitution made on 21 May 2007, the current President (and any future President) could be elected for more than two terms.

In January 2007 the Government, led by the then-Prime Minister Daniyal Akhmetov, resigned, and the Kazakh parliament voted unanimously for the appointment of Karim Massimov as a replacement. Under the presidency of Mr. Nazarbayev, this transition is not expected to negatively affect Kazakhstan's economy.

Reforms aimed at moving Kazakhstan further toward a full market economy continue. Kazakhstan has undertaken one of the more successful pension reform programmes amongst its peer group. The Kazakh financial markets regulator is implementing EU harmonising regulations. Headway has also been made in privatisation, liberalisation of capital controls and tax reforms.

Legislative Branch

Kazakhstan has had four different parliamentary structures since the end of the Soviet era. The current structure has a bicameral parliament, with the Mazhilis (the lower house) comprised of 98 members elected on a regional constituency basis and nine members elected by the Assembly of the Peoples of Kazakhstan and the Senate comprised of 32 members indirectly elected by the regions and 15 members appointed by the President. Elections to the Mazhilis in September 2004 yielded a body dominated by the pro-government Nur Otan party, which supports President Nazarbayev's political goals. Two other parties considered sympathetic to the President, including the agrarian-industrial bloc AIST and the Asar party, founded by President Nazarbayev's daughter, won most of the remaining seats. The Asar party and two others, the Agrarian party and Civic party, subsequently also merged with Otan, the predecessor to Nur Otan. Opposition parties, which were officially registered and competed in the elections, won only a single seat at the last parliamentary elections. The Organisation for Security and Cooperation in Europe has criticised both of Kazakhstan's past two elections as falling below international standards. On 20 June 2007, President Nazarbayev signed a decree dissolving the current Mazhilis. Elections to the Mazhilis are expected to be held in August 2007.

International Organisations and International Relations

Kazakhstan's Position in the International Community

Kazakhstan's medium-term economic programme considers further integration into the international economy via accession to the World Trade Organisation in 2007 as a key priority. Currently, Kazakhstan has observer status with the World Trade Organisation and the Government is

actively pursuing full membership. Kazakhstan has shown great flexibility in adjusting to the World Trade Organisation's rules, and will liberalise foreign access to its financial markets (for example, foreign bank branches will be permitted in the country). All restrictions on foreign fixed capital investments are planned to be abolished, which is particularly important for metallurgy - the second-most attractive sector for foreign investors.

Kazakhstan has established diplomatic relations with over 120 countries. Kazakhstan is a full member of the United Nations, the International Monetary Fund (IMF), the World Bank, the United Nations Educational, Scientific and Cultural Organisation, the International Atomic Energy Agency, the EBRD, the Asian Development Bank, the International Development Association, the Multilateral Investment Guarantee Agency, the International Finance Corporation, the International Organisation of Securities Commissions and the Islamic Development Bank.

In the past, Kazakhstan followed an economic stabilisation programme agreed with the IMF and was granted both standby and extended fund facilities in connection with that programme. Kazakhstan is party to a Partnership and Co-operation Agreement with the European Union, which came into force in 1999, and co-operates with the EU in various scientific and environmental programmes. In 1994, Kazakhstan joined NATO's Partnership for Peace Programme under which various exercises have taken place involving troops from the United States, Russia, Kazakhstan, Uzbekistan, Kyrgyzstan, Turkey, Georgia, the Ukraine and Latvia.

As of 9 May 2007, Kazakhstan had signed double taxation treaties with 39 countries, of which 37 are currently in force, including treaties with the United States, Russia, the Netherlands and the United Kingdom.

Kazakhstan and CIS Cooperation

Kazakhstan depends on neighbouring states to access world markets for a number of its major exports, including oil, steel, copper and wheat. Kazakhstan is thus dependent upon good relations with its neighbours to ensure its ability to export. In January 1995, Kazakhstan, Russia, Kyrgyzstan and Belarus, joined by Tajikistan in 1999, signed a customs union which, amongst other things, provides for the removal of trade tariffs between these nations, and Kazakhstan has taken other steps to promote regional economic integration. Government policy advocates further economic integration within the CIS, one of the aims of which is to ensure continued access to export routes. However, should access to these routes be materially impaired, this could adversely impact the economy of Kazakhstan.

In September 2003, Kazakhstan, Ukraine, Russia and Belarus signed an agreement for the creation of a single economic zone, which is expected to result in common economic policies, harmonisation of legislation implementing such policies and the creation of a single commission on trade and tariffs. The member states also intend to co-ordinate their fiscal, credit and currency policies. Kazakhstan has maintained significant political and economic relations with Russia since gaining independence from the Soviet Union. After the dissolution of the Soviet Union, Kazakhstan agreed with Russia that in return for Russia's acceptance of responsibility for virtually all external debt liabilities contracted on behalf of the former Soviet Union, Kazakhstan would waive all claims on former Soviet Union assets located outside its own territory. Kazakhstan and Russia have also reached agreement regarding Russia's use of the Baikonur Space Centre and on the settlement of mutual financial obligations.

The Kazakh Economy

Due to the investor-led oil boom that started in 2000, the oil industry now accounts for over half of all industrial output in Kazakhstan. The only other significant sectors are metals processing and steel production. Other sectors are weak and subordinate to oil. The Government has instituted a programme to stimulate investment into non-oil sectors.

Driven by increased world demand for oil and high oil prices, GDP growth in Kazakhstan has been over nine per cent. in each of the past six years. This economic growth has stimulated employment growth and increased living standards. The benefits of rising wages are starting to have an effect, leading in particular to growth in the consumer goods sector. The stability of the Tenge has also been an important factor in rising living standards. High oil prices have led to a surplus in Kazakhstan's balance of payments and increased foreign exchange reserves.

The following table sets out certain information on Kazakhstan's main economic and financial indicators from 2000 to 2005:

	Average unless otherwise specified				
	2001	2002	2003	2004	2005
Population (millions, end of year)	14.9	14.9	15.0	15.0	15.2
GDP (KZT billion)	3,251	3,776	4,612	5,543	7,457
GDP (US\$ billion)	22.1	24.4	30.8	43.2	56.1
GDP per capita (US\$)	1,491	1,659	2,068	2,697	3,739
GDP (per cent. change from the previous year)	13.5	9.8	9.3	9.4	9.5
Volume of industrial production (per cent. change from the previous year)	13.8	10.5	9.1	10.1	4.6
Consumer price index (per cent. change from the previous year)	6.4	6.6	6.8	6.7	7.5
Trade balance (US\$ million)	1,320	2,301	3,679	6,785	10,322
Trade balance (per cent. of GDP)	5.9	9.4	11.9	16.7	18.4
Gross foreign debt (US\$ million)	15,157	18,251	22,920	31,941	41,516
Gross foreign debt (per cent. of GDP)	68.5	74.8	74.3	74.0	74.0
Total gross direct investment from abroad (US\$ million)	4,556	4,106	4,624	8,273	6,416
Total gross direct investment from abroad (per cent. of GDP)	20.5	16.8	15.0	20.3	11.4
Gross direct investment from abroad mining and quarrying (US\$ million)	3,089	2,123	2,188	5,268	1,766
Budget Deficit (-)/Surplus (per cent. of GDP)	(0.4)	(0.03)	(1.0)	(0.3)	0.6
Unemployment rate (per cent.)	10.4	9.3	8.8	8.6	8.1
Registered unemployment rate (percentage of economically active population)	2.9	2.6	1.8	1.5	1.2
Monetary income of the population (average, per capita) (KZT)	87,779	100,065	115,041	152,932	185,313
Average monthly nominal wage (KZT)	21,183	24,388	28,192	32,652	44,956

Source: The NBK, Statistics Agency of the Republic of Kazakhstan, Ministry of Finance, IMF, International Financial Statistics

Principal Sectors of the Economy

Historically, metallurgy (including mining and mineral processing) was the main industrial activity in Kazakhstan, although oil and gas related industries are now the most important components of the country's industrial base. The mineral products sector is Kazakhstan's largest employer. Agriculture has traditionally been the second largest sector of the economy, both in terms of employment and contribution to GDP. However, its relative importance has diminished in recent years due to reduced trade with the countries of the former Soviet Union.

Rapid real GDP acceleration has also led to expansion in the banking sector. In recent years, all banks have had to adopt international banking standards and obtain licences issued by the Kazakh financial markets regulator. The construction sector is very dependent on the oil sector. The services sector is small but fast growing.

Environment

Kazakhstan covers an area which is approximately the size of Western Europe and it has one of the lowest population densities in the world. Large areas of the country are uninhabited and contain excellent ecosystems. However, certain areas of the country face environmental problems, which, to a large extent, result from the period when Kazakhstan was part of the former Soviet Union. Outdated technology and capital equipment in the metallurgical sector produce heavy pollution, mostly in the north and east. In addition, during the Soviet era, Kazakhstan had facilities for nuclear testing and for research and production of biological weapons. The Soviet Union also tested biological weapons in uninhabited areas near the Aral Sea.

Natural Resources

Introduction

The extraction and production of hydrocarbons (i.e., oil, gas and gas condensates) and the extraction and processing of minerals are significant industries in the Kazakhstan economy. According to the Agency of Statistics of the Republic of Kazakhstan, exports of hydrocarbons and minerals accounted for 68 per cent. of total exports in 2004, compared with 65 per cent. in 2003, 61 per cent. in 2002 and 58 per cent. in 2001.

Oil and Gas

Oil and gas related industries are a significant component of the country's industrial base, accounting for over half of industrial output. Oil production has grown rapidly, fuelled by foreign direct investment since 2000. At the end of 2005, Kazakhstan's proven reserves stood at 3.3 per cent. of the world total, lifting Kazakhstan into the world's top ten oil-producing nations. 85 per cent. of oil production is from foreign investors with the rest produced by KazMunaiGaz, a company formed in 2002 following the merger of two state-owned groups.

Mineral Resources

Although much of Kazakhstan's mineral extraction has historically been exported in unprocessed form, with a view to retaining part of the value added by processing such minerals domestically, Kazakhstan has recently started exporting a progressively greater proportion of semi-processed minerals. Kazakhstan produces a significant amount of precious metals. Kazakhstan owns half of the FSU's lead, tungsten, copper and zinc reserves, one-fifth of its coal reserves, about 90 per cent. of chrome reserves and significant gold reserves. Metallurgy and mineral extraction were a primary focus of Kazakhstan's economy before the collapse of the Soviet Union and have been increasingly gaining significance in recent years, partially due to increasing foreign investment flows.

According to GFMS Limited, Kazakhstan produced 13.7 tonnes of gold in 2004, 13.0 tonnes in 2003 and 14.0 tonnes in 2002. Kazakhstan has substantial reserves of non-ferrous minerals, including chrome, iron ore, alumina, lead, zinc, copper and manganese. In 2004, Kazakhstan produced approximately 316,000 tonnes of zinc (compared with approximately 295,000 tonnes in 2003 and 286,000 tonnes in 2002), and approximately 445,000 tonnes of refined copper (compared with approximately 432,000 tonnes in 2003 and approximately 453,000 tonnes in 2002).

Taxation

Effective in 2007, the tax burden will be reduced, which it is hoped will stimulate economic growth. The VAT rate was reduced from 15 per cent. to 14 per cent. and the social tax rate was reduced starting in January 2004 from a flat rate of 21 per cent. to a sliding scale of between 7 and 20 per cent. In addition, the rate of personal income tax, which was formerly a progressive scale ranging from 5 per cent. to 20 per cent., was fixed at a flat 10 per cent. with effect from 1 January 2007. All of this makes Kazakhstan's tax regime the most liberal in the CIS region and very attractive for foreign investors. Corporate income tax at a rate of 30 per cent., subject to certain exceptions, remains the principal corporate tax in Kazakhstan.

Dividends payable on shares and paid to non-Kazakh residents are subject to a 15 per cent. withholding of corporate income tax, subject to any reduction under an applicable double taxation treaty (for example, under the Kazakhstan/UK double taxation treaty, the withholding tax rate on dividends which are beneficially owned by a UK resident company which controls at least 10 per cent. of the voting powers of a Kazakh company is reduced to 5 per cent.).

Currency and Foreign Exchange Regulations

Currency

The Tenge is considered a relatively stable currency. It is fully convertible for current account transactions and, since 1999, it has floated freely. Sustained foreign-currency inflows (due primarily to increased oil revenues) and the general weakening of the US Dollar have caused modest appreciations in the Tenge on world markets in recent years. Between 1993 and 2006, Kazakhstan attracted more than US\$37.2 billion in foreign direct investment, the highest per capita rate of all of the republics of the former Soviet Union.

Foreign Exchange Regulations

Kazakhstan has accepted the conditions of paragraphs 2, 3 and 4 of Article VIII of the International Monetary Fund Charter and, as a result, has agreed not to introduce or increase any exchange rate restrictions, introduce or modify any practice of multiple exchange rates, enter into any bilateral agreements violating Article VIII of that charter or impose any import restrictions. In accordance with Article VIII, a new law on currency regulation was adopted in 1996. According to this law, all current account operations, including transfers of dividends, interest and other investment income, may be made without restriction. Only certain outflowing capital account operations need to be licensed by or registered with the NBK. Capital inflows are registered and monitored for statistical purposes only, but are not restricted. New licensing rules were adopted at the beginning of 2002 for the treatment of the outflow of capital. The NBK liberalised licensing rules at the beginning of 2007 by abolishing all currency control licences. In May 2003, a new law was passed which provides for step-by-step liberalisation resulting, among other things, in full internal convertibility of the Tenge during 2007, permission for banks to invest abroad, the removal of restrictions on investments in foreign investment grade securities and the openings of accounts in OECD banks.

TAXATION

The following summary of certain material UK, federal US, Kazakh and Isle of Man tax consequences of ownership of the GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the GDRs. This summary does not purport to be a legal opinion or to be exhaustive or to address all tax aspects that may be relevant to a holder of GDRs.

EACH PROSPECTIVE HOLDER IS URGED TO CONSULT HIS, HER OR ITS TAX ADVISER AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH HOLDER OF THE OWNERSHIP AND DISPOSITION OF GDRs, INCLUDING THE APPLICABILITY AND EFFECT OF ANY OTHER TAX LAWS OR TAX TREATIES, AND OF PENDING OR PROPOSED CHANGES IN APPLICABLE TAX LAWS AS OF THE DATE OF THIS PROSPECTUS AND OF ANY ACTUAL CHANGES IN APPLICABLE TAX LAWS AFTER SUCH DATE.

United Kingdom

The following paragraphs are intended as a general guide to current UK tax law and H.M. Revenue & Customs (“HMRC”) practice (both of which are subject to change at any time, possibly with retrospective effect) in respect of the taxation of capital gains, the taxation of dividends paid by us, inheritance tax, stamp duty and stamp duty reserve tax. They relate only to persons who are beneficial owners of the GDRs (the “Holders”). These paragraphs may not relate to certain classes of Holders (such as our employees, Directors, affiliates, persons who are connected with us, insurance companies, charities, collective investment schemes, pension providers or persons who hold GDRs otherwise than as an investment). These paragraphs assume that the GDRs and the Shares will not be registered in a register kept in the UK and that the Shares will not be paired with shares issued by a corporate body incorporated in the UK. These paragraphs do not describe the circumstances in which Holders may benefit from an exemption or relief from taxation. All Holders are recommended to obtain their own taxation advice. In particular, non-UK resident or non-UK domiciled Holders are advised to consider the potential impact of any relevant double tax agreements.

Taxation of capital gains

UK residents

A disposal of GDRs by an individual Holder who is resident or ordinarily resident in the UK may give rise to a chargeable gain or an allowable loss for the purposes of capital gains tax. An individual Holder who ceases to be resident or ordinarily resident in the UK for a period of less than five tax years and who disposes of the GDRs during that period of temporary non-residence may be liable to capital gains tax on his or her return to the UK.

A disposal of GDRs by a corporate Holder which is resident in the UK may give rise to a chargeable gain or an allowable loss for the purposes of corporation tax.

Non-UK residents

An individual Holder who is not resident or ordinarily resident in the UK will not be liable for capital gains tax on capital gains realised on the disposal of his or her GDRs unless that Holder carries on a trade, profession or vocation in the UK through a branch or agency in the UK and the GDRs were acquired, used in or for the purposes of the branch or agency or used in or for the purposes of the trade, profession or vocation carried on by the Holder through the branch or agency.

A corporate Holder which is not resident in the UK will not be liable for corporation tax on capital gains realised on the disposal of its GDRs unless it carries on a trade in the UK through a permanent establishment in the UK and the GDRs were acquired, used in or for the purposes of the permanent establishment or used in or for the purposes of the trade carried on by the Holder through the permanent establishment.

Taxation of Dividends

UK residents

An individual Holder who is resident in the UK may be subject to income tax on dividends paid by us. An individual Holder who is resident in the UK but who is either not ordinarily resident

or not domiciled in the UK may, on making a claim to HMRC in respect of a tax year, only be subject to income tax in respect of dividends paid by us if and to the extent that amounts in respect of such dividends are treated as received in the UK. A corporate Holder which is resident in the UK will be subject to corporation tax on dividends paid by us.

Non-UK residents

An individual Holder who is not resident in the UK will not be subject to income tax on dividends paid by us unless that Holder carries on a trade, profession or vocation in the UK and the dividends constitute the profits of a trade, profession or vocation carried on wholly in the UK or, in the case of a trade, vocation or profession carried on partly in the UK and partly elsewhere, from the part of the trade, profession or vocation carried in the UK.

A corporate Holder that is not resident in the UK will not be subject to corporation tax on dividends paid by us unless it carries on a trade in the UK through a permanent establishment in the UK and GDRs are used by, or held by or for, the permanent establishment or the dividends constitute trading income arising directly or indirectly through or from the permanent establishment.

Inheritance Tax

Inheritance tax may be payable in respect of the GDRs on the death of an individual Holder or on any gifts of the GDRs during the individual Holder's lifetime that qualify as a chargeable lifetime transfer of value.

Stamp Duty and Stamp Duty Reserve Tax

No stamp duty reserve tax will be payable on the issue or transfer of the GDRs. No stamp duty will be payable on the issue of the Shares. No stamp duty will be payable on a transfer of the Shares or the GDRs provided that the instrument of transfer is executed outside of the UK and does not relate to any property situated in the UK or to any matter or thing done or to be done in the UK.

Isle of Man

The Company

The Isle of Man has introduced a standard 0% tax rate for companies with effect from 6 April 2006, with the exception of certain banking income and income from Isle of Man land and property which is taxed at 10%. An annual corporate charge is payable. The charge for the 2006/2007 tax year is £250. The Isle of Man has also introduced, with effect from 6 April 2006, a Distributable Profits Charge regime (the "DPC"). The effect of this regime, where it applies, is to impose a charge (at 18%) based on that proportion of a company's profits that are attributable to Isle of Man resident shareholders. However, as the GDRs will be admitted to trading on the London Stock Exchange, it will be outside the scope of the DPC.

GDR holders

Holders of GDRs resident in the Isle of Man will, depending upon their particular circumstances, be liable to Manx income tax on dividends received from the Company. Holders of GDRs resident outside the Isle of Man will have no liability to Manx income tax on dividends received from the Company. There is no capital gains tax, inheritance tax, stamp duty or stamp duty reserve tax in the Isle of Man. A probate fee may be payable in respect of the estate of a deceased holder of GDRs, up to a current maximum of £576.

United States Federal Income Tax Considerations

The following is a description of certain material US federal income tax consequences that may be relevant with respect to the acquisition, ownership and disposition of the GDRs. This description addresses only the US federal income tax considerations of holders that are initial purchasers of the GDRs pursuant to the Offer and that will hold such GDRs as capital assets. This description does not purport to address all material tax consequences of the ownership of the GDRs and does not address aspects of US federal income taxation that may be applicable to investors that are subject to special tax rules, including without limitation:

- banks, financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- dealers or traders in securities, commodities or currencies;

- tax-exempt entities;
- individual retirement accounts and other tax deferred accounts;
- persons that received GDRs as compensation for the performance of services;
- persons that will hold the GDRs as part of a “hedging”, “conversion” or constructive sale transaction or as a position in a “straddle” for US federal income tax purposes;
- certain US expatriates;
- persons that have a “functional currency” other than the US Dollar; or
- holders that own or are deemed to own 10 per cent. or more, by voting power or value, of the equity interests of the Company.

Further, this description does not address the alternative minimum tax or the US federal gift and estate tax consequences of the acquisition, holding or disposition of the GDRs.

This description is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, in each case as in effect on the date of this prospectus, all of which are subject to change (or to changes in interpretation), possibly with retroactive effect.

US Holders

For the purposes of this summary, a “US Holder” is a beneficial owner of a GDR that is:

- an individual citizen or resident of the United States;
- a partnership or corporation (or other entity treated as a partnership or corporation for US federal income tax purposes) created or organised in or under the laws of the United States or any state thereof, including the District of Columbia;
- an entity created or organised in or under the laws of any other jurisdiction if treated as a domestic corporation pursuant to US federal income tax laws;
- an estate, the income of which is subject to US federal income tax regardless of its source;
- a trust if (i) a court within the United States is able to exercise primary supervision over its administration and (ii) one or more US persons have the authority to control all of the substantial decisions of such trust. Certain trusts in existence on 20 August 1996, and treated as a US person prior to such date, may also be treated as US Holders.

A “Non-US Holder” is a beneficial owner of GDRs that is not a US Holder.

If a partnership (or any other entity treated as a partnership for US federal income tax purposes) holds GDRs, the tax treatment of the partnership and a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax adviser as to the US federal income tax consequences of acquiring, holding, retirement or other disposition of the GDRs.

For US federal income tax purposes, US Holders of GDRs will be treated as the owners of the Shares represented by those GDRs, and exchanges of Shares for GDRs, or GDRs for Shares, will not give rise to US federal income tax consequences.

Prospective purchasers of the GDRs are urged to consult their own tax advisers concerning the US federal, state, local and foreign tax consequences of the purchase, holding and disposition of the GDRs.

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY INVESTORS FOR THE PURPOSE OF AVOIDING US FEDERAL TAX PENALTIES; (B) SUCH DISCUSSION IS INCLUDED HEREIN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE GDRS; AND (C) EACH INVESTOR SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISER ABOUT THE TAX CONSEQUENCES BASED ON ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN THE GDRS.

Distributions

US Holders

Subject to the discussion below under “– Passive Foreign Investment Company considerations”, US Holders of GDRs will include in gross income as foreign-source dividend income, when actually or constructively received by the US Holder or the Depositary, the gross amount of any cash or the fair market value of any property distributed by the Company (before reduction for any Isle of Man withholding taxes, if any) in respect of GDRs, including a *pro rata* redemption of its Shares and GDRs to the extent such distribution is paid out of the Company’s current or accumulated earnings and profits (as determined for US federal income tax purposes). To the extent amounts paid as distributions on GDRs exceed the Company’s current and accumulated earnings and profits, these amounts will not be taxable dividends but instead will be treated first as a tax-free return of capital reducing the US Holder’s basis in the GDRs until such basis is reduced to zero, and then as gain from the sale of the US Holder’s GDRs, treated as described below under “—Sale or Exchange of GDRs”. This reduction in a US Holder’s basis in the GDRs would increase any capital gain, or reduce any capital loss, realised by the US Holder upon the subsequent sale, redemption or other taxable disposition of the GDRs. However, the Company does not intend to compute (or to provide US Holders with information necessary to compute) earnings and profits under US federal income tax principles. Accordingly, US Holders generally will be required to treat all distributions as taxable dividends.

Dividends will not be eligible for the dividends received deduction allowed to US corporate shareholders in respect of dividends received from other US corporations nor will dividends received by individual US Holders and certain other non-corporate US Holders be treated as qualified dividend income taxable at reduced rates generally applicable to long-term capital gains.

If the Company pays a dividend in a currency other than the US Dollar, any such dividend will be included in the gross income of the US Holder in an amount equal to the US Dollar value of the currency on the date of receipt, determined at the spot foreign currency/US Dollar exchange rate on the date such dividend distribution is includible in the income of the US Holder, regardless of whether the payment is in fact converted into US Dollars at that time. US Holders will have a tax basis in the currency received equal to its US Dollar value on the date of receipt. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible to the date such payment is converted into US Dollars will be treated as ordinary income or loss from US sources.

Dividends will be treated as foreign source income for US foreign tax credit purposes. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends will generally constitute “passive income” or, in the case of certain US Holders, “financial services income”. US Holders should note that the foreign tax credit limitation categories will be limited to “passive category income” and “general category income” with respect to taxable years beginning after 31 December 2006. Currency exchange gain or loss will generally be income to a US Holder from sources within the United States for foreign tax credit limitation purposes.

Non-US Holders

Except for the possible imposition of US backup withholding tax (see “—Backup withholding and information reporting”), dividends paid to a Non-US Holder in respect of GDRs will not be subject to US federal income tax unless such dividends are effectively connected with the conduct of a trade or business within the United States by such Non-US Holder (and are attributable to a permanent establishment maintained in the United States by such Non-US Holder if an applicable income tax treaty so requires as a condition for such Non-US Holder to be subject to US taxation on a net income basis in respect of income from GDRs), in which case the Non-US Holder generally will be subject to tax in respect of such dividends in the same manner as a US Holder. In addition, if such Non-US Holder is a foreign corporation, it may be subject to a US branch profits tax equal to 30% of its effectively connected earnings and profits for the taxable year, as adjusted for certain items, unless a lower rate applies under an applicable income tax treaty.

Sale or Exchange of GDRs

US Holders

Subject to the discussion below under “—Passive Foreign Investment Company considerations”, upon a sale or other disposition of GDRs, a US Holder will recognise gain or loss for US federal

income tax purposes in an amount equal to the difference between the US Dollar value of the amount realised and the US Holder's adjusted tax basis (determined in US Dollars) in such GDRs. Generally, such gain or loss will be capital gain or loss, will be long-term capital gain or loss if the US Holder's holding period for such GDRs exceeds one year, and will be income or loss from sources within the United States for foreign tax credit limitation purposes. For non-corporate US Holders, the United States income tax rate applicable to net long-term capital gain currently will not exceed 15%. The deductibility of capital losses is subject to significant limitations. Capital gains of a US Holder will generally constitute US source income and as a result of the US foreign tax credit limitation, foreign taxes, if any, imposed upon capital gains in respect of GDRs may not be currently creditable. Subject to certain conditions, a capital loss recognised by a US Holder will generally be allocated against US source income for foreign tax credit purposes.

With respect to the sale or exchange of GDRs, the amount realised generally will be the US Dollar value of the payment received determined at the spot rate of exchange on the date of disposition (or, if the GDRs are traded on an established securities market and the US Holder is a cash basis or an electing accrual basis US Holder, the settlement date). A US Holder will have a tax basis in the foreign currency received equal to the US Dollar amount realised. Any currency exchange gain or loss realised on a subsequent conversion of the foreign currency into US Dollars for a different amount generally will be treated as ordinary income or loss from sources within the United States.

Non-US Holders

Except for the possible imposition of US backup withholding tax (see “—Backup withholding and information reporting”), a Non-US Holder will not be subject to US federal income tax in respect of gain recognised on a sale or other disposition of GDRs unless (i) the gain is effectively connected with the conduct of a trade or business in the United States by such Non-US Holder (and is attributable to a permanent establishment maintained in the United States by such Non-US Holder if an applicable income tax treaty so requires as a condition for such Non-US Holder to be subject to US taxation on a net income basis in respect of gain from a sale or other disposition of the GDRs) or (ii) in the case of a Non-US Holder who is an individual, such holder is present in the United States for 183 or more days in the taxable year of the sale and certain other conditions apply. In addition, if such Non-US Holder is a foreign corporation, it may be subject to a US branch profits tax equal to 30% of its effectively connected earnings and profits for the taxable year, as adjusted for certain items, unless a lower rate applies under an applicable income tax treaty.

Passive Foreign Investment Company Considerations

A Non-US corporation will be classified as a “passive foreign investment company,” or a PFIC, for US federal income tax purposes in any taxable year in which, after applying certain look-through rules, either:

- at least 75% of its gross income is “passive income” (generally, dividends, interest, royalties, rents and gains from the sale of assets that give rise to such income); or
- at least 50% of the average value of its gross assets is attributable to assets that produce “passive income” or are held for the production of passive income.

Based on the Company's existing operations and assets, the Company believes that it is not currently a PFIC. Depending upon the future value of the Company's real estate assets, there is a substantial risk that the Company might be treated as a PFIC in subsequent years. If the Company is not operated in the manner currently anticipated, however, the Company may be considered a PFIC for the current or for a subsequent year depending upon the Company's actual activities and assets.

If the Company were treated as a PFIC, a US Holder would be subject to special rules with respect to (i) any gain realised on the sale or other disposition of GDRs and (ii) any “excess distribution” by the Company to the US Holder in respect of the GDRs (generally, any distributions to the US Holder in respect of the GDRs during a single taxable year that total more than 125% of the average annual distributions received by the US Holder in respect of GDRs during the three preceding taxable years or, if shorter, the US Holder's holding period for the GDRs). Under these rules, (a) the gain or excess distribution would be allocated ratably over the US Holder's holding period for the GDRs, (b) the amount allocated to the taxable year in which the gain or excess distribution was realised or to any year before the Company became a PFIC would be taxable as ordinary income, (c) the amount allocated to each other taxable year would be subject to tax at the highest tax rate in effect for ordinary income for that year and (d) an interest charge generally

applicable to underpayments of tax would be imposed in respect of the tax attributable to each such prior year. These rules effectively prevent a US Holder from treating gain on the GDRs as capital gain. If the Company were a PFIC in any year during a US Holder's holding period, it would generally be treated as a PFIC for each subsequent year.

A US Holder may be able to avoid some of these adverse tax consequences but only if (i) the GDRs are "marketable stock" and the US Holder elects to annually mark-to-market the GDRs or (ii) the US Holder makes a qualified electing fund ("QEF") election to include in income annually its share of the income and gain of the Company, whether or not distributed, and the Company makes information necessary for a QEF election available to its US Holders. A US Holder can elect to mark the GDRs to market only if the GDRs are traded in more than de minimis quantities on at least 15 days during each calendar quarter. The Company does not know, however, whether its GDRs will be marketable stock and, therefore, does not know whether a mark-to-market election will be available. The Company does not expect to provide information necessary to make a QEF election.

US Holders should consult their tax advisers concerning the US federal income tax consequences of holding GDRs and of making the mark-to-market election, if the Company were considered to be a PFIC. A US Holder that owns GDRs during any year that a Company is a PFIC must file IRS Form 8621.

Backup Withholding and Information Reporting

Dividends on and proceeds from the sale, redemption or other disposition of GDRs made within the United States, or by a US payor or US middleman, to a holder of GDRs generally will be reported to the US Internal Revenue Service unless the holder is a corporation or otherwise establishes a basis for exemption. Backup withholding may apply to amounts subject to reporting if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. The backup withholding tax rate is currently 28 per cent. Any amounts withheld under the backup withholding tax rules will be refunded or allowed as a credit against the US Holder's US federal income tax liability provided the required information is furnished to the Internal Revenue Service.

The Republic of Kazakhstan

The following summary is intended as a general guide to current Kazakh tax law and practice (both of which are subject to change at any time, possibly with retrospective effect) in respect of the taxation of capital gains and the taxation of dividends paid by us. They relate only to persons who are beneficial owners of the GDRs (the "Holders"). The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of the GDRs, and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules. Investors should consult their professional advisers on the tax consequences of their acquiring, holding and disposing of the GDRs, including their eligibility for the benefits of double tax treaties, under the laws of their country of citizenship, residence, domicile or incorporation, and seek specialist Kazakh tax advice as necessary.

This summary discusses the Kazakhs tax consequences of ownership and disposal of the GDRs. In general, Kazakh tax legislation with respect to the taxation of the GDR is not well developed, and in many cases the exact scope of Kazakh taxes is unclear and/or open to different interpretations.

The only tax that under certain circumstances may apply in Kazakhstan to the holders of GDRs is income tax. No other taxes or duties should be levied in Kazakhstan with respect to the above transactions.

Tax Residence

The Kazakh income tax consequences of ownership and disposal of the GDRs will depend on whether the GDR holder in question is deemed to be tax resident in Kazakhstan. An individual is considered tax resident in Kazakhstan when he/she is permanently residing in Kazakhstan, has a centre of vital interests in Kazakhstan or meets certain other tests. An individual is generally considered as permanently residing in Kazakhstan if he/she is present in Kazakhstan for at least 183 calendar days in any consecutive twelve-month period ending in the current tax period. The centre of vital interests is considered to be located in Kazakhstan if an individual meets all of the following three conditions: (i) he/she is a citizen of Kazakhstan or a holder of a Kazakh permanent residency

permit; (ii) his/her family or close relatives reside in Kazakhstan; and (iii) he/she or his/her family has rights to immovable property in Kazakhstan which is available for residence. Certain other categories of individuals may qualify for Kazakh tax residency in accordance with the laws of Kazakhstan.

A legal entity is considered a resident for Kazakh tax purposes when it is established in accordance with the laws of Kazakhstan or has its actual governing body (place of effective management) in Kazakhstan.

Non-residents will not become resident in Kazakhstan for Kazakh tax purposes by reason only of the acquisition, ownership or disposal of the GDRs.

Taxation of Capital Gains

Kazakh residents

Capital gain arising as a result of a disposal of GDRs by an individual holder who is a tax resident of Kazakhstan is subject to individual income tax at the rate of 10 per cent.

A disposal of GDRs resulting in a capital gain by a corporate holder of GDRs which is a tax resident in Kazakhstan is subject to corporate income tax at the rate of 30 per cent.

Non-Kazakh residents

Since Kazakh domestic tax law does not recognise the concept of constructive or beneficial ownership, income earned by non-resident holders of GDRs (both individual and corporate) on disposals of the GDRs is generally not subject to Kazakhstan income tax.

However, Kazakh tax law defines all income which may be taxed in Kazakhstan under applicable double taxation treaties as income from a Kazakh source. Since certain double tax treaties entitle Kazakhstan to tax a disposal of GDRs under certain circumstances, GDR holders resident in respective countries may be subject to Kazakh tax on such income. Due to the lack of existing precedent or practice, it is not possible to provide an assessment of the likelihood of a challenge by the Kazakh tax authorities or the probability of its success.

If income earned by GDR holders on disposal of the GDRs is brought within the Kazakh tax net by application of a double taxation treaty, then capital gain earned on disposals of the GDRs may be subject to Kazakh tax at the rate of 20 per cent.

It should be noted that the above discussion applies only where GDR holders do not carry out their activities in Kazakhstan through a permanent establishment in Kazakhstan and where ownership and disposal of the GDRs is not related to activities carried on by the holders through the permanent establishment. Should this not be the case, non-resident individuals will be taxed at 10 per cent. of the capital gain derived on disposal of the GDRs whereas non-resident legal entities will be subject to 30 per cent. corporate income tax on such gain (as well as 15 per cent. tax on net income of the permanent establishment). A permanent establishment is generally defined as any permanent place of business activity, including an office, provision of services for a certain period of time, and a dependent agent with contract signing power.

Taxation of Dividends

Kazakh residents

The tax consequences applicable to premiums received by GDR holders (associated with dividends announced with respect to Shares represented by such GDRs) are not clearly regulated by Kazakh tax law. The tax authorities may characterise such premiums as dividends for tax purposes. If so, individual residents will be subject to 5 per cent. income tax whereas resident corporate GDR holders will not be subject to income tax on the distribution.

However, it is more likely that the tax authorities will not support the characterisation of a premium as a dividend. In such cases, individual residents will be subject to 10 per cent. income tax whereas resident corporate GDR holders will be subject to 30 per cent. corporate income tax on the premium.

Non-Kazakh residents

Since Kazakh domestic tax law does not contain the concept of constructive or beneficial ownership, premiums received by GDR holders (associated with dividends announced with respect to Shares represented by such GDRs) appear to be outside the scope of Kazakh income tax. Thus, premiums received by GDR holders in relation to dividends that have already been taxed in Kazakhstan should not be subject to any further tax or compliance requirements in Kazakhstan. This assumes, however, that the GDR holders do not have a permanent establishment in Kazakhstan which is related to the GDRs.

As far as dividends payable in Kazakhstan are concerned, non-resident corporations are subject to withholding tax at the rate of 15 per cent. The withholding tax rate with respect to non-resident individuals is not entirely clear under applicable Kazakh law, although non-resident individuals would be taxed at between five and 15 per cent. Kazakhstan is considering adopting legislation that will remove this uncertainty and will provide that the withholding tax rate in relation to non-resident individuals is 15 per cent. The withholding tax is applied to the gross amount of dividends without allowance for any deductions and satisfies all Kazakh income tax obligations with respect to dividends. The GDR holders should not be subject to any other tax reporting, payment, registration or compliance requirements with respect to dividends paid in Kazakhstan.

Beneficial owners of dividends who are resident in countries with which Kazakhstan has double taxation treaties may be entitled to a reduced rate of withholding tax. Please note that for treaty purposes the respective GDR holders, rather than the issuer of GDRs, may be considered to be the beneficial owners of dividends paid with respect to Shares represented by GDRs. However, there is no practical experience of which we are aware in Kazakhstan in relation to this question, and so the issue, and its consequences for double taxation relief, are not determinable with certainty at present, though the maximum Kazakh tax withheld should, in any case, not exceed 15 per cent.

Subject to the above, depending on the country of residence and satisfaction of certain other conditions, the withholding tax rates under Kazakhstan's double tax treaties in effect as of the date of this prospectus in relation to dividends payable in Kazakhstan may be between 5 per cent. and 15 per cent. Under double taxation treaties effective on the date of this prospectus, reductions below 10 per cent. may only be available to beneficial owners that are legal entities.

In order to apply the reduced rate of dividend withholding tax under applicable double taxation treaties, eligible beneficial owners of dividends have to provide the company paying dividends in Kazakhstan with a document issued by the tax authority of their country of residence confirming their tax residence in a treaty jurisdiction. In addition, the GDR holders will need to provide the payer of the dividends with documentary proof of their beneficial ownership. On the basis of the above documents, the payer may be entitled to withhold tax at an applicable reduced rate established by a relevant treaty.

If the above documents are not made available to the payer of dividends in Kazakhstan prior to the date of payment of dividends, then the payer should apply withholding tax at a standard 15 per cent. rate and transfer the withheld amounts to the Kazakh state budget. In theory, beneficial owners who are eligible for a lower withholding tax rate should later be able to claim a refund of overpaid tax from the Government. In practice, however, this process may prove to be administratively burdensome due to a general reluctance of the Kazakh authorities to grant refunds.

SUBSCRIPTION AND SALE

Under the terms of, and subject to, the conditions contained in an underwriting agreement dated 18 July 2007 (the “Underwriting Agreement”) entered into among the Company, the existing shareholders and the Lead Manager, the Lead Manager named below has to procure purchasers for, or failing which, itself to purchase, at the Offer Price, 48 million Shares, in the form of GDRs. The Company has agreed to make available, at the Offer Price, to the Lead Manager, such number of Shares in the form of GDRs.

The Underwriting Agreement provides that the obligations of the Lead Manager to purchase the GDRs are subject to approval of legal matters by counsel and to other conditions.

We will pay to the Lead Manager customary commissions in connection with the Offer.

The Lead Manager proposes to resell the GDRs at the Offer Price set forth on the cover page of this prospectus outside the United States in reliance on Regulation S and in the United States to qualified institutional buyers as defined in, and in reliance on, Rule 144A. The price at which the GDRs are offered may be changed at any time without notice.

The GDRs have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of trading, an offer or sale of GDRs within the United States by a dealer that is not participating in this Offer may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with an exemption from the registration requirements under US securities laws.

The Company has granted to the Lead Manager an option, for 30 days from the date of the announcement of the Offer Price, to purchase up to 7 million additional GDRs at the Offer Price. The Lead Manager may exercise the option solely for the purpose of effecting stabilisation.

We and the existing shareholders have agreed that, for a period of 360 days from the date of this prospectus, we and they will not, without the prior written consent of Lead Manager, dispose of or hedge any GDRs, Shares or any securities convertible into or exchangeable for our GDRs. The Lead Manager in its sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

The Underwriting Agreement is subject to a number of closing conditions, including the accuracy of representations and warranties given by the Company and the delivery of customary opinions, and contains termination rights for the Lead Manager if one of a specified list of events occurs, including material adverse changes in financial, political or economic conditions.

Prior to the Offer, there has been no public market for our GDRs. Consequently, the Offer Price for the GDRs was determined by negotiations between us and the representatives of the Lead Manager.

We have applied to list the GDRs on the London Stock Exchange. However, we cannot assure you that the prices at which the GDRs will sell in the market after the Offer will not be lower than the initial Offer Price or that an active trading market for the GDRs will develop and continue after the Offer. The Lead Manager has advised us that it currently intends to make a market in the GDRs. However, it is not obligated to do so and it may discontinue any market-making activities with respect to the GDRs at any time without notice. Accordingly, we cannot assure you as to the liquidity of or the trading market for the GDRs.

In connection with the Offer, the Lead Manager may purchase and sell GDRs in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilising transactions. Over-allotment involves sales of GDRs in excess of the principal amount of GDRs to be purchased by the initial purchasers in the Offer, which creates a short position for the initial purchasers. Covering transactions involve purchases of the GDRs in the open market after the distribution has been completed in order to cover short positions. Stabilising transactions consist of certain bids or purchases of GDRs made for the purpose of preventing or retarding a decline in the market price of the GDRs. Any of these activities may have the effect of preventing or retarding a decline in the market price of the GDRs. They may also cause the price of the GDRs to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The initial purchasers may conduct these transactions in the over-the-counter market or otherwise. There

is no assurance that stabilisation transactions will be undertaken, and if the initial purchasers commence any of these transactions, they may discontinue them at any time.

We expect to deliver the Shares and GDRs against payment on or about the date specified on the cover page of this prospectus, which will be the third business day following the date of the pricing of the GDRs. Since trades in the secondary market generally settle in three business days, purchasers who wish to trade GDRs on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the GDRs initially will settle in T+3, to specify alternative settlement arrangements to prevent a failed settlement.

The initial purchasers have performed investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The initial purchasers may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business.

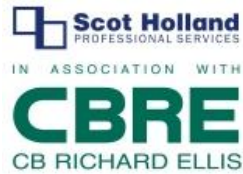
We have agreed to indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the initial purchasers may be required to make because of any of those liabilities.

PROPERTY VALUATION REPORTS

This section contains the Valuation Reports relating to our properties prepared by the Valuer, Scot Holland in association with CB Richard Ellis. As noted in the Valuation Reports, the Valuer has valued each property based upon its determination as to the estimated amount for which the property should exchange on the date of the valuation between a willing seller and a willing buyer in an arm's length transaction after proper marketing between parties acting knowledgeably, prudently and without compulsion. This determination was based on the Valuer's analysis of recent sales of similar land in the Almaty region. It includes a number of assumptions and judgments, including the Valuer's assessment as to the desirability of the comparative properties to our property.

The values included in the Valuation Reports should not be taken as an indication of the proceeds that we could achieve in the sale of any of our properties. In addition, the use of different assumptions or valuation models may result in different valuation for these properties.

The market values in the Valuation Reports are as of 24 May 2007 for one property and as of 25 May 2007 for the other. These values do not reflect any changes since that date relating to market conditions, to our properties or to the comparative properties. Accordingly, the Valuation Reports do not take into consideration the construction and development works carried out at the properties since that date. We do not believe that there have been any material changes since the date of the Valuation Reports. We do note, however, that construction work is continuing at our properties in the ordinary course.



INDEPENDENT APPRAISAL REPORT

**Of a land plot located in
Almaty Oblast, Karasaiskiy Region,
Boraldai Village
(Southern land plot)**

***On behalf of
Kazakhstan Kagazy PLC***

Effective Date: 25th May, 2007

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Land Plot Market Value Appraisal

Dear Sirs,

We have the honour of presenting an independent appraisal report on the full valuation of the referenced property (a land plot). The objective of this appraisal is to express our opinion on the market value of the property as of the 25th of May 2007, i.e. the actual date of the valuation. The enclosed report includes data, research, analysis and other conclusions of the appraisal. The present report is prepared according to International Valuation Standards, RICS and the Law of the Republic of Kazakhstan "On Evaluative Activity". This report is prepared by an appraiser licensed in Kazakhstan. Our opinion on the market value is based on the Allowances and Limiting Conditions contained in this report.

On the basis of the analysis and recommendations in the enclosed report, and on assumptions of assessments, allowances and limiting conditions described in this report, in our opinion the market value of this privately owned property (land plot) with an area of **61.7 hectares**, as of the 25th of May 2007, is equal to:

\$75,150,600 (seventy five million one hundred fifty thousand six hundred US Dollars).

The exchange rate used on this date is KZT 121.00 per USD \$1

Should you have any questions or comments, please contact the appraiser directly. We appreciate the opportunity to serve you.

The valuation figure presented in this report is different from the value included in the last audited accounts, which was based on an earlier valuation of the property prepared by another appraiser applying the highest and best use methodology rather than a comparative methodology.

Sincerely,

President Roger Holland

Appraiser Mikhail Dolbilin

1. GENERAL

1.1 Statement of Appraisal Task and Summary

Customer	KAZAKHSTAN KAGAZY
The Object of Valuation	A single land plot with an area of 61.7 ha, partially developed.
Location of the property:	Almaty Oblast, Karasaiskiy Region, Boralday Vil., near Efes Brewery. The land is 12 km from the city centre.
Purpose of the Valuation:	Statement of the market value of the property to make administrative decisions.
Effective Date of the Report:	25 th May, 2007
Standards Applied	The work was performed in accordance with International Valuation Standards, RICS, the Law of the Republic of Kazakhstan "On Evaluative Activity" and the International Property Valuation Standards Committee, IVS1, IVS3, IV1. SGVCP (Standard on General Valuation Concepts and Principles) were used.
Form of the Report	Written form, integral report
Valuation Schedule	from the 23rd May to the 30th May, 2007
Documents Provided	Copies of layouts of some land plots.
Area of the Land Plot	61.7 ha
End Use	Industrial/logistics development
Restrictions on Use of the Land Plot and Encumbrances	None
Divisibility of the Land Plot	Divisible
Cadastral Number of the Land Plot	N/A (for the combined land plot)

Date of the appraisal: The appraisal was conducted on the 25th of May, 2007, and this date coincides with the inspection date. The date of appraisal suggests the date of valuation of the land plot as of the date mentioned.

The date of rating value use is the 25th of May, 2007. The exchange rate used on this date was KZT 121 per USD \$1.

1.2 Results and Conclusions of the Appraisal

Applied Value Indication:	Market Value
Results of the market value calculation using three approaches:	
<ul style="list-style-type: none"> • Comparative approach • Income approach • Replacement cost approach 	<p>\$75,150,600</p> <p>Not used</p> <p>Not used</p>
Market value on the 25 th May, 2007	\$75,150,600 (seventy five million one hundred fifty thousand six hundred US Dollars)

1.3 Application (Certificate) of Appraisal Quality

The appraiser, signatory of this report, (hereinafter referred to as the "Appraiser") hereby affirms that in accordance to available data:

1. All facts presented in this report are verified, accurate and represent reality.
2. Presented analysis, opinions and conclusions are limited only by my assumptions, existing limiting conditions and allowances, which comprise part of this report and represent my personal unprejudiced professional opinions.

3. The Appraiser does not have any personal interest in the property that is the object of this report either at present or in the future. He is not related and does not have any personal interest or prepossession with respect to the people, who are owners of the property on the effective date of this report or who intend to have commerce with it.
4. Appraiser service payment is not related to conditional or a pre-determined value or property evaluative activity favorable to a client's interests; with the amount of the appraised property value; with setting of stipulated events or with occurrence of subsequent ones; and with engaging in property business.
5. The valuation was carried out and the report was drawn up in accordance with International Valuation Standards, RICS and the Law of the Republic of Kazakhstan "On Evaluative Activity".
6. Appraiser and other employees of our company carried out a personal inspection of the appraised property.
7. When analyzing data, no person not working for our Company provided any significant support to the Appraiser, the signer of this report.

1.4 Allowances and Limiting Conditions

The Valuation Quality Certificate included with this report is limited by the following conditions:

1. In drawing up this report, the Appraiser accepted the authenticity of available documents received from the Owner.
2. The Appraiser is not responsible for the legal description of the property rights, the authenticity of which has been assumed to be in accordance with the Owner's verbal information. These property rights are rated as free of any preventive elements or limitations except those mentioned in the report.
3. Diagrams and drawings, if presented in this report, are approximate and intended only to give the user a pictorial representation of the appraised property (in this case the land plot) and should not be used for any other purpose. The Appraiser did not measure the land plot and relied solely on the accuracy of source information from the Owner.
4. The Appraiser is not required to appear in court or as a witness in connection with this report or appraised property (the land plot), except if formally subpoenaed by a court.
5. The Appraiser assumes the absence of any concealed defects in the land plot and the property that could influence the value of the property, except as stipulated in this report. The Appraiser is neither responsible for existence of any concealed facts nor for the necessity to discover them.
6. Source data, used by the Appraiser in this report, were received from reliable sources and considered authentic. Nevertheless, the Appraiser cannot guarantee their absolute trustworthiness, and, therefore, there are references to sources where necessary.
7. Neither the Client nor the Appraiser can use this report for any other purpose other than that specified in the Valuation Contract.
8. The opinion of the Appraiser on the market value is valid only as of the date of the appraisal. The Appraiser does not assume responsibility for subsequent changes in social, economic, legal and natural conditions that could have an influence on the property value.
9. The Valuation Report includes the professional opinion of the Appraiser on the property (land plot) value and is not a guarantee that the property could be sold at a price equal to the value stated in this report.

10. Information about the latest tenders and sales of land neighboring the appraised property was obtained from publicly available sources. Calculation of the commercial value was carried out on the basis of average discounts, and on the basis of data relating to properties and land selling in Almaty.

1.5 Appraiser's Qualification

The author of this report has substantial professional expertise in the sphere of property appraisal. His Educational and Professional Certificate and License are presented in the Appendix

1.6 Purpose of the Appraisal

According to information received from the owner, we are aware that the owner intends to use the results of this Appraisal Report to make administrative decisions. We understand that the Appraisal Report is also required for inclusion in a prospectus which investors will rely on in making their decision to invest in Kazakhstan Kagazy PLC.

1.7 Aim and Date of the Appraisal,

The aim of this valuation is to express an opinion on the market value of the property as of the date of appraisal – the 25th of May, 2007. Until another opinion is expressed, all factors relating to the appraised value are considered as of the stated date.

2. VALUATION METHODOLOGY

The value of the property reported herein is market value, which is the most probable price at which the property could be sold on the appraisal date without additional conditions, based on the following assumptions:

- Seller and Buyer are ready to conclude a purchase;
- Before the appraisal date, a sufficient period of time has passed in order to carry out an appropriate marketing survey of the property rights, to agree on price and conditions and consummate change of ownership through sale;
- Market conditions, prices levels and other circumstances of any other earlier dates of sale were substantially the same as on the valuation date;
- Seller and Buyer have a typical motivation, so additional offers made by a possible buyer with a special interest are not taken into consideration; and
- Both parties act skillfully, prudently and in an unconstrained manner.

Determination of the market value of a land plot is based on the following principles:

Utility Principle— those land plots have a market value which is satisfactory for the requirements of the user (potential user) during a certain period.

Demand and Supply Principle — the market value of a land plot is formed as a result of the interaction of supply and demand in the market and the specifics of sellers' and buyers' competitiveness.

Usually demand is characterized by what buyers are ready and able to buy at current market value during a certain period. Supply is characterized by what is currently offered for sale in the market for a certain price. The Supply and Demand ratio defines a price level in a balanced land market.

Three possible conditions of the supply and demand ratio are possible:

- Demand is in equilibrium with supply as a result of market transactions and reasonable market prices for properties are formed;
- Demand is outgrowing supply, prices are growing in the market, speculative prices are formed, the danger of protectionism and corruption increases, which may lead to a market collapse; and
- Supply exceeds demand, and there is a resultant drop in prices, market stagnation appears.

In countries with balanced market economics, these conditions replace each other depending on factors related to general economic conditions as well as social, demographic as well as other influences.

In a situation where there is an unbalanced ratio, often found in transitioning economies such as Kazakhstan, Russia and other CIS countries, as a rule, this principle does not have significant influence because demand and supply are regulated to a great extent, often owing to considerable under pricing in the supply of land plots.

Replacement Principle — market value of a land plot cannot exceed the most probable cost of purchasing a property of equal utility. With this principle, it is presumed that there are options for a buyer, i.e. the value of a property (land plot) depends on whether there are similar properties which could replace the given one. This principle shows that the value of this property shall not exceed the cost of purchasing a similar property (land plot) in the market. Consequently, the value of a certain land plot is defined by the lowest price for which a similar land plot (with the same general characteristics, including utility and profitability) can be purchased.

Market value varies with time and is defined on a certain date (the date of appraisal) – in this case, on the 25th of May, 2007.

3. APPRAISAL

In this section we took the following steps to gather, confirm and analyze the respective data.

- We conducted a physical inspection of the land plot on 25 May, 2007 and its surrounding territory.
- We gathered factual information on the property and on comparable properties; this information was confirmed using different sources.
- We gathered, confirmed and analyzed the information using the comparative method. Available data was not sufficient to use the income and replacement cost methods on the date of appraisal.
- We prepared the appraisal report which includes conclusions and analysis of the information the conclusions are based on.

We have made allowance for the possibility for a reasonable change in stated value, in case competent and relevant information is received that was not presented on the appraisal date.

This independent report presents an overall appraisal that meets all the requirements of the International Valuation Standards Committee and the regulations of the Law of the Republic of Kazakhstan “On Evaluative Activity”.

4. OVERVIEW OF ALMATY

Almaty is a large city comprising a territory of 324.8 sq. kilometers and a population of 1,287,000 people as of 1 January 2007. 58 percent of the population is between 20 and 59 years of age. The population of the suburban area is more than one half million. Almaty and the Almaty region is a centre of migration from other regions of Kazakhstan and nearby foreign countries.

The number of permanent residents of Almaty has been decreasing over the last several years, but the rate of decrease has slowed lately.

At the same time, the volume of investment in capital construction for the last few years has been stable and has even increased. In January to October 2004 and in 2005 industrial production increased in comparison with the previous year. Moreover, in the second half of 2005, the physical volume index (a relative ratio characterizing changes in the volume of industrial materials produced) in the city was higher than the same index in the whole of Kazakhstan. In Almaty, the population differentiation, in terms of income, continues to develop.

However, it should be mentioned that in Almaty the level of personal income is several times higher than the average rate for the whole of Kazakhstan.

Furthermore, this region is a leader in attracting investments and registration of companies with foreign capital. Almaty attracts foreign investors due to: a comparatively mature legislative base; the relatively high attraction of foreign capital in comparison with other regions of Kazakhstan; and a comparatively high level of transport infrastructure, in conjunction with the concentration of a qualified professional workforce.

On the 20th of June 2003 the Land Code of the Republic of Kazakhstan was adopted. According to this Code, land could be sold or leased as private property. Any legal entity or individual person, including a foreign entity, could be a buyer or a lessee. A buyer or a lessee is not entirely free in their choice of future land plot use. The sale of a land plot is tied to a fixed end use, i.e., the functional use of a land plot and the size of any future development is officially determined before the sale. Moreover, in case a land plot is not used in accordance with its pre-designated use, the lease agreement may be terminated or the land plot can be confiscated.

The lack of choice in the designated use of land is one of the drawbacks of land tenders held in Almaty. All land in the City, in accordance with the City's General Plan, is already pre-designated for a particular use; therefore, every land plot has its own allowable use. However, in the history of land auctions there have been cases in which land with a fixed use remained unsold, but where subsequently sold soon after the Almaty City Department of Land Management changed the use. However, changing the end use of a land plot is rather difficult and it requires high financial explicit costs.

A buyer of a land property right is entitled to use the associated land plot and to use it as any other asset: to pledge, to lease, to bequeath, and even to sell the land property right.

On the whole, we may assert that investment in land during this period of Kazakhstan's economic development is attractive, due to increasing land values.

5. DESCRIPTION AND ANALYSIS OF THE LAND PLOT

The following description is based on the results of the inspection conducted by our experts.

5.1 Physical Characteristics

<i>Plot Area</i>	617,000 sq m
<i>Configuration</i>	Polygon
<i>Topography</i>	Plain
<i>Drainage</i>	Appropriate

5.2 Danger of Environmentally Harmful Conditions

Assessment of environmental conditions is not within the scope of our expertise. In this case, a consultation by qualified specialists is required. In the process of our inspection there were no visible dangerous materials or conditions observed.

However, we would like to clarify that this "lower part" (away from the slope of the mountain range) of Almaty, where the land plot is located, is historically considered to be an environmentally less attractive area of the city because Almaty is situated in a kind of big natural 'bowl', (not unlike the topography in the Los Angeles basin).

This part of the city has poor airflow, relatively speaking. In addition, the majority of industrial facilities have, traditionally, been located in this area. However, although the environmental conditions here are not considered optimal, it is actually better than in the city center (except its higher part that has better ecological indications and, respectively, is considered as the most prestigious residential area). The city center suffers from current significant construction being undertaken and very heavy traffic which is made worse by poor airflow. As a result, city authorities have decided to transfer all industrial facilities to the dedicated zones (lower part), where the appraised property and the comparable land plots are located.

5.3 Soil Stability

We did not conduct a soil analysis, but we believe that the soil is stable in this region. In the process of the property inspection we did not observe any adverse conditions. To conduct a more thorough soil analysis, we recommend contacting qualified specialists.

5.4 Transport Access and Limitations

The land plot is located in the industrial district of the city, and, as we have already mentioned before, in a dynamic and steadily growing industrial development area. However, appropriate transportation related infrastructure is not yet in place. For instance, roads in this area are quite poor. There is a railway line nearby.

5.5 Servitudes, Impediments and Moratoria

We are not aware of any.

5.6 Encroachment (by owners of adjoining properties)

We are not in possession of the results of this investigation. However, we did not discover any visual indications of encroachment in the process of our inspection.

5.7 Utilities

The following utilities infrastructure is near (the utilities are not yet connected) the property: municipal centralized power supply, cold water supply, telephone lines and gas supply.

6. CONCLUSION ON DESCRIPTION OF THE LAND PLOT

The land plot appraised by us is located in the Karasaiskiy Region of Almaty. It is located in the "lower" (away from the rising slope towards the mountains) part of the city, where, traditionally, open fields and nearby collective farms (kolkhozes) and now private farms are located. This area has now been designated (zoned) for industrial development. The necessary utility infrastructure is in the process of being established and prices for land plots are expected to increase concurrently with active development which is now occurring. Therefore, one can come to the conclusion, that land plots in this area are an attractive investment.

6.1 Analysis of Highest and Best Use

Analysis of the highest and best use lets us determine the most profitable and competitive use for a property; the very use that presumes the highest possible property value. Analysis of the highest and best use consists of inspection of appropriate variants of use that conform to the following criteria:

Legal permission: variants of use, which are authorized by instructions for zoning, limitations of private initiative, regulations governing historical zones and environmental legislation.

Physical feasibility: physically possible variants of use in the region.

Financial feasibility: physically feasible or statute-permitted variants of use which will allow for acceptable profitability for the owner of the land plot.

Maximum efficiency: Financially feasible variant of use which will return maximum net profit or maximum current value.

Based on the fact that the end use for this land plot is pre-designated for industrial/logistic development, all other possible variants of this land plot development are currently illegal, and, if used for any other designation, would subject the land plot to possible confiscation. As such, we concluded that the highest and best use of this land plot is for industrial/logistic development.

7. APPRAISAL OF THE LAND PLOT / METHODS USED

Appraisal is implemented by taking into consideration all factors that essentially influence the property market as a whole and directly influence the value of the property. For appraisals, three methods are usually used:

- Replacement cost method;
- Comparative method; and
- Income method.

Theoretically, usage of all three methods would result in three different values for the same property and analysis of the different methods would result in the final value. In reality, however, there is not enough information about the local market to apply all three methods; therefore, we can only use the methods which are based on the most reliable information.

As we have already mentioned, the income and comparative methods are commonly used when determining land plot market value.

To use the income method it is necessary to forecast future data on profit from cash inflows, to allow for accuracy of results. If the information allowing for the comparative method is available, it is not necessary to use the income approach (for an empty land plot).

The replacement cost method is based on a calculation of expenditures associated with land use improvements. In this case, it is necessary to assess expenses related to the development and improvement and infrastructure of each land plot. We do not possess such data and the unavailability of this data would lead to inaccuracy of appraisal results. Therefore, we will not use the replacement cost method.

The comparative approach is used to appraise a property by comparing the latest sales prices of similar land plots in an operating market where comparable property is traded freely by both sellers and buyers making independent decisions. This approach is based on the substitution principle: a judicious buyer does not buy a property at a price which is higher than the price of a property of similar quality and profitability.

If all necessary data is available using the comparative approach, it is the most direct, systematic and realistic method for appraisals according to the International Valuation Regulations 1(IR1) from the International Valuation Standards (IVS – 2005, RICS).

Possessing sufficient information about sales of land plots of similar use within a certain period of time, the market sales comparative approach gives the most precise value of the land plot in the certain market. Since information about sales transactions in our market is usually not publicly available, it is possible to consider the seller's published offer price as a sale price (if there is no information on the latest sales transactions) by taking into account reasonable adjustments for subsequent price negotiations.

Conclusion: For valuation of this land plot, the comparative approach is applicable. The replacement cost and income approaches will not be used in this case due to the absence of data (this data is not provided by the owner) required enabling the use of these methods.

8. LAND PLOT VALUE ANALYSIS

To form an opinion on the investment value of the appraised land plot, we have gathered information on sales of similar land plots in the vicinity of the appraised land. Checking the data on the aforementioned sales of land, we chose several sales transactions as the best indicators of costs of the subject property.

In analyzing the data on the land sales, we chose a unit for appraisal based on 0.01 hectares. This unit of comparison is most frequently used by brokers, sellers and buyers in discussing land sale deals and considered as the most suitable for a property appraisal.

Data on comparable sales (seller's price) are shown in the following table. The sales are of comparable land plots to the land plot described herein:

No	Location	End Use	Area, ha	Utilities	Sales price, 0.01 ha, \$	Distance to the main road, m	Adjustment	Adjusted Price, \$
1.	Near Efes Brewery Evrokeramika Plant	Industrial/logistic development	7.5	Electricity, water, gas supply, railway line 300 m far. Connected to the land plot	13,000	300	3%	12,610
2.	Otegen Batyr Vil, Damu Complex	Logistic Complex, very big and, quality of the construction is good	130	Electricity, water and gas supply, digital communication, railway line. Connected to the land plot.	14,000	12,000	3%	13,580
3.	The region of Boralday, near the sugar refinery	Industrial/logistic development	2.7	Electricity, water and gas supply – nearby. 2 railway lines. Connected to the land plot. Dead-end siding	5,500	100	0% (sold)	5,500

8.1 Analysis and Sales Adjustment

Adjustments are usually used in quantitative or qualitative analysis, or in combination of the two. Quantitative adjustments are usually shown in terms of US dollars or percentages and are most useful when enough data from two-sided sales or statistical analysis is provided. Qualitative adjustments are used for relatively comparable properties (for instance when appraisals are significantly higher or lower) and often represent the most realistic method of reflecting the views of market participants when only limited information is available.

Adjustments are based on our classification of each comparable sale with respect to the appraised property. If a comparable property is valued higher than the appraised one, then the sales price is decreased in order to reflect a lower quality for an property; if a comparable property is valued lower than the appraisal property; the sales price is increased in order to reflect a higher quality for the property. Adjustments are considered in the elements of comparison discussed below.

Seller's Price instead of Sales Price

This adjustment is usually used in developing markets such as in Almaty, Astana, Atyrau, i.e. in Kazakhstan, if factual sales prices of comparable properties are not available. Under these circumstances seller's prices replace sales prices taking into account respective adjustments. Translations to commercial values are carried out on the basis of average discounts, and on the basis of data compiled by the company of land selling in Almaty. In this analysis the seller prices have been decreased by 3% in order to take into account possible decreases of prices during negotiation.

The discount of 3% on the large land plot is explained by the fact that, although these types and sizes of industrial plots are seldom available in the market today, the infrastructure is there but not connected as of yet.

Transfer of Real Property Rights

This adjustment is basically used to reflect transfer of rights when they differ from appraised rights, such as the difference between the property with full property rights and the property right for a leased property. There was no necessity to use this adjustment in the present analysis.

Financial Terms

This adjustment is used primarily for properties which are transferred together with standard financing, for example, transfer of an existing mortgage with a favorable interest rate. On the other hand, property might be encumbered with the above mentioned pledge, and where prepayment cannot be made or its amount is too large. This typical element of financing very often becomes an integral point of discussion when negotiating a sales price. There was no necessity to use this adjustment in the present analysis.

Terms of Sale

This category of adjustment reflects an exceptional interest by both the buyer and the seller to consummate a transaction. For example, it can be a purchase for speculative purposes, when increasing value or a quick sale for cash is taken into account. This category of adjustment can also reflect a sale forced due to various difficulties experienced by an owner, or a company which must liquidate their assets at non-market prices, or extra-ordinary, unforeseen costs for a buyer immediately after purchase.

There was no necessity to use such an adjustment in the present analysis.

Purchase Costs

This adjustment is made when the sale price is affected by the costs of the buyer after the purchase. For instance: sales commissions costs, payment of taxes and costs associated with demolition of old, existing construction and clearing for new developments.

There was no necessity to use such an adjustment in the present analysis.

Market Conditions Vary with Time

The value of the property usually changes with time. The rate of the change varies as a consequence of investors' perception of prevailing market conditions. This category of adjustments relates to the difference between the appraised property price on the factual date of appraisal and the comparable property price on the date of sale, in case there is a trend of either price increases or decreases.

There was no necessity to use such an adjustment in the present analysis.

Location

Location of a property essentially influences its value. This category of adjustment accounts for the impact on the market as well as accessibility and the view from a main road. It is difficult to make any adjustments here. Although the land plots are located in different places, they are all within the same industrial zone, in which every land plot is deemed to be promising.

There was no necessity to use such adjustment in the present analysis.

Size

Adjustment based on size depicts an existing peculiarity of the market: smaller plots are at advantage in comparison with larger plots from the point of view of an investor, because often such large land plots exceed an economically required size. However, too small land plots cannot be considered advantageous in terms of future development of logistic or industrial complexes (this area is zoned by city authorities for this use) and this is displayed in the adjustments (prices for comparable land plots are increased). Therefore, we suppose that medium-sized land plots are the most suitable for further development, and this is displayed in the adjustments.

Physical Characteristics

This category of adjustments usually reflects the differences between the appraised property and comparable properties taking into consideration configuration, existing utility infrastructure, various structures (land plot development) and topography. The appraised land plot's development can be compared to land plots №1 and №2, and is better developed when compared to the third land plot. The adjustments made are shown in the table (as we have already mentioned under – size adjustments). The relatively low price of the third land plot, which has utilities connected (utilities connection is the main expense for a land plot's development), is explained by the fact, that this industrial complex was built during the Soviet period and its owner, who sold it, did not invest any additional funds into the land plot development. The landscape of the third land plot is not flat and it has poorer access; no usable buildings remain there.

Use

This category of adjustments, as a whole, shows difference between the highest and best uses of the appraised property and comparable properties. There is no necessity to apply this adjustment in this analysis, because the designated use is similar for all of the land plots.

The adjustments have been made by expert methods and are displayed in below table;

Comparison elements	Unit, \$ per 0.01 ha	Appraised properties	№1	№2	№3
Total area	ha	61.7	7.5	130	2.7
Price	\$ 0.01 ha		12,610	13,580	5,500
Property right		Private ownership	Private ownership	Private ownership	Private ownership
Adjustment	%		0%	0%	0%
Adjusted price	\$		12,610	13,580	5,500
Terms of financing		Market	Market	Market	Market
Adjustment	%		0%	0%	0%
Adjusted price	\$		12,610	13,580	5,500
Terms of sale		Market	Market	Market	Market
Adjustment	%		0%	0%	0%
Adjusted price	\$		12,610	13,580	5,500
Date of sale		25.05.07.	25.05.07.	25.05.07.	10.05.07.
Adjustment	%		0%	0%	0%
Adjusted price	\$		12,610	13,580	5,500
Location		Near Efes Brewery	Near Efes Brewery	Otegen Batyr Vil.	In the region of Boralday
Adjustment	%		0%	0%	0%
Adjusted price	\$		12,610	13,580	5,500
Transport Accessibility		Good	Good	Good	Good

Adjustment	%		0%	0%	0%
Adjusted price	\$		12,610	13,580	5,500
<i>Physical characteristics</i>					
Size	ha	61.7	7.5	130	2.7
Adjustment	%		5%	0%	10%
Adjusted price	\$		13,240	13,580	6,050
Relief		Plain	Plain	Plain	Plain
Adjustment	%		0%	0%	0%
Adjusted price	\$		13,240	13,580	6,050
Shape		Irregular	Irregular	Irregular	Irregular
Adjustment	%		0%	0%	0%
Adjusted price	\$		13,240	13,580	6,050
Utilities		Finished Logistic Complex	Finished Industrial Complex	Finished Logistic Complex of very high quality	Industrial Complex requiring investment
Adjustment	%		0%	0%	20%
Adjusted price	\$		13,240	13,580	7,260
Ecology		Average	Average	Average	Average
Adjustment	%		0%	0%	0%
Adjusted price	\$		13,240	13,580	7,260
End Use		Industrial / logistics	Industrial / logistics	Industrial / logistics	Industrial / logistics
Adjustment	%		0%	0%	0%
Adjusted price	\$		13,240	13,580	7,260
Adjusted price for 0.01 hectare	\$		13,240	13,580	7,260
<i>For conclusions:</i>					
Whole net adjustment	%		8	3	30
Weighted ratio			4	4	2
Weighted average cost for 0.01 hectare	12,180				

Adjustments are based on our classification of each comparable sale in relation to the appraised property. If the comparable property is valued higher than the appraised property, the cost is adjusted downwards to show the relatively lower quality of the appraised property. When the opposite occurs, then the price is adjusted upwards to display the high quality of the appraised property.

The size of weighted coefficients is determined from reliable results received. After determining the adjusted pricing, we determined the average weighted cost of the appraised property by means of the comparative method:

$V = (13,240 \cdot 4 + 13,580 \cdot 4 + 7,260 \cdot 2) : 10 = \$12,180$ per 0.01ha, or $12,180 \cdot 6,170(0.01ha) =$ **\$75,150,600** in round figures for the whole land plot with an area of 61.7 ha.

Note

We would like to draw your attention to the fact, that the market value of the Kazakhstan Kagazy land plot determined by us as of 25 May 2007, was calculated using the comparative approach. The three following methods are used when appraising land plots: comparative approach, replacement cost approach, and income approach. Usually, when different approaches are used, the determined values differ, and later on, are balanced with the help of different weight ratios, which are referred to in these methods in accordance with the reliability of the data used.

During valuation, we did not have sufficient data available to use the income and replacement cost approaches, however we had enough information to use the comparative approach. When such data is available, the approach based on sales comparison is the most direct and systematic method of valuation (International Valuation Regulations 1(IR1) from the International Valuation Standards (IVS – 2005, RICS). Therefore, the value of the land plot, determined by using the comparative approach, will differ from the value determined earlier by the income approach, but we suppose that it (the value determined by using the comparative approach) reflects a price level for land in this area more accurately, because it is directly connected to the market data.

9. FINAL APPRAISAL OF THE LAND PLOT

Using different methods of the property appraisal we came to the following conclusions:

	Price, \$ per 0.01ha	Weight ratio
Income method-not used	-	-
Cost replacement method-not used	-	-
Comparative method	12,180	
Weighted Average Value (for the whole land plot)		\$75,150,600
Weighted Average Value (for the whole land plot)		KZT 9,093,222,600

The exchange rate on the date of the appraisal is KZT 121.000 per USD \$1.

Conclusion: the market value of the land plot with a total area of 61.7 hectares on the 25th of May 2007 is:

\$75,150,600 (seventy five million one hundred fifty thousand six hundred US Dollars).

10. ADDITIONAL ALLOWANCES AND LIMITING CONDITIONS

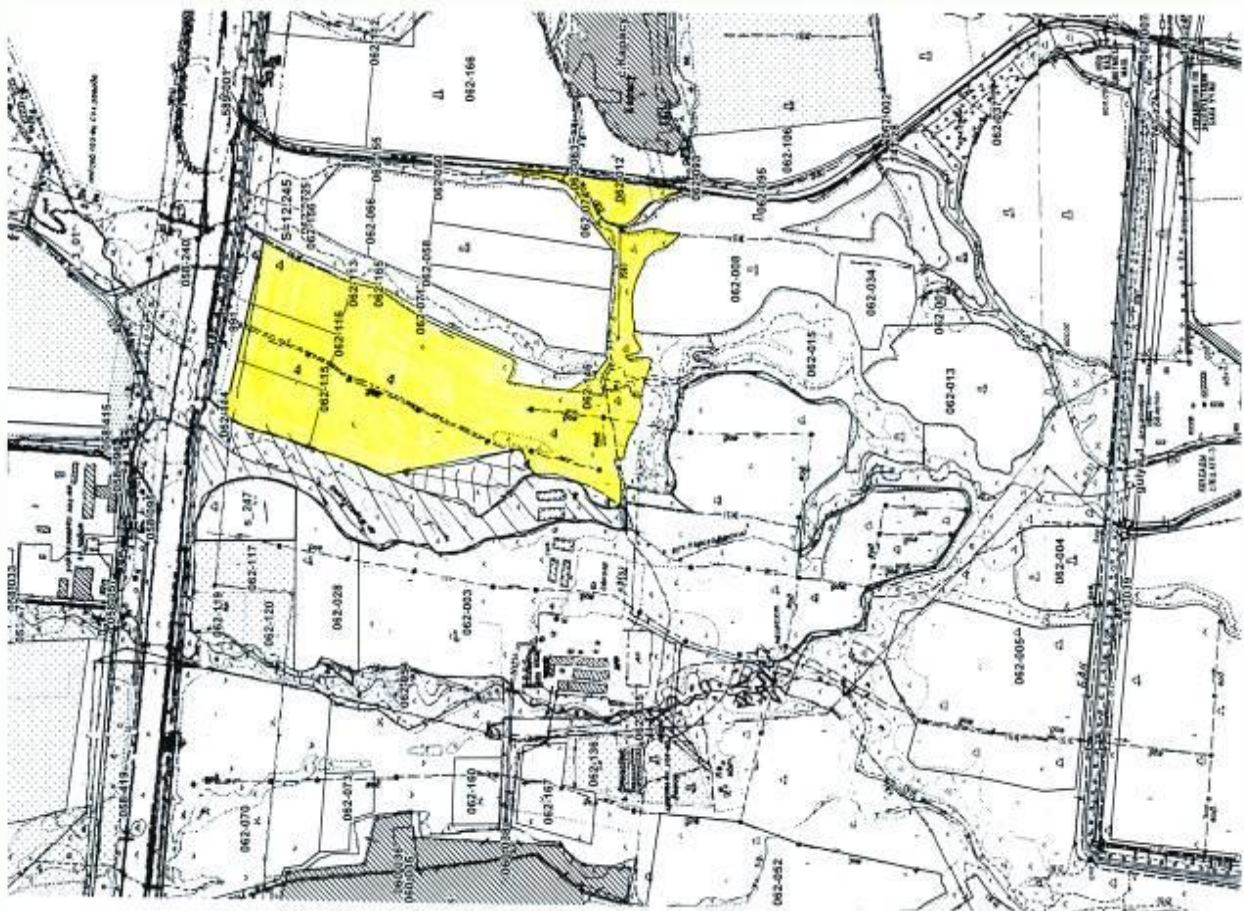
The following allowances and limiting conditions comprise an essential part of this Report:

1. This report is valid only as a whole and only for the purpose intended.
2. The Appraiser is not responsible for any legal description of property rights or requests concerning property rights consideration. Documented ownership rights of the appraised property are considered authentic. The appraised property is considered free of any limitations or claims except as stipulated in this report
3. The Appraiser is not obliged to present materials for review such as, pictures, plans, figures etc related to the property. All drawings included in this report are only meant to assist the reader in picturing the property
4. The Appraiser assumes the absence of any concealed defects in the land plot and the property that could influence the value of the property, except as stipulated in this report. The Appraiser is neither responsible for existence of any concealed facts nor for the necessity to discover them.
5. Information received by the Appraiser and contained in this report is considered authentic; the Appraiser cannot guarantee the absolute accuracy of the information
6. Neither the Client nor the Appraiser can use this report for any other purpose other than that specified in the Valuation Contract.
7. The Appraiser does not provide any additional consultations on this report and is not usable as to the appraised property, except for cases stipulated by additional agreements, i.e. the Appraiser is not required to appear as a witness on the appraised property, except if the Appraiser formally subpoenaed by court order.
8. The Appraiser's opinion on the market value of the property is valid only on the date of appraisal. The Appraiser takes no responsibilities for any changes in the economic and legal situation which could arise after the date of this report which could influence market conditions and subsequently affect the appraised value of the property.
9. This appraisal report includes the professional opinion of the Appraiser regarding the market value of the property, and does not represent any guarantee that free market price of this property will be equal to the property value indicated in this report.

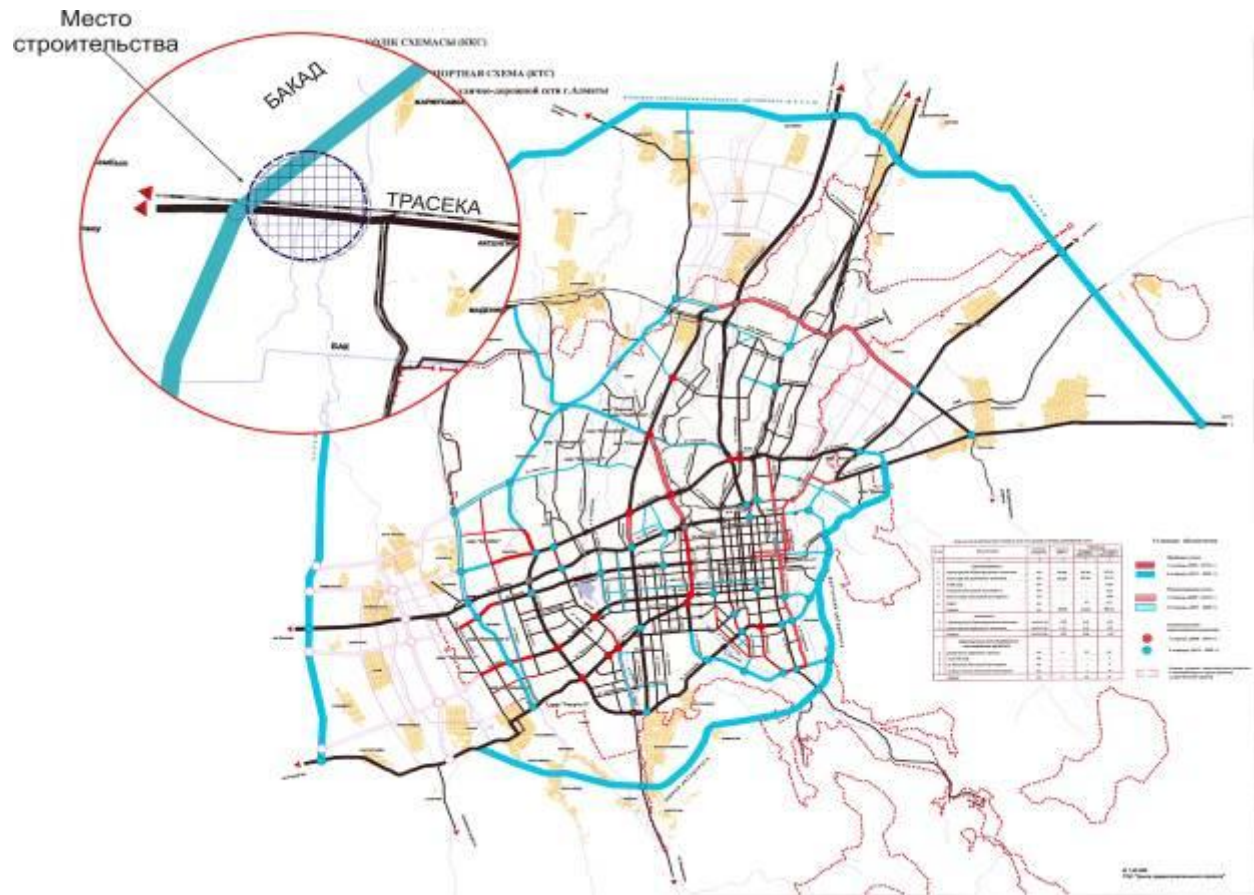
11. APPENDIX



Aerial photo: Southern land plot, 61.7 ha.



Map of southern land plot.



BAKAD – Proposed Almaty Ring road project and main roads



Warehouses on southern land plot.



Developed area of southern land plot



Warehouses under construction



Interior of warehouses under construction



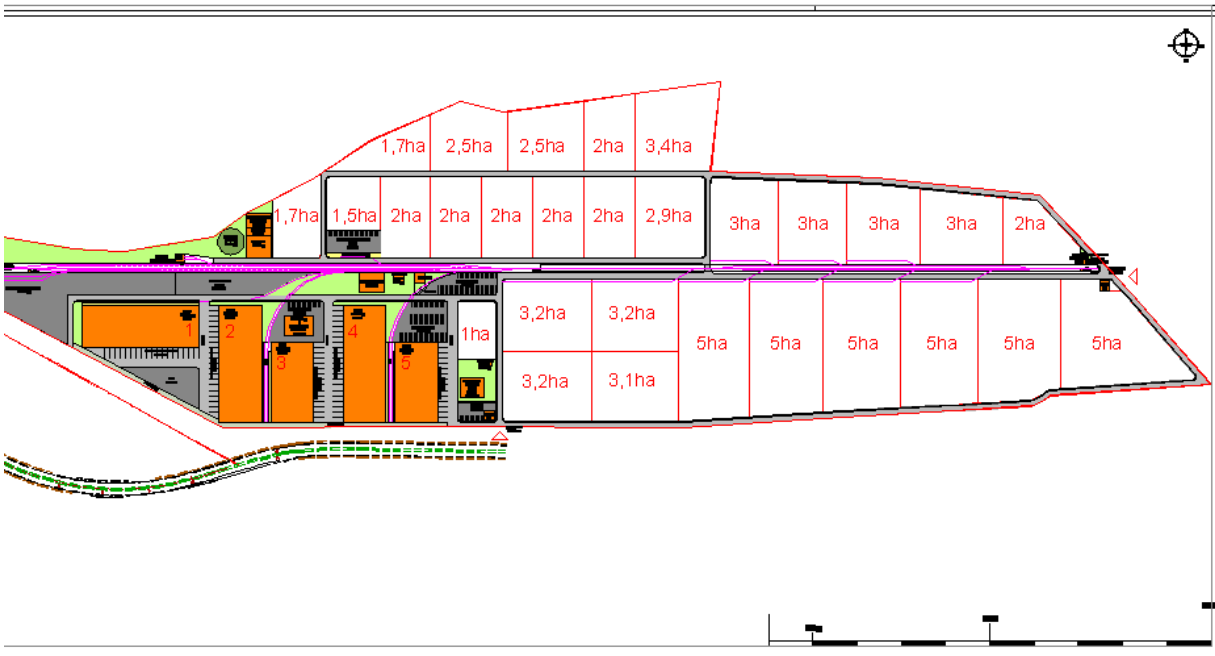
View from the land plot on the main railway



Railway leading to the warehouses



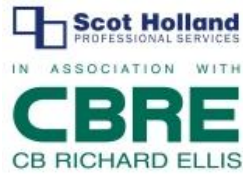
Damu Layout



Damu Industrial-logistic Complex Layout. Almaty-Kapchagaiy Route



Valuation License of the Company



INDEPENDENT APPRAISAL REPORT

**Of a land plot located in
Almaty Oblast, Karasaiskiy Region,
Boraldai Village
(Northern land plot)**

***On behalf of
Kazakhstan Kagazy PLC***

Effective Date: 24th May, 2007

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Land Plot Market Value Appraisal

Dear Sirs,

We have the honour of presenting an independent appraisal report on the full valuation of the referenced property (a land plot). The objective of this appraisal is to express our opinion on the market value of the property as of the 24th of May 2007, i.e. the actual date of the valuation. The enclosed report includes data, research, analysis and other conclusions of the appraisal. The present report is prepared according to International Valuation Standards, RICS and the Law of the Republic of Kazakhstan "On Evaluative Activity". This report is prepared by an appraiser licensed in Kazakhstan. Our opinion on the market value is based on the Allowances and Limiting Conditions contained in this report.

On the basis of the analysis and recommendations in the enclosed report, and on the assumptions of assessments, allowances and limiting conditions described in this report, in our opinion the market value of this privately owned property (land plot) with an area of **476.77 hectares**, as of the 24th of May 2007, is equal to:

\$214,547,000 (two hundred fourteen million five hundred forty seven thousand US Dollars).

The exchange rate used on this date is KZT 121.00 per USD \$1

Should you have any questions or comments, please contact the appraiser directly. We appreciate the opportunity to serve you.

The valuation figure presented in this report is different from the value included in the last audited accounts, which was based on an earlier valuation of the property prepared by another appraiser applying the highest and best use methodology rather than a comparative methodology.

Sincerely,

President Roger Holland

Appraiser Mikhail Dolbilin

1. GENERAL

1.1 Statement of Appraisal Task and Summary

Owner	KAZAKHSTAN KAGAZY
The Object of Valuation	A single raw (free of any structures) land plot with an area of 476.77 hectares consisting of a number of sub-divided land plots according to the documents. According to the Owner's representative, documents for consolidating the various land plots are in the process of final completion and preparation. Due to this current status, we have decided to value the land plots as one unit.
Location of the Property:	Almaty Oblast, Karasaiskiy Region, Boralday Vil., near Efes Brewery. The land is 13 km from the city centre.
Purpose of the Valuation:	Statement of the market value of the property to make administrative decisions.
Effective Date of the Report:	24th May, 2007
Standards Applied	The work was performed in accordance with International Valuation Standards, RICS, the Law of the Republic of Kazakhstan "On Evaluative Activity" and the International Property Valuation Standards Committee, IVS1, IVS3, IV1. SGVCP (Standard on General Valuation Concepts and Principles) were used.
Form of the Report	Written form, integral report
Valuation Schedule	from the 23rd May to the 30th May, 2007
Documents Provided	Copies of layouts of some land plots. According to the Owner's representative, the documents for the rest of the plots are being prepared.
Area of the Land Plot	476.77 ha
End Use	Industrial/logistic development (According to the Owner's representative, documents for change of end use from agriculture to industrial are being prepared and in the final stages of completion.)
Restrictions on Use of the Land Plot and Encumbrances	None
Divisibility of the Land Plot	Divisible
Cadastral Number of the Land Plot	N/A (for the combined land plot)

Date of the appraisal: The appraisal was conducted on the 24th of May, 2007, and this date coincides with the inspection date. The date of appraisal suggests the date of valuation of the land plot as of the date mentioned.

The date of rating value use is the 24th of May, 2007. The exchange rate used on this date was KZT 121 per USD \$1.

1.2 Results and Conclusions of the Appraisal

Applied Value Indication:	Market Value
Results of the market value calculation using three approaches:	
<ul style="list-style-type: none"> • Comparative approach • Income approach • Replacement cost approach 	\$214,547,000 Not used Not used
Market value on the 24th May, 2007	\$214,547,000 (two hundred fourteen million five hundred forty seven thousand US Dollars)

1.3 Application (Certificate) of Appraisal Quality

The appraiser, signatory of this report, (hereinafter referred to as the “Appraiser”) hereby affirms that in accordance to available data:

1. All facts presented in this report are verified, accurate and represent reality.
2. Presented analysis, opinions and conclusions are limited only by my assumptions, existing limiting conditions and allowances, which comprise part of this report and represent my personal unprejudiced professional opinions.
3. The Appraiser does not have any personal interest in the property that is the object of this report either at present or in the future. He is not related and does not have any personal interest or prepossession with respect to the people, who are owners of the property on the effective date of this report or who intend to have commerce with it.
4. Appraiser service payment is not related to conditional or a pre-determined value or property evaluative activity favorable to a client’s interests; with the amount of the appraised property value; with setting of stipulated events or with occurrence of subsequent ones; and with engaging in property business.
5. The valuation was carried out and the report was drawn up in accordance with International Valuation Standards, RICS and the Law of the Republic of Kazakhstan “On Evaluative Activity”.
6. Appraiser and other employees of our company carried out a personal inspection of the appraised property.
7. When analyzing data, no person not working for our Company provided any significant support to the Appraiser, the signer of this report.

1.4 Allowances and Limiting Conditions

The Valuation Quality Certificate included with this report is limited by the following conditions:

1. In drawing up this report, the Appraiser accepted the authenticity of available documents received from the Owner.
2. The Appraiser is not responsible for the legal description of the property rights, the authenticity of which has been assumed to be in accordance with the Owner’s verbal information. These property rights are rated as free of any preventive elements or limitations except those mentioned in the report.
3. Diagrams and drawings, if presented in this report, are approximate and intended only to give the user a pictorial representation of the appraised property (in this case the land plot) and should not be used for any other purpose. The Appraiser did not measure the land plot and relied solely on the accuracy of source information from the Owner.
4. The Appraiser is not required to appear in court or as a witness in connection with this report or appraised property (the land plot), except if formally subpoenaed by a court.
5. The Appraiser assumes the absence of any concealed defects in the land plot and the property that could influence the value of the property, except as stipulated in this report. The Appraiser is neither responsible for existence of any concealed facts nor for the necessity to discover them.
6. Source data, used by the Appraiser in this report, were received from reliable sources and considered authentic. Nevertheless, the Appraiser cannot guarantee their absolute trustworthiness, and, therefore, there are references to sources where necessary.
7. Neither the Client nor the Appraiser can use this report for any other purpose other than that specified in the Valuation Contract.

8. The opinion of the Appraiser on the market value is valid only as of the date of the appraisal. The Appraiser does not assume responsibility for subsequent changes in social, economic, legal and natural conditions that could have an influence on the property value.
9. The Valuation Report includes the professional opinion of the Appraiser on the property (land plot) value and is not a guarantee that the property could be sold at a price equal to the value stated in this report.
10. Information about the latest tenders and sales of land neighboring the appraised property was obtained from publicly available sources. Calculation of the commercial value was carried out on the basis of average discounts, and on the basis of data relating to properties and land selling in Almaty.

1.5 Appraiser's Qualification

The author of this report has substantial professional expertise in the sphere of property appraisal. His Educational and Professional Certificate and License are presented in the Appendix.

1.6 Purpose of the Appraisal

According to information received from the Owner, we are aware that the Owner intends to use the results of this Appraisal Report to make administrative decisions. We understand that the Appraisal Report is also required for inclusion in a prospectus which investors will rely on in making their decision to invest in Kazakhstan Kagazy PLC.

1.7 Aim and Date of the Appraisal,

The aim of this valuation is to express an opinion on the market value of the property as of the date of appraisal – the 24th of May, 2007. Until another opinion is expressed, all factors relating to the appraised value are considered as of the stated date.

2. VALUATION METHODOLOGY

The value of the property reported herein is market value, which is the most probable price at which the property could be sold on the appraisal date without additional conditions, based on the following assumptions:

- Seller and Buyer are ready to conclude a purchase;
- Before the appraisal date, a sufficient period of time has passed in order to carry out an appropriate marketing survey of the property rights, to agree on price and conditions and consummate change of ownership through sale;
- Market conditions, prices levels and other circumstances of any other earlier dates of sale were substantially the same as on the valuation date;
- Seller and Buyer have a typical motivation, so additional offers made by a possible buyer with a special interest are not taken into consideration; and
- Both parties act skillfully, prudently and in an unconstrained manner.

Determination of the market value of a land plot is based on the following principles;

Utility Principle— land plots reflect a market value which is satisfactory for the requirements of the user (potential user) during a certain period.

Demand and Supply Principle — the market value of a land plot is formed as a result of the interaction of supply and demand in the market and the specifics of sellers' and buyers' competitiveness.

Usually demand is characterized by what buyers are ready and able to buy at current market value during a certain period. Supply is characterized by what is currently offered for sale in the market for a certain price. The Supply and Demand ratio defines a price level in a balanced land market.

Three possible conditions of the supply and demand ratio are possible:

- Demand is in equilibrium with supply as a result of market transactions and reasonable market prices for properties are formed;
- Demand is outgrowing supply, prices are growing in the market, speculative prices are formed, the danger of protectionism and corruption increases, which may lead to a market collapse; and
- Supply exceeds demand, and there is a resultant drop in prices, market stagnation appears.

In countries with balanced market economics, these conditions replace each other depending on factors related to general economic conditions as well as social, demographic as well as other influences.

In a situation where there is an unbalanced ratio, often found in transitioning economies such as Kazakhstan, Russia and other CIS countries, as a rule, this principle does not have significant influence because demand and supply are regulated to a great extent, often owing to considerable under pricing in the supply of land plots.

Replacement Principle — market value of a land plot cannot exceed the most probable cost of purchasing a property of equal utility. With this principle, it is presumed that there are options for a buyer, i.e. the value of a property (land plot) depends on whether there are similar properties which could replace the given one. This principle shows that the value of this property shall not exceed the cost of purchasing a similar property (land plot) in the market. Consequently, the value of a certain land plot is defined by the lowest price for which a similar land plot (with the same general characteristics, including utility and profitability) can be purchased.

Market value varies with time and is defined on a certain date (the date of appraisal) – in this case, on the 24th of May, 2007.

3. APPRAISAL

We took the following steps to gather, confirm and analyze the respective data.

- We conducted a physical inspection of the land plot on 24 May, 2007 and its surrounding territory.
- We gathered factual information on the property and on comparable property; this information was confirmed using different sources.
- We gathered, confirmed and analyzed the information using the comparative method. Available data was not sufficient to use the income and replacement cost methods on the date of appraisal.
- We prepared the appraisal report which includes conclusions and analysis of the information the conclusions are based on.

We have made allowance for the possibility for a reasonable change in stated value, in case competent and relevant information is received that was not presented on the appraisal date.

This independent report presents an overall appraisal that meets all the requirements of the International Valuation Standards Committee and the regulations of the Law of the Republic of Kazakhstan “On Evaluative Activity”.

4. OVERVIEW OF ALMATY

Almaty is a large city comprising a territory of 324.8 sq. kilometers and a population of 1,287,000 people as of 1 January 2007. 58 percent of the population is between 20 and 59 years of age. The population of the suburban area is more than one half million. Almaty and the Almaty region is a centre of migration from other regions of Kazakhstan and nearby foreign countries.

The number of permanent residents of Almaty has been decreasing over the last several years, but the rate of decrease has slowed lately.

At the same time, the volume of investment in capital construction for the last few years has been stable and has even increased. In January to October 2004 and in 2005 industrial production increased in comparison with the previous year. Moreover, in the second half of 2005, the physical volume index (a relative ratio characterizing changes in the volume of industrial materials produced) in the city was higher than the same index in the whole of Kazakhstan. In Almaty, the population differentiation, in terms of income, continues to develop.

However, it should be mentioned that in Almaty the level of personal income is several times higher than the average rate for the whole of Kazakhstan.

Furthermore, this region is a leader in attracting investments and registration of companies with foreign capital. Almaty attracts foreign investors due to: a comparatively mature legislative base; the relatively high attraction of foreign capital in comparison with other regions of Kazakhstan; and a comparatively high level of transport infrastructure, in conjunction with the concentration of a qualified professional workforce.

On the 20th of June 2003 the Land Code of the Republic of Kazakhstan was adopted. According to this Code, land could be sold or leased as private property. Any legal entity or individual person, including a foreign entity, could be a buyer or a lessee. A buyer or a lessee is not entirely free in their choice of future land plot use. The sale of a land plot is tied to a fixed end use, i.e., the functional use of a land plot and the size of any future development is officially determined before the sale. Moreover, in case a land plot is not used in accordance with its pre-designated use, the lease agreement may be terminated or the land plot can be confiscated.

The lack of choice in the designated use of land is one of the drawbacks of land tenders held in Almaty. All land in the City, in accordance with the City's General Plan, is already pre-designated for a particular use; therefore, every land plot has its own allowable use. However, in the history of land auctions there have been cases in which land with a fixed use remained unsold, but where subsequently sold soon after the Almaty City Department of Land Management changed the use. However, changing the end use of a land plot is rather difficult and it requires high financial explicit costs.

A buyer of a land property right is entitled to use the associated land plot and to use it as any other asset: to pledge, to lease, to bequeath, and even to sell the land property right.

On the whole, we may assert that investment in land during this period of Kazakhstan's economic development is attractive, due to increasing land values.

5. DESCRIPTION AND ANALYSIS OF THE LAND PLOT

The following description is based on the results of the inspection conducted by our experts.

5.1 Physical Characteristics

<i>Plot Area</i>	4,767,700 sq m
<i>Configuration</i>	Polygon
<i>Topography</i>	Plain
<i>Drainage</i>	Appropriate

5.2 Danger of Environmentally Harmful Conditions

Assessment of environmental conditions is not within the scope of our expertise. In this case, a consultation by qualified specialists is required. In the process of our inspection there were no visible dangerous materials or conditions observed.

However, we may assert that this part of Almaty, where the land plot is located, is historically considered to be in adverse environmental condition. We would like to clarify that this “lower part” (away from the slope of the mountain range) of Almaty, where the land plot is located, is historically considered to be an environmentally less attractive area of the city because Almaty is situated in a kind of big natural ‘bowl’, (not unlike the topography in the Los Angeles basin). This part of the city has poor airflow, relatively speaking. In addition, the majority of industrial facilities have, traditionally, been located in this area. However, although the environmental conditions here are not considered optimal, it is actually better than in the city center (except it’s higher part that has better ecological indications and, respectively, is considered as the most prestigious residential area). The city center suffers from current significant construction being undertaken and very heavy traffic which is made worse by poor airflow. As a result, city authorities have decided to transfer all industrial facilities to the dedicated zones (lower part), where the appraised property and the comparable land plots are located.

5.3 Soil Stability

We did not conduct a soil analysis, but we believe that the soil is stable in this region. In the process of the property inspection we did not observe any adverse conditions. To conduct a more thorough soil analysis, we recommend contacting qualified specialists

5.4 Transport Access and Limitations

The land plot is located in the industrial district of the city, and, as we have already mentioned before, in a dynamic and steadily growing industrial development area. However, appropriate transportation related infrastructure is not yet in place. For instance, roads in this area are quite poor. There is a railway line nearby.

5.5 Servitudes, Impediments and Moratoria

We are not aware of any.

5.6 Encroachment (by owners of adjoining properties)

We are not in possession of the results of this investigation. However, we did not discover any visual indications of encroachment in the process of our inspection.

5.7 Utilities

The following utilities infrastructure is near (the utilities are not yet connected) the property: municipal centralized power supply, cold water supply, telephone lines and gas supply.

6. CONCLUSION ON DESCRIPTION OF THE LAND PLOT

The land plot appraised by us is located in the Karasaikiy Region of Almaty. It is located in the “lower” (away from the rising slope towards the mountains) part of the city, where, traditionally, open fields and nearby collective farms (kolkhozes) and now private farms are located. This has now been designated (zoned) for industrial development. The necessary utility infrastructure is in the process of being established and prices for land plots are expected to increase concurrently with active development which is now occurring. Therefore, one can come to the conclusion, that land plots in this area are an attractive investment.

6.1 Analysis of Highest and Best Use

Analysis of the highest and best use lets us determine the most profitable and competitive use for a property; the very use that presumes the highest possible property value. Analysis of the highest and best use consists of inspection of appropriate variants of use that conform to the following criteria:

Legal permission: Variants of use, which are authorized by instructions for zoning, limitations of private initiative, regulations governing historical zones and environmental legislation.

Physical feasibility: Physically possible variants of use in the region.

Financial feasibility: Physically feasible or statute-permitted variants of use which will allow for acceptable profitability for the owner of the land plot.

Maximum efficiency: Financially feasible variant of use which will return maximum net profit or maximum current value.

Based on the fact that the end use for this land plot is pre-designated for industrial/logistic development, all other possible variants of this land plot development are currently illegal, and, if used for any other designation, would subject the land plot to possible confiscation. As such, we concluded that the highest and best use of this land plot is for industrial/logistic development.

7. APPRAISAL OF THE LAND PLOT / METHODS USED

Appraisal is implemented by taking into consideration all factors that essentially influence the property market as a whole and directly influence the value of the property. For appraisals, three methods are usually used:

- Replacement cost method;
- Comparative method; and
- Income method.

Theoretically, usage of all three methods would result in three different values for the same property and analysis of the different methods would result in the final value. In reality, however, there is not enough information about the local market to apply all three methods; therefore, we can only use the methods which are based on the most reliable information.

As we have already mentioned, the income and comparative methods are commonly used when determining land plot market value.

To use the income method it is necessary to forecast future data on profit from cash inflows, to allow for accuracy of results. If the information allowing for the comparative method is available, it is not necessary to use the income approach (for an empty land plot).

The replacement cost method is based on a calculation of expenditures associated with land use improvements. In this case, it is necessary to assess expenses related to the development and improvement and infrastructure of each land plot. We do not possess such data and the unavailability of this data would lead to inaccuracy of appraisal results. Therefore, we will not use the replacement cost method.

The comparative approach is used to appraise a property by comparing the latest sales prices of similar land plots in an operating market where comparable property is traded freely by both sellers and buyers making independent decisions. This approach is based on the substitution principle: a judicious buyer does not buy a property at a price which is higher than the price of a property of similar quality and profitability.

If all necessary data is available using the comparative approach, it is the most direct, systematic and realistic method for appraisals according to the International Valuation Regulations 1(IR1) from the International Valuation Standards (IVS – 2005, RICS).

Possessing sufficient information about sales of land plots of similar use within a certain period of time, the market sales comparative approach gives the most precise value of the land plot in the certain market. Since information about sales transactions in our market is usually not publicly available, it is possible to consider the seller's published offer price as a sale price (if there is no information on the latest sales transactions) by taking into account reasonable adjustments for subsequent price negotiations.

Conclusion: For valuation of this land plot, the comparative approach is applicable. The replacement cost and income approaches will not be used in this case due to the absence of data (this data is not provided by the owner) required enabling the use of these methods.

8. LAND PLOT VALUE ANALYSIS

To form an opinion on the investment value of the appraised land plot, we have gathered information on sales of similar land plots in the vicinity of the appraised land. Checking the data on the aforementioned sales of land, we chose several sales transactions as the best indicators of costs of the subject property.

In analyzing the data on the land sales, we chose a unit for appraisal based on 0.01 hectares. This unit of comparison is most frequently used by brokers, sellers and buyers in discussing land sale deals and considered as the most suitable for a property appraisal.

Data on comparable sales (seller's price) are shown in the following table. The sales are of comparable land plots to the land plot described herein:

No	Location	End Use	Area, ha	Utilities	Distance to the main road, m	Sales price, 0.01 ha, \$	Adjustment	Adjusted Price, \$
1.	Near Efes	Industrial/logistic development	20	Electricity, water supply	100	3,000	5%	2,850
2.	Next to 71 Road Split	Industrial/logistic development	2,5	Electricity, water and gas supply, railway line	100	5,000	5%	4,750
3.	In the region of Boralday	Industrial/logistic development	3	Electricity, water and gas supply, railway line	50	5,000	5%	4,750
4.	Next to tannery	Industrial/logistic development	3,5	Electricity, water and gas supply, railway line	20	4,000	5%	3,800
5.	71 Road split	Industrial/logistic development	10	Electricity, water and gas supply, railway line	200	4,700	5%	4,470

8.1 Analysis and Sales Adjustment



Adjustments are usually used in quantitative or qualitative analysis, or in combination of the two. Quantitative adjustments are usually shown in terms of US dollars or percentages and are most useful when enough data from two-sided sales or statistical analysis is provided. Qualitative adjustments are used for relatively comparable properties (for instance when appraisals are significantly higher or lower) and often represent the most realistic method of reflecting the views of market participants when only limited information is available.

Adjustments are based on our classification of each comparable sale with respect to the appraised property. If a comparable property is valued higher than the appraised one, then the sales price is decreased in order to reflect a lower quality for a property; if a comparable property is valued lower than the appraisal property; the sales price is increased in order to reflect a higher quality for the property. Adjustments are considered in the elements of comparison discussed below.

Seller's Price instead of Sales Price

This adjustment is usually used in developing markets such as in Almaty, Astana, Atyrau, i.e. in Kazakhstan, if factual sales prices of comparable properties are not available. Under these circumstances seller's prices replace sales prices taking into account respective adjustments. Translations to commercial values are carried out on the basis of average discounts, and on the basis of data compiled by the company of land selling in Almaty.

In this analysis the seller prices have been decreased by 5% in order to take into account possible decreases of prices during negotiation.

The discount of 5% on the large land plot is explained by the fact that, although these types and sizes of industrial plots are seldom available in the market today, the infrastructure is there but not connected as of yet.

Transfer of Real Property Rights

This adjustment is basically used to reflect transfer of rights when they differ from appraised rights, such as the difference between the property with full property rights and the property right for a leased property.

There was no necessity to use this adjustment in the present analysis.

Financial Terms

This adjustment is used primarily for properties which are transferred together with standard financing, for example, transfer of an existing mortgage with a favorable interest rate. On the other hand, property might be encumbered with the above mentioned pledge, and where prepayment cannot be made or its amount is too large. This typical element of financing very often becomes an integral point of discussion when negotiating a sales price. There was no necessity to use this adjustment in the present analysis.

Terms of Sale

This category of adjustment reflects an exceptional interest by both the buyer and the seller to consummate a transaction. For example, it can be a purchase for speculative purposes, when increasing value or a quick sale for cash is taken into account. This category of adjustment can also reflect a sale forced due to various difficulties experienced by an owner, or a company which must liquidate their assets at non-market prices, or extra-ordinary, unforeseen costs for a buyer immediately after purchase.

There was no necessity to use such an adjustment in the present analysis.

Purchase Costs

This adjustment is made when the sale price is affected by the costs of the buyer after the purchase. For instance: sales commissions costs, payment of taxes and costs associated with demolition of old, existing construction and clearing for new developments.

There was no necessity to use such an adjustment in the present analysis.

Market Conditions Vary with Time

The value of the property usually changes with time. The rate of the change varies as a consequence of investors' perception of prevailing market conditions. This category of adjustments relates to the difference between the appraised property price on the factual date of appraisal and the comparable property price on the date of sale, in case there is a trend of either price increases or decreases. There was no necessity to use such an adjustment in the present analysis

Location

Location of a property essentially influences its value. This category of adjustment accounts for the impact on the market as well as accessibility and the view from a main road. It is difficult to make any adjustments here. Although the land plots are located in different places, they are all within the same district, in which every land plot is deemed to be promising.

There was no necessity to use such adjustment in the present analysis.

Size

Adjustment based on size depicts an existing peculiarity of the market: in this case bigger land plots are at advantage in comparison with smaller plots in terms of future development of big logistic and industrial complexes (this area is zoned by city authorities for this use) and this is displayed in the adjustments (prices for comparable land plots are increased).

Physical Characteristics

This category of adjustments usually reflects the differences between the appraised property and comparable properties taking into consideration configuration, existing utility infrastructure and topography. The adjustments made are shown in the table (as we have already mentioned under – size adjustments).

Use

This category of adjustments, as a whole, shows difference between the highest and best uses of the appraised property and comparable properties. There is no necessity to apply this adjustment in this analysis, because the designated use is similar for all of the land plots.

The adjustments have been made by expert methods and are displayed in below table.

Comparison elements	Unit, \$ per 0.01 ha	Appraised property	№1	№2	№3	№4	№5
Total area	ha	476.77	20	2.5	3	3.5	10
Price	\$ 0.01 ha		2,850	4,750	4,750	3,800	4,470
Property right		Private ownership	Private ownership	Private ownership	Private ownership	Private ownership	Private ownership
Adjustment	%		0%	0%	0%	0%	0%
Adjusted price	\$		2,850	4,750	4,750	3,800	4,470
Terms of financing		Market	Market	Market	Market	Market	Market
Adjustment	%		0%	0%	0%	0%	0%
Adjusted price	\$		2,850	4,750	4,750	3,800	4,470
Terms of sale		Market	Market	Market	Market	Market	Market
Adjustment	%		0%	0%	0%	0%	0%
Adjusted price	\$		2,850	4,750	4,750	3,800	4,470
Date of sale		24.05.07.	24.05.07.	24.05.07.	24.05.07.	24.05.07.	24.05.07.
Adjustment	%		0%	0%	0%	0%	0%
Adjusted price	\$		2,850	4,750	4,750	3,800	4,470
Location		Near Efes	Near Efes	Next to 71 road split	In the region of Boralday	Next to tannery	71 road split
Adjustment	%		0%	0%	0%	0%	0%
Adjusted price	\$		2,850	4,750	4,750	3,800	3,470
Transport Accessibility		Good	Good	Good	Good	Good	Good
Adjustment	%		0%	0%	0%	0%	0%
Adjusted price	\$		2,850	4,750	4,750	3,800	4,470
<i>Physical characteristics</i>							
Size	ha	476.77	20	2.5	3	3.5	10
Adjustment	%		5%	10%	10%	10%	5%
Adjusted price	\$		2,993	5,225	5,225	4,180	4,700
Relief		Plain	Plain	Plain	Plain	Plain	Plain
Adjustment	%		0%	0%	0%	0%	0%
Adjusted price	\$		2,993	5,225	5,225	4,180	4,700
Shape		Irregular	Irregular	Irregular	Irregular	Irregular	Irregular
Adjustment	%		0%	0%	0%	0%	0%
Adjusted price	\$		2,993	5,225	5,225	4,180	4,700
Utilities		Electricity, water supply, railway line - nearby	Electricity, water supply - nearby	Electricity, water and gas supply, railway line – nearby	Electricity, water and gas supply, railway line – nearby	Electricity, water and gas supply, railway line – nearby	Electricity, water and gas supply, railway line – nearby
Adjustment	%		0%	0%	0%	0%	0%
Adjusted price	\$		2,993	5,225	5,225	4,180	4,700

Ecology		Average	Average	Average	Average	Average	Average
Adjustment	%		0%	0%	0%	0%	0%
Adjusted price	\$		2,993	5,225	5,225	4,180	4,700
End Use		Industrial / logistic	Industrial / logistic	Industrial / logistic	Industrial / logistic	Industrial / logistic	Industrial / logistic
Adjustment	%		0%	0%	0%	0%	0%
Adjusted price	\$		2,993	5,225	5,225	4,180	4,700
Adjusted price for 0.01 hectare	\$		2,993	5,225	5,225	4,180	4,700
<i>For conclusions:</i>							
Whole net adjustment	%		10	15	15	15	10
Weighted ratio			2	2	2	1	3
Weighted average cost for 0.01 hectare	4,500						

Adjustments are based on our classification of each comparable sale in relation to the appraised property. If the comparable property is valued higher than the appraised property, the cost is adjusted downwards to show the relatively lower quality of the appraised property. When the opposite occurs, then the price is adjusted upwards to display the high quality of the appraised property.

The size of weighted coefficients is determined from reliable results received. After determining the adjusted pricing, we determined the average weighted cost of the appraised property by means of the comparative method:

$V = (2,993 \cdot 2 + 5,225 \cdot 2 + 5,225 \cdot 2 + 4,180 \cdot 1 + 4,700 \cdot 3) : 10 = \$4,516$ per 0.01ha, or in round figures 4,500-47,677 (0.01ha) = **\$214,547,000** for the whole land plot with an area of 476.77 ha.

Note

We would like to draw your attention to the fact, that the market value of the Kazakhstan Kagazy land plot determined by us as of 24 May 2007, was calculated using the comparative approach. The three following methods are used when appraising land plots: comparative approach, replacement cost approach, and income approach. Usually, when different approaches are used, the determined values differ, and later on, are balanced with the help of different weight ratios, which are referred to in these methods in accordance with the reliability of the data used. During valuation, we did not have sufficient data available to use the income and replacement cost approaches, however we had enough information to use the comparative approach. When such data is available, the approach based on sales comparison is the most direct and systematic method of valuation (International Valuation Regulations 1(IR1) from the International Valuation Standards (IVS – 2005, RICS). Therefore, the value of the land plot, determined by using the comparative approach, will differ from the value determined earlier by the income approach, but we suppose that it (the value determined by using the comparative approach) reflects a price level for land in this area more accurately, because it is directly connected to the market data.

9. FINAL APPRAISAL OF THE LAND PLOT

Using different methods of the property appraisal we came to the following conclusions:

	Price, \$ per 0.01ha	Weight ratio
Income method-not used	-	-
Cost replacement method-not used	-	-
Comparative method	4,500	
Weighted Average Value (for the whole land plot)		\$214,547,000
Weighted Average Value (for the whole land plot)		KZT 25,960,187,000

The exchange rate on the date of the appraisal is KZT 121.000 per USD \$1.

Conclusion: the market value of the land plot with a total area of 476.77 hectares on the 24th of May 2007 is:

\$214,547,000 (two hundred fourteen million five hundred forty seven thousand US Dollars)

10. ADDITIONAL ALLOWANCES AND LIMITING CONDITIONS

The following allowances and limiting conditions comprise an essential part of this Report:

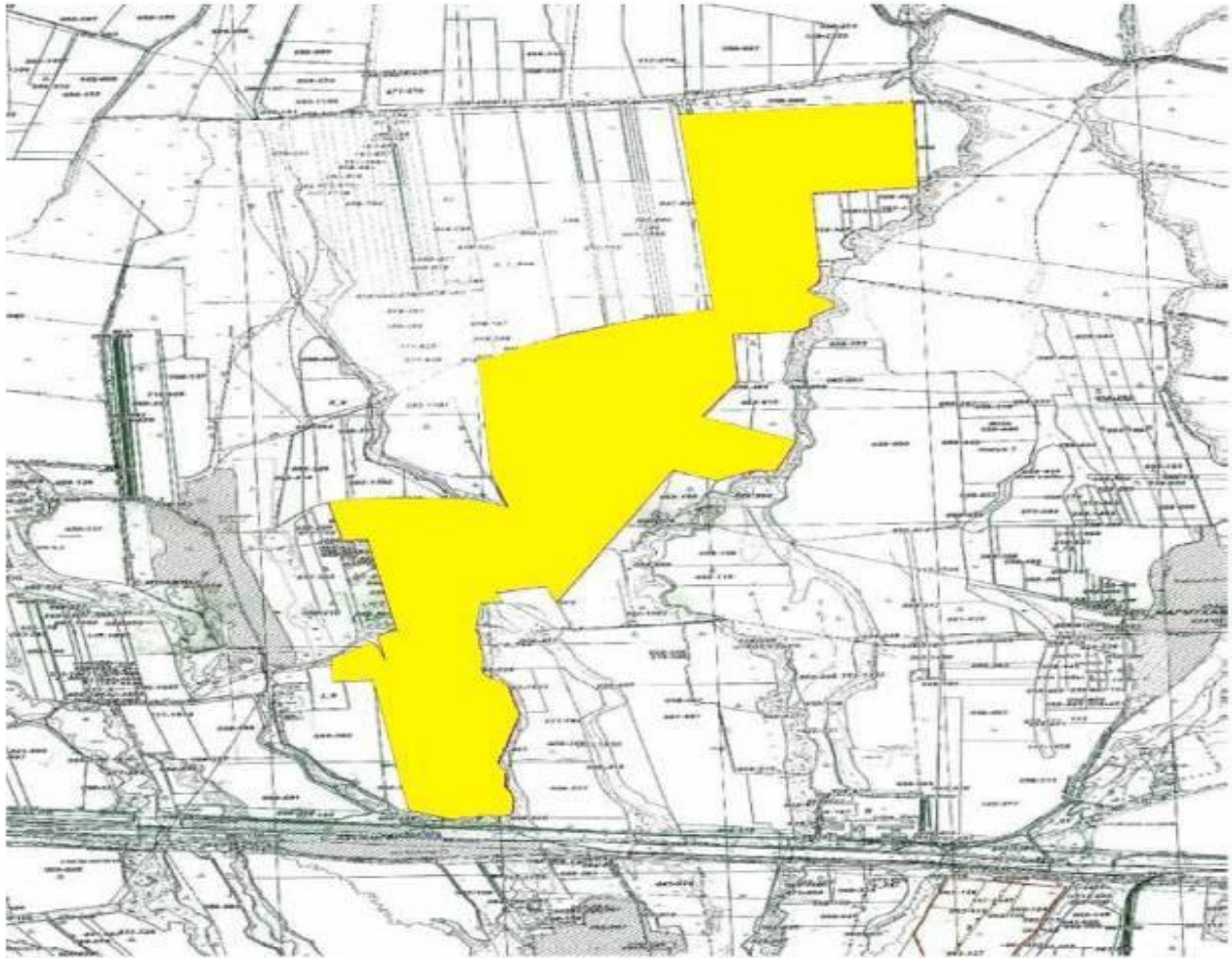
1. This report is valid only as a whole and only for the purpose intended.
2. The Appraiser is not responsible for any legal description of property rights or requests concerning property rights consideration. Documented ownership rights of the appraised property are considered authentic. The appraised property is considered free of any limitations or claims except as stipulated in this report
3. The Appraiser is not obliged to present materials for review such as, pictures, plans, figures etc related to the property. All drawings included in this report are only meant to assist the reader in picturing the property
4. The Appraiser assumes the absence of any concealed defects in the land plot and the property that could influence the value of the property, except as stipulated in this report. The Appraiser is neither responsible for existence of any concealed facts nor for the necessity to discover them.
5. Information received by the Appraiser and contained in this report is considered authentic; the Appraiser cannot guarantee the absolute accuracy of the information
6. Neither the Client nor the Appraiser can use this report for any other purpose other than that specified in the Valuation Contract.
7. The Appraiser does not provide any additional consultations on this report and is not usable as to the appraised property, except for cases stipulated by additional agreements, i.e. the Appraiser is not required to appear as a witness on the appraised property, except if the Appraiser formally subpoenaed by court order.
8. The Appraiser's opinion on the market value of the property is valid only on the date of appraisal. The Appraiser takes no responsibilities for any changes in the economic and legal situation which could arise after the date of this report which could influence market conditions and subsequently affect the appraised value of the property.
9. This appraisal report includes the professional opinion of the Appraiser regarding the market value of the property, and does not represent any guarantee that free market price of this property will be equal to the property value indicated in this report.

11. APPENDIX



Aerial photo of Northern land plot, 476.77 ha.

Приложение № 1 Северный участок



Map of Northern land plot, 476.77 ha



Valuation License of the Company

TRANSFER RESTRICTIONS

As a result of the following restrictions, purchasers are advised to consult legal counsel prior to making any resale, pledge or transfer of the GDRs.

The Offer is being made in accordance with Rule 144A in the United States and Regulation S outside the United States under the Securities Act. None of the GDRs have been or will be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and, accordingly, may not be offered or sold within the United States, or to, or for the account or benefit of, U.S. persons, except to qualified institutional buyers (“QIBs”) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and to persons outside the United States in accordance with Regulation S. Terms used in this paragraph that are defined in Rule 144A and Regulation S under the Securities Act are used herein as so defined.

Rule 144A

Each purchaser of Rule 144A GDRs will be deemed to have represented, acknowledged and agreed as follows:

1. It acknowledges (or if it is acting for the account of another person, such person has confirmed to it that it acknowledges) that the Master Rule 144A GDR, the Rule 144A GDRs evidenced thereby and the Shares represented thereby have not been and will not be registered under the Securities Act and that the sale of the Rule 144A GDRs is being made pursuant to and in accordance with Rule 144A.
2. It certifies that (a) it is a QIB and, at the time of issuance of the Rule 144A GDRs, it (or one or more QIBs for whose account it is acting) will be the beneficial owner of the Rule 144A GDRs, and (b) it is aware that the sale to it is being made in reliance on Rule 144A.
3. It agrees (or if it is acting for the account of another person, such person has confirmed to it that such person agrees) that it will not offer, sell, pledge or otherwise transfer the Master Rule 144A GDR, the Rule 144A GDRs evidenced thereby or the Shares represented thereby (as the case may be) except (i) to a person whom it reasonably believes (or it and anyone acting on its behalf reasonably believe) is a QIB within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A, (ii) outside the United States in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (iii) pursuant to exemptions from registration provided by Rule 144 under the Securities Act (if available), (iv) pursuant to any other available exemption from the Securities Act or (v) pursuant to an effective registration statement, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States.
4. It understands that the Master Rule 144A GDR will contain legends to the following effect unless the Company determines otherwise in compliance with applicable law:

THIS MASTER RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF KAZAKHSTAN KAGAZY PLC REPRESENTED HEREBY (THE “SHARES”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF BY PURCHASING THE GDRs, AGREES FOR THE BENEFIT OF KAZAKHSTAN KAGAZY PLC THAT THE GDRs AND THE SHARES CORRESPONDING HERETO MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER (“QIB”) (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE

SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GDRs WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRs OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognised by the Company or the Depositary in respect of the Master Rule 144A GDR, the Rule 144A GDRs evidenced thereby and the Shares represented thereby.

Regulation S

Each purchaser of Regulation S GDRs outside of the United States pursuant to Regulation S will be deemed to have represented, acknowledged and agreed as follows:

1. It acknowledges (or if it is acting for the account of another person, such person has confirmed to it that it acknowledges) that the Master Regulation S GDR, the Regulation S GDRs evidenced thereby and the Shares represented thereby have not been and will not be registered under the Securities Act and that the sale of the GDRs is being made pursuant to and in accordance with Regulation S.
2. It certifies that either: (a) it is, or at the time the Shares represented by the Regulation S GDRs are deposited and at the time the Regulation S GDRs are issued it will be, the beneficial owner of the Shares represented by such Regulation S GDRs and (i) it is not a US person (as defined in Regulation S) and it is located outside the United States and has acquired, or has agreed to acquire and will have acquired, Regulation S GDRs outside the United States, (ii) it is not an affiliate of Kazakhstan Kagazy plc or a person acting on behalf of such an affiliate and (iii) it is not in the business of buying and selling securities or, if it is in such business, it did not acquire the Shares or the Regulation S GDRs from Kazakhstan Kagazy plc or any affiliate thereof in the initial distribution of the Shares or the Regulation S GDRs; or (b) it is a broker-dealer acting on behalf of its customer, its customer has confirmed to it that such customer is, or at the time the Shares represented by the Regulation S GDRs are deposited and at the time the Regulation S GDRs are issued it will be, the beneficial owner of the Shares represented by such Regulation S GDRs and (i) it is not a US (as defined in Regulation S) person and it is located outside the United States and has acquired, or has agreed to acquire and will have acquired, the Regulation S GDRs outside the United States, (ii) it is not an affiliate of Kazakhstan Kagazy plc or a person acting on behalf of such an affiliate and (iii) it is not in the business of buying and selling securities or, if it is in such business, it did not acquire the Shares or the Regulation S GDRs from Kazakhstan Kagazy plc or any affiliate thereof in the initial distribution of the Shares or the Regulation S GDRs.
3. It agrees (or if it is a broker-dealer, its customer has confirmed to it that such customer agrees) that prior to the expiration of 40 days after the latest of the commencement of the Offer, the original issue date of the Regulation S GDRs, and the latest issue date with respect to the additional Regulation S GDRs, if any, issued to cover over-allotments (the "Restricted Period") neither it or such customer will offer, sell, pledge or otherwise transfer any Regulations S GDRs or the Shares represented thereby except (i) to a person whom it reasonably believes (or it and anyone acting on its behalf reasonably believe) is a QIB in a transaction meeting the requirements of Rule 144A or (ii) in an offshore transaction to a person other than a US person in accordance with Rule 903 or 904 of Regulation S under the Act or (iii) pursuant to an exemption from the legislation

requirements of the Securities Act provided by Rule 144A under the Securities Act (if available) or (iv) pursuant to an effective registration statement under the Securities Act, in either case in accordance with any applicable securities laws of any state or other jurisdiction of the United States. It further agrees (or if it is a broker-dealer, its customer has confirmed to it that such customer agrees) that if it sells or otherwise transfers (or such customer sells or otherwise transfers) the Regulation S GDRs in accordance with clause (i) above prior to the expiration of the Restricted Period, it (or its customer) will, prior to settlement of such sale, obtain proper certification from the purchaser of such Regulation S GDRs in the form thereof reasonably required by the Company.

4. It acknowledges that the Company, the Lead Manager and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and warranties and agrees that if any of such acknowledgements, representations and warranties deemed to have been made by virtue of its purchase of the Regulation S GDRs are no longer accurate, it will promptly notify the Company, and if it is purchasing Regulation S GDRs as a fiduciary or agent for one or more accounts, it represents that it has sole discretion with respect to each such account and full power to make the foregoing acknowledgements, representations and warranties on behalf of each account.
5. It understands that the Master Regulation S GDR will contain legends to the following effect unless the Company determines otherwise in compliance with applicable laws:

THIS MASTER REGULATION S GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF KAZAKHSTAN KAGAZY PLC REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, PRIOR TO THE EXPIRATION OF A DISTRIBUTION COMPLIANCE PERIOD (DEFINED AS THE PERIOD ENDING 40 DAYS AFTER THE LATEST OF THE COMMENCEMENT OF THE GDR OFFERING, THE ORIGINAL ISSUE DATE OF THE GDRs AND THE LATEST ISSUE DATE WITH RESPECT TO THE ADDITIONAL GDRs, IF ANY, ISSUED TO COVER OVER-ALLOTMENTS) MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (B) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, IN EACH CASE, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES; PROVIDED THAT IN CONNECTION WITH ANY TRANSFER UNDER (B) ABOVE, THE TRANSFEROR SHALL PRIOR TO THE SETTLEMENT OF SUCH SALE, WITHDRAW THE SHARES FROM THE REGULATION S FACILITY (AS DEFINED IN THE DEPOSIT AGREEMENT) IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE DEPOSIT AGREEMENT AND INSTRUCT THAT SUCH SHARES BE DELIVERED TO THE CUSTODIAN UNDER THE DEPOSIT AGREEMENT FOR DEPOSIT IN THE RULE 144A FACILITY (AS DEFINED IN THE DEPOSIT AGREEMENT) THEREUNDER AND THAT RULE 144A GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY A MASTER RULE 144A GLOBAL DEPOSITARY RECEIPT BE ISSUED, IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE DEPOSIT AGREEMENT, TO OR FOR THE ACCOUNT OF SUCH QIB.

UPON THE EXPIRATION OF THE DISTRIBUTION COMPLIANCE PERIOD REFERRED TO ABOVE, THIS REGULATION S GLOBAL DEPOSITARY RECEIPT AND THE SHARES REPRESENTED HEREBY SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS LEGEND, PROVIDED THAT AT THE TIME OF SUCH EXPIRATION THE OFFER OR SALE OF THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED HEREBY AND THE SHARES REPRESENTED THEREBY BY THE HOLDER HEREOF IN THE UNITED

STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

6. It acknowledges that Kazakhstan Kagazy plc, the Depositary, the Lead Manager and their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Any sale or other transfer, or attempted sale or other transfer, made other than in compliance with the above-stated restrictions, shall not be recognised by Kazakhstan Kagazy plc or the Depositary in respect of the GDRs and the Shares represented thereby.

SETTLEMENT AND DELIVERY

Clearing and Settlement of GDRs

Custodial and depository links have been established between Euroclear, Clearstream, Luxembourg and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to other persons, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depository, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures and the terms of the Deposit Agreement.

DTC

DTC has advised the Company as follows:

DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depository, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depository through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See "Taxation—United States Federal Income Tax Considerations".

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Master Regulation S GDR registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for The Bank of New York, London Branch, as common depository for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co, as nominee for DTC, which will be held by The Bank of New York, London Branch, as custodian for DTC. As necessary, the Depository will adjust the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear, Clearstream, Luxembourg and DTC,

respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depository will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depository for Euroclear and Clearstream, Luxembourg and the nominee for DTC. The Depository in the case of Master GDRs will make a distribution in accordance with usual practice between the Depository and Euroclear, Clearstream, Luxembourg and DTC, as the case may be. We will not impose any fees in respect of the GDRs, however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear or Clearstream, Luxembourg and certain fees and expenses payable to the Depository in accordance with the terms of the Deposit Agreement. See “Terms and Conditions of the GDRs”.

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the Master GDRs. Purchasers electing to hold book entry interests in GDRs through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depository receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests on the GDRs through DTC will follow the delivery practices applicable to depository receipts.

Secondary Market Trading

Transfer restrictions

For a description of the transfer restrictions relating to the GDRs, see “Transfer Restrictions”.

Trading between Euroclear and/or Clearstream, Luxembourg participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to depository receipts.

Trading between DTC participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depository shares in DTC’s SDFS system in same-day funds, if payment is effected in US dollars, or free of payment, if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When the book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream, Luxembourg participant, the DTC participant must send to DTC a free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, DTC will debit the account of its participant and will instruct the Depository to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the relevant account of the Euroclear or Clearstream, Luxembourg participant as the case may be. In addition, on the settlement date DTC will instruct the relevant registrar to (i) decrease the amount of book-entry interests in the GDRs, registered in the name of Cede & Co. and represented by the Rule 144A Master GDR, and (ii) increase the amount of book-entry interests in the GDRs, registered in the name of the common nominee for Euroclear and Clearstream, Luxembourg and represented by the Regulation S Master GDR.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of a DTC participant, the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg a free of payment instruction at least one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit such instruction to DTC on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will instruct the Depository to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, at DTC and thereafter, DTC will debit the account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, shall on the settlement date instruct the Depository to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream, Luxembourg and represented by the Regulation S Master GDR, and (ii) increase the amount of the book-entry interests in the GDRs registered in the name of Cede & Co. and represented by the Rule 144A Master GDR. Because of time zone differences, the securities of a Euroclear or Clearstream, Luxembourg account holder purchasing an interest in a security from a DTC participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, Luxembourg, as the case may be) immediately following the DTC settlement date and such credit of any transactions in interests in such securities settled during such processing day will be reported to the relevant Euroclear or Clearstream, Luxembourg account-holder on such day. Cash received in Euroclear or Clearstream, Luxembourg as a result of sales of interests in securities by or through a Euroclear or Clearstream, Luxembourg account holder to a DTC participant will be received for value on the DTC settlement date, but will be available in the relevant Euroclear or Clearstream, Luxembourg cash account only as of the business day following settlement in DTC.

DTC will take any action permitted to be taken by a holder of GDRs only at the direction of one or more DTC participants to whose account or accounts DTC interests in the GDRs evidenced by the Master GDR are credited and only in respect of such portion of the number of GDRs as to which such DTC participant or DTC participants has or have given such direction. However, in the limited circumstances described above, DTC will exchange Master GDRs for individual definitive securities, which will be distributed to its participants. Holders of indirect interests in securities evidenced by the Master GDRs through DTC participants have no direct rights to enforce such interests while the securities are in global form. In the event that the GDRs are issued in definitive certificated form, the Company will appoint an agent and registrar in the United Kingdom.

General

Under general principles of Belgian banking secrecy, Euroclear and Clearstream, Luxembourg may not disclose any information about a participant's account or positions in such accounts without having first obtained such participant's prior written authorisation.

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxembourg and DTC, neither Euroclear, Clearstream, Luxembourg nor DTC is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of Kazakhstan Kagazy plc, the holders of Shares, any transfer agent, the registrar, the Depository, the custodian nor any affiliate of them or their respective agents will have any responsibility for the performance of Euroclear, Clearstream, Luxembourg or DTC or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

GENERAL INFORMATION

1. Consents

We have obtained all consents, approvals and authorisations in connection with the Offer. On 18 July 2007, the Directors approved the issue of the 48 million Shares being offered in the Offer and the offer of up to an additional 7 million Shares pursuant to the Over-allotment Option, in each case in the form of the GDRs.

BDO Stoy Hayward LLP, whose registered address is 8 Baker Street, London W1U 3LL, United Kingdom, has given and not withdrawn its written consent to the inclusion in this document of its accountant's report on the Company set out on pages F-58 to F-59 of this document, each in the form and context in which it is included.

BDO Kazakhstanaudit LLP, whose registered address is Building 56 "A", Microdistrict 6, Almaty 050036, Kazakhstan, accepts responsibility for its audit and review reports on Kazakhstan Kagazy JSC set out on pages F-2 to F-3 and F-39 of this document. To the best of the knowledge of BDO Kazakhstanaudit LLP (which has taken all reasonable care to ensure that such is the case) the information contained therein is in accordance with the facts and contains no omission likely to affect its import. BDO Kazakhstanaudit LLP has authorised the contents of its audit and review reports and given and not withdrawn its written consent to the inclusion in this document of its audit and review reports on Kazakhstan Kagazy JSC set out on pages F-2 to F-3 and F-39 of this document, each in the form and context in which they are included.

Scot Holland in association with CB Richard Ellis, whose registered address is at Premier Alatau Hotel Business Center, 3rd Floor, Dostyk 105, Almaty, 050051, Kazakhstan, accepts responsibility for the Valuation Reports set out on pages 121 to 168 of this document. To the best of the knowledge of Scot Holland in association with CB Richard Ellis (which has taken all reasonable care to ensure that such is the case) the information contained in the Valuation Reports is in accordance with the facts and contains no omission likely to affect its import. Scot Holland in association with CB Richard Ellis has authorised and not withdrawn its consent to the inclusion in this document of the Valuation Reports set out on pages 121 to 168 of this document and of references thereto and to its name, each in the form and context in which they are included. Scot Holland in association with CB Richard Ellis has no material interest in the Company.

ING Bank N.V. has given and not withdrawn its written consent to the issue of this document with the inclusion of its name in the form and context in which it is included.

2. Depositary

The Bank of New York has been appointed as Depositary pursuant to the Deposit Agreement.

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly-owned subsidiary of The Bank of New York Company, Inc., a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286. Its principal administrative offices are located at 101 Barclay Street, 22nd Floor West, New York, New York 10286, United States of America. A copy of the Depositary's Articles of Association, as amended, together with copies of The Bank of New York Company, Inc.'s most recent financial statements and annual report are available for inspection at the Corporate Trust Office of the Depositary located at 101 Barclay Street, New York, New York 10286, United States of America and at The Bank of New York, One Canada Square, London E14 5AL, United Kingdom.

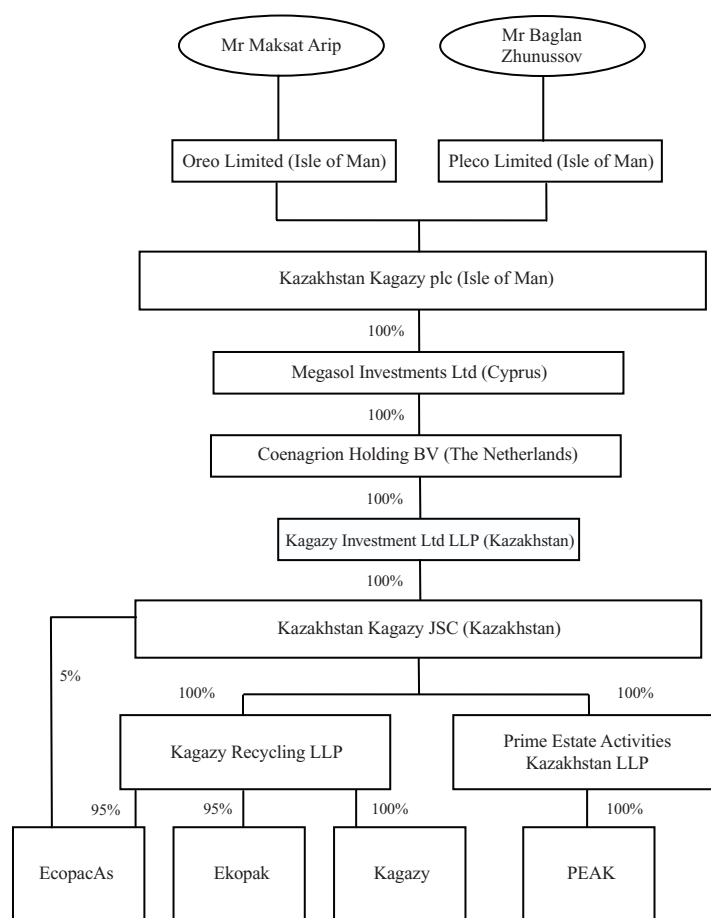
3. The Company and its Subsidiaries

3.1 The Company was incorporated under the Companies Act 2006 of the Isle of Man with the name Kazakhstan Kagazy plc on 15 March 2007 as a public company with registered number 653V.

3.2 The Company's registered office is at 15-19 Athol Street, Douglas, Isle of Man IM1 1LB and its telephone number is +44 1624 638 300.

The liability of the Company's shareholders is limited.

We own and conduct our business through a number of subsidiaries. Information relating to these subsidiaries and our current corporate structure is set out below.



Coenagrion Holding BV in the Netherlands is a wholly-owned subsidiary of Megasol Investments Ltd in Cyprus, which in turn is a wholly-owned subsidiary of the Company. The Company intends to ensure that all companies will have the appropriate substance in order to meet applicable domestic and tax treaty requirements. The Kazakh companies are expected to be tax resident in Kazakhstan and subject to corporate income tax at a rate of 30 per cent. on their profits and capital gains (subject to the terms of tax holidays as set out in this prospectus).

Payments of dividends to Kagazy Investment Ltd LLP should be exempt from tax as the payment is between two Kazakh resident companies.

Payments of dividends to Coenagrion Holding BV should be subject to withholding tax in Kazakhstan at the rate of 5 per cent. under the double tax treaty between Kazakhstan and the Netherlands if Coenagrion Holding BV holds at least 10 per cent. of the capital of Kagazy Investment Ltd LLP and other conditions have been met. Otherwise, dividend payments will be subject to withholding tax in Kazakhstan at the rate of 15 per cent. Any capital gains realised by Coenagrion Holding BV on any future sale of its shares in Kagazy Investment Ltd LLP should be exempt from tax in Kazakhstan under the double tax treaty between Kazakhstan and the Netherlands provided that Kagazy Investment Ltd LLP's balance sheet does not consist as to 50 per cent. or more of Kazakh immovable property. In the Netherlands, the dividends received and capital gains realised on any future sale of shares by Coenagrion Holding BV in Kagazy Investment Ltd LLP would be tax exempt provided that either: (i) the majority of Kagazy Investment Ltd LLP's consolidated assets are not passive (such as immovable property); or (ii) Kagazy Investment Ltd LLP is adequately taxed, at an effective tax rate of at least 10 per cent., based on Dutch tax standards.

The payment of dividends by Coenagrion Holding BV to Megasol Investments Ltd in Cyprus should be exempt from Dutch withholding tax under legislation implementing the EC Parent/ Subsidiary Directive in the Netherlands.

There should be no tax in Cyprus on dividends received by Megasol Investments Ltd, and its payment of dividends to the Company should not be subject to withholding tax. There should also be no Cyprus tax on any capital gains that may be realised by Megasol Investments Ltd on any future sale of its shares in Coenagrion Holding BV. Dutch non-resident capital gains taxation should not apply provided that certain requirements are met. Kazakh capital gains tax of 20 per cent. may be due if a majority of the value of the shares in Coenagrion Holding BV is attributable to Kazakh property.

Dividends received by the Company will be subject to corporate income tax in the Isle of Man, but at the standard rate of zero per cent. levied in the Isle of Man. In addition, any capital gains the Company may realise on any future sale of its shares in Megasol Investments Ltd should not be subject to tax in the Isle of Man. However, Kazakh capital gains tax of 20 per cent. may be due if a majority of the value of shares in Megasol Investments Ltd is attributable to Kazakh property.

The foregoing discussion, as it relates to the expected tax treatment of the proposed group structure, is prepared by the Company, which has procured in Kazakhstan external professional advice in this regard, and represents the current law and practice in the relevant jurisdictions as at the date of this prospectus. The Directors intend to periodically review the group's structure to maintain its tax efficiency in light of any changes to any relevant tax laws.

Kagazy Recycling LLP

Full name:	Kagazy Recycling LLP
Type of legal entity:	Limited liability partnership
Date/place of incorporation:	Established in Kazakhstan on 11 April 2006
Registered number:	534-1907-05-TOO
Registered office address:	Abai village, Karasai district, Almaty region 040905, Republic of Kazakhstan
Principal place of business:	As above
Charter capital:	KZT 103,000
Financial year end:	31 December
Shareholders:	100 per cent. owned directly by Kazakhstan Kagazy JSC
Manager:	Maksat Arip
Name changes:	Previously called Kagazy Gofra LLP

Kagazy Recycling LLP operates via three branch offices in Petropavlovsk, Shymkent and Aktobe.

PEAK

Full name:	Prime Estate Activities Kazakhstan LLP
Type of legal entity:	Limited liability partnership
Date/place of incorporation:	Incorporated in Kazakhstan on 16 January 2006
Registered number:	446-1907-05-TOO
Registered office address:	Karagaily aul, Karasai district, Almaty region, Kazakhstan
Principal place of business:	As above
Share capital:	KZT 100,000
Financial year end:	31 December
Shareholders:	100 per cent. owned directly by Kazakhstan Kagazy JSC
Manager:	Silvio Ippoliti
Name changes:	Previously called Megalogistics Terminal Services

Kagazy Trading LLP

Full name: Kagazy Trading LLP
Type of legal entity: Limited liability partnership
Date/place of incorporation: Established in Kazakhstan on 13 June 2003
Registered number: 691-1907-05-TOO
Registered office address: Abai village, Karasai district, Almaty region 040905, Republic of Kazakhstan
Principal place of business: As above
Charter capital: KZT 100,000
Financial year end: 31 December
Shareholders: 100 per cent. owned by Kagazy Recycling LLP which in turn is 100 per cent. owned by Kazakhstan Kagazy JSC
Manager: Maksat Arip
Name changes: None

Kagazy Trading LLP operates via four branches in Petropavlovsk, Shymkent, Aktobe and Semey.

EcopacAsia LLC

Full name: EcopacAsia LLC
Type of legal entity: Limited liability company
Date/place of incorporation: Incorporated in Kyrgyzstan on 19 August 2005
Registered number: 22410-3300-OOO
Registered office address: 18 KV 42, 11 microdistrict, Oktaybrskiy district, Bishkek 720049, Kyrgyzstan
Principal place of business: As above
Share capital: Som 50,000
Financial year end: 31 December
Shareholders: 95 per cent. owned by Kagazy Recycling LLP which in turn is 100 per cent. owned by Kazakhstan Kagazy JSC 5 per cent. owned by Kazakhstan Kagazy JSC
Manager: Irina Pak
Name changes: None

Ekopak Osiyo LLC

Full name: Ekopak Osiyo LLC
Type of legal entity: Limited liability company
Date/place of incorporation: Incorporated in Uzbekistan on 3 June 2005
Registered number: 001256-10
Registered office address: 32, Xonadon, Unusobod, 6-Mavze, 43-UY, Uzbekistan
Principal place of business: As above
Share capital: USD 100,000
Financial year end: 31 December
Shareholders: 95 per cent. held by Kagazy Recycling LLP which in turn is 100 per cent. held by Kazakhstan Kagazy JSC, which is indirectly wholly held by the Company. 5 per cent. held by Mamadjanov Shukhrat Shavkatovich
Manager: Mamadjanov Shukhrat Shavkatovich
Name changes: None

Peak Akzhal

Full name:	Peak Akzhal LLP
Type of legal entity:	Limited Liability Partnership
Date/place of incorporation:	Incorporated in Kazakhstan on 23 January 2004.
Registered number:	736-1907-04-TOO
Registered office address:	Sadovaya 120, Boraldai, Ily district, Almaty region, Republic of Kazakhstan
Principal place of business:	As above.
Charter capital:	KZT 91,900
Financial year end:	31 December
Shareholders:	100 per cent. owned by Prime Estate Activities Kazakhstan
Manager:	Irina Yevtushenko
Name changes:	Previously Kazakhstan Kagazy Trade House LLP

4. The Lead Manager

The address of the Lead Manager is as follows:

ING Bank N.V., London Branch
60 London Wall
London, EC2M 5TQ

5. Significant Change

Except for the effects of the Company's restructuring in preparation for the Offer described in "Existing Shareholders and Related Party Transactions", and our draw-down of loans in the amount of US\$1.8 million, €5 million and US\$10 million, there has been no significant change in the financial or trading position of the Company and its subsidiaries since 31 March 2007.

6. Material Contracts

Customer Contracts

We produce container board, principally from recycled paper, corrugated board and packaging. We also sheet fine paper into different formats. Apart from selling our own products, we also import and trade third party products. We contract with our customers on the basis of standard form contracts, although these allow for flexibility as regards volume and typically only set out the agreed price per unit. Deliveries are made on the basis of individual supply orders issued by customers. In 2006, our top 20 corrugated products customers accounted for approximately 39 per cent. by value of our corrugated products sales and our top 20 paper traded products customers accounted for approximately 29 per cent. by value of our traded products sales. Brief details of the basis on which we contract with our customers are set out under "Business-Sales" above.

The EBRD Loan

On 25 May 2007, Kagazy Recycling LLP entered into the EBRD Loan, which comprises the following:

- a senior loan in the form of a EUR20 million "A" loan and a EUR13 million "B" loan (together the "Senior Loan"); and
- a subordinated loan of US\$10 million (the "Subordinated Loan").

The Senior Loan will be secured by first ranking security (shared on a *pari passu* basis with Kazkommertsbank JSC (as lender under a financing package comprised of US\$42 million of loans and financial leases)) on the immovable and movable (including receivables) property, the insurances and bank accounts of Kagazy Recycling LLP. Kagazy Recycling LLP is also required to maintain cash collateral equivalent to one interest and principal repayment instalment payment in an account secured in favour of the EBRD. In addition, Kazakhstan Kagazy JSC will provide a pledge over the shares of Kagazy Recycling LLP, a project funds undertaking until project completion and first-ranking security over certain land, buildings and other assets of Kazakhstan Kagazy JSC used in its paper-making business (and which are required to be transferred to Kagazy Recycling LLP by 30

June 2008) and a mortgage on land worth an additional US\$20 million until project completion. The Subordinated Loan will benefit from the same security package on a second-ranking basis.

The Senior Loan matures in 2014 and has a two-year grace period on principal payments with equal semi-annual repayment instalments commencing in July 2009. The Subordinated Loan will have two equal bullet repayments in 2014 and 2015. On final repayment of the Subordinated Loan, Kagazy Recycling LLP may be required to make an additional payment to the EBRD to ensure that its internal rate of return on the Subordinated Loan principal is at least 12 per cent.; conversely if the EBRD has made an internal rate of return on the Subordinated Loan principal in excess of 18 per cent. then it is required to return an amount equal to such excess to Kagazy Recycling LLP.

The interest rate for the Senior Loan is 6-month EURIBOR plus an initial margin of four per cent. per annum. The margin may reduce (by 25 bps steps) to three per cent. per annum if certain levels of debt service coverage ratio and long-term debt to EBITDA ratios are achieved by Kagazy Recycling LLP. The interest rate for the Subordinated Loan is calculated by reference to the EBITDA of Kagazy Recycling LLP for the previous financial year and is four per cent. of EBITDA (if more than US\$5 million of the Subordinated Loan is outstanding) or two per cent of EBITDA (if US\$5 million or less of the Subordinated Loan is outstanding).

The EBRD Loan contains financial covenants, including that the shareholders' equity of Kazakhstan Kagazy JSC must at all times be at least KZT 18,500,000,000. In addition, Kagazy Recycling LLP must comply with the following ratios:

- at all times after 1 July 2008, it must maintain a ratio of free cash flows to debt service of more than 1.3 to 1 for each 12 month period;
- at all times starting from 30 June 2008, it must maintain a financial debt to shareholders' equity ratio of less than 1.2 to 1;
- at all times starting from 30 June 2008, it must maintain a ratio of current assets to current liabilities of more than 1.5 to 1;
- at all times starting on and from 1 January 2009, it must maintain a ratio of long-term debt to EBITDA of no more than 3 to 1; and
- as at 30 June 2008, the shareholders' equity of Kagazy Recycling LLP shall be at least US\$67 million.

The EBRD Loan requires us to complete our expansion programme by 2012. At that date, the EBRD Loan requires our production to be at least:

- 85,000 tonnes per year of paper;
- 120 million square metres per year of corrugated board;
- 12,000 tonnes per year of hygienic paper; and
- more than 20,000 tonnes per year of polygraphic and office paper,

(the "Project").

The EBRD Loan contains restrictions on the incurrence of additional financial indebtedness (either on a secured or unsecured basis) or capital expenditure by Kagazy Recycling LLP and restricts Kagazy Recycling LLP from changing the nature of its business, disposing of its assets or making investments subject, in each case, to certain permitted exceptions.

Under the terms of the EBRD Loan, Kagazy Recycling LLP and Kazakhstan Kagazy JSC are required to adopt and maintain corporate governance measures consistent with the EBRD's guidelines on sound business standards and corporate standards. In connection with the Project, an environmental action plan is required to be implemented to improve environmental performance of the paper-making plant.

Following completion of the Offer, the EBRD Loan requires that Messrs. Zhunussov and Arip remain in control of Kazakhstan Kagazy plc, Kazakhstan Kagazy JSC and Kagazy Recycling LLP and retain at least an aggregate 35 per cent. beneficial interest in Kazakhstan Kagazy plc, Kazakhstan Kagazy JSC and Kagazy Recycling LLP. However Messrs. Zhunussov and Arip's aggregate ownership of Kazakhstan Kagazy plc, Kazakhstan Kagazy JSC and Kagazy Recycling LLP may fall below 35 per cent. if either or both of them transfer shares to a person with a long-term credit rating on its debt of at least BBB by Standard & Poor's (or the equivalent rating from Moody's Investors Services, Inc. or Fitch Ratings Ltd.) and provided EBRD has given its prior approval to such person.

The Senior Loan may be prepaid in part or in full at any time (on 30 days' notice) by Kagazy Recycling LLP with the payment of a prepayment fee equivalent to two per cent. of the principal amount of the Senior Loan being prepaid.

The Subordinated Loan may be prepaid in full at any time after 13 July 2012 (on 30 days' notice) by Kagazy Recycling LLP with the payment of a prepayment fee equivalent to one per cent. of the principal amount of the Subordinated Loan being prepaid and such additional amount which would result in EBRD obtaining an internal rate of return on the Subordinated Loan principal of 18 per cent.

In addition, if Messrs. Zhunussov and Arip cease to retain control of Kazakhstan Kagazy plc, Kazakhstan Kagazy JSC and Kagazy Recycling LLP at any time, other than as permitted under the terms of the EBRD Loan, the EBRD has the right to demand prepayment in full of the Senior Loan and the Subordinated Loan.

Kagazy Recycling LLP and Kazakhstan Kagazy plc have given to EBRD a priority right (but without any obligation) for EBRD to participate in the Offer. EBRD has elected to participate in the Offer and will assign all its rights under the Subordinated Loan to Kazakhstan Kagazy plc in payment for the Shares it will receive. In addition, Kagazy Recycling will be required to pay to the EBRD an assignment fee in the amount of 10 per cent. of the amount of the Subordinated Loan so assigned in addition to any interest accrued on the Subordinated Loan from the date of disbursement until the date of such assignment.

The EBRD Loan also contains a number of conditions to the making of disbursements, including that there has not occurred any material adverse effect on the business of Kagazy Recycling LLP, the EBRD has received confirmation from its monitoring consultant that the Project is being satisfactorily implemented, the EBRD has received confirmation from the auditors of Kagazy Recycling LLP that US\$10,000,000 of shareholders' equity has been contributed by Kazakhstan Kagazy JSC to Kagazy Recycling LLP and that EBRD has received satisfactory legal opinions as to matters of Kazakh, Dutch, Cypriot, Isle of Man and English law.

Please see "Operating and Financial Review and Prospects – Liquidity and Capital Reserve – Borrowings" for details of our other financing arrangements.

7. Conflicts of Interest

Our indirect shareholders, Directors and, respectively, Chairman and Chief Executive Officer, Messrs. Zhunussov and Arip, have entered into a pre-emption agreement with Kazakhstan Kagazy JSC pursuant to the terms of which Kazakhstan Kagazy JSC will have a right of first refusal to acquire any land that Messrs. Zhunussov and Arip acquire, with a view to this being developed into warehousing and logistics parks, following receipt of permission for a change of use of the land concerned. The consideration payable pursuant to the pre-emption agreement is the value of the land, as determined by an independent appraiser, less ten per cent.

The staff that work at the Group's waste paper collection centres are provided by Kazvtorsyr'e LLP, a company owned by a relative of Baglan Zhunussov, our Chairman, under the terms of an outsourcing contract that is on arm's length terms. The waste paper collected at the collection centres is largely bought by Kazvtorsyr'e LLP for cash, and the Group in turn buys this waste paper from Kazvtorsyr'e LLP. Kazvtorsyr'e LLP charges the Group on the basis of cost plus an arm's length administrative charge.

Potential Conflicts

Save as set out above, no Director or senior manager has any potential conflict of interest between his duties to us and his private interests or other duties.

It should be noted that the Directors are obliged to comply with Isle of Man law requirements in relation to conflicts of interest, which include the requirement that Directors having an interest in a transaction submitted for approval to the Board conflicting with an interest of the Company must advise the Board of the interest, and that in certain instances these requirements prevent a Director who has such an interest from counting towards the quorum of, or voting in, a meeting of the Board.

Transactions With Directors

Save as set out above, no Director or senior manager has, or has had, any interest in any transaction related to us which is or was unusual in its nature or conditions or which is, or was,

significant in relation to our business, and which was effected by us or any of our subsidiaries during the current or immediately preceding financial year, or during any earlier financial year and remains in any respect outstanding or unperformed.

8. Other Directorships

The table directly below sets out our current directors' and senior managers' former directorships and partnerships over the past five years.

Director/Senior Manager	Current directorships and partnerships	Former directorships and partnerships
Baglan Zhunussov	Director and Chairman, Kazakhstan Kagazy plc Director, Kagazy Invest LLP Director, Kagazy Recycling LLP Director, Holding Invest LLP Director, Kagazy Investment ltd LLP President, Mountaineering and Climbing Federation of the Republic of Kazakhstan Director, Sport Development Commission, International Federation of Sport Climbing Pleco Limited	Managing Director, Halyk Bank JSC President, KazTransCom JSC General Director, Spectrum LLP
Maksat Arip	Director and Chief Executive Officer, Kazakhstan Kagazy plc General Director, Kazakhstan Kagazy JSC Oreo Limited	First Deputy to Director General, KazTransCom JSC Finance Director, Spectrum LLP Director, Kagazy Invest LLP General Director, Kagazy Recycling LLP Director, Holding Invest LLP Director, Kagazy Investment ltd LLP Director, Papsel Kazakhstan LLP
Thomas Johnson	Independent Non-Executive Director, Kazakhstan Kagazy plc Director, Crestfield Development Limited	Director, London Hotel Management Limited
Sergey Tulegenov	Director, Crestfield Development Limited, Director and Deputy General Director, Kazakhstan Kagazy JSC	Director, Kazvtorsyryo Director of Contract Department and Executive Director, KazTransCom JSC Branch Director, Spectrum LLP
Alessandro Manghi	Group Investor Relations and Corporate Finance Director, Kazakhstan Kagazy JSC Director, Megasol Investments Limited	Director, Londongate Reinsurance Company SA
Aidar Akhmetov	Non-Executive Director, Kazakhstan Kagazy JSC Managing Director, Kazkommertsbank JSC Chairman, Grantum CPF JSC Chairman, Grantum Asset Management PAIMC JSC Director, Uler Umit CPF JSC	Deputy Chairman of the Board, ABN Amro Bank Kazakhstan CJSC Chairman of the Board, ABN Amro Asset Management CJSC

Director/Senior Manager	Current directorships and partnerships	Former directorships and partnerships
	Chairman, Zhetysu PAIMC JSC President, RIF Direct Investments Funds JSC Member of the Board of trustees of Kus Zholy Public Charity Foundation	
Yuriy Bogday	Group Business Development Director, Kazakhstan Kagazy JSC	Director, Kagazy Trading LLP Director, Teletrade Siberia
Silvio Ippoliti	Director General, PEAK	Director General, Marcora Stroi Kazakhstan Director General, Renco Kat
Ernek Mubarakov	Paper and Cutting Production Director, Kagazy Recycling LLP	Deputy Director, Altaikrovlia Paper Co. Vice President, Karton Polygrafic Combine
Sabigazy Mangeldiev	Director of Recycling, Kagazy Trading LLP	Director, AMT Kazakhstan Director, Kazvtorsyryo
Nurlan Sharipov	Exploitation Director, PEAK	General Director, NEK Alafreight JV LLP, Director, Terminal Ltd. Executive Director, MPA Ltd
Jos van Lent	Corrugated Packaging Division Director, Kagazy Recycling LLP	Director, Kappa Packaging Director, Kappa Warsaw & Kappa Konin Director and Chief Operating Officer, Model Management AG
Shynar Dihanbaeva	Finance Director, Kazakhstan Kagazy JSC	Finance Director, Seimar Investment Group
Irina Yevtushenko	Commercial Director, Kazakhstan Kagazy JSC	Director and Financial Director, Spectrum LLP
Taissyia Kogutuk	Administrative Director, Kazakhstan Kagazy JSC	Director of Administrative Department, Kazakhstan Kagazy JSC

There are no family relationships between any of the Directors or senior managers, except that Yuriy Bogday is the brother-in-law of Baglan Zhunussov.

9. Documents Available for Inspection

Copies of the following documents will be on display during normal business hours on any weekday, at the offices of the Lead Manager at 60 London Wall, London EC2M 5TQ, England for one month from the date of this prospectus:

- a. the Articles;
- b. the Deposit Agreement;
- c. the Underwriting Agreement; and
- d. the audited consolidated financial statements of Kazakhstan Kagazy JSC as at and for the years ended 31 December 2004, 2005 and 2006, together with the auditors' report relating thereto.

DEFINITIONS

General

The following definitions apply throughout this document unless the context requires otherwise:

“Articles”	The articles of association of Kazakhstan Kagazy plc.
“Bookrunner”	ING Bank N.V., London Branch, in its capacity as bookrunner.
“Business Day”	A day on which banks are open for business in London.
“CIS”	The Commonwealth of Independent States.
“Clearstream, Luxembourg”	Clearstream Banking S.A.
“Closing Date”	25 July 2007.
“Competition Committee”	The Committee for the Protection of Competition, part of the Kazakh Ministry of Industry.
“Consumer Price Index”	A measure of the average change in prices over time of goods and services purchased by households.
“Corporate Reorganisation”	The corporate reorganisation of the Company and its subsidiaries effected during the first quarter of 2007.
“Deed Poll”	The deed poll executed by the Company in favour of the holders of GDRs in connection with the Deposit Agreement.
“Deposit Agreement”	The deposit agreement to be dated on or about 23 2007 between the Company and the Depositary.
“Depositary”	The Bank of New York.
“Directors” or “Board”	The directors of the Company including any duly appointed committee thereof.
“DTC”	The Depositary Trust Company.
“EBITDA”	Earnings before interest, taxes, depreciation and amortisation.
“EBRD”	The European Bank for Reconstruction and Development.
“EBRD Loan”	The loan provided by the EBRD, details of which are set out in “General Information – 6. Material Contracts – The EBRD Loan”.
“EEA”	The European Economic Area.
“EU”	The European Union.
“EURIBOR”	The Euro Interbank Offered Rate, the rate at which Euro interbank term deposits within the Euro zone are offered by one prime bank to another.
“Euroclear”	Euroclear Bank S.A./N.V.
“Exchange Act”	The United States Securities Exchange Act of 1934, as amended.
“Financial Services Authority” or “FSA”	The Financial Services Authority of the United Kingdom.
“Financial Statements”	The financial statements included in this prospectus beginning on page F-2, being the audited consolidated financial statements of Kazakhstan Kagazy JSC as at and for the years ended 31 December 2004, 2005 and 2006, the unaudited interim consolidated financial statements for Kazakhstan Kagazy JSC for the three month periods ended 31 March 2006 and 31 March 2007 and the audited financial information for Kazakhstan Kagazy plc as of and for the period from 15 March 2007 to 31 March 2007.
“FSMA”	The Financial Services and Markets Act 2000 (as amended).
“GDP”	Gross domestic product.
“GDRs”	The global depositary receipts, details of which are set out in “Terms and Conditions of the GDRs”.
“Government”	The government of the Republic of Kazakhstan.

“IFRS”	International Financial Reporting Standards as adopted by the European Union.
“Kazakhstan”	The Republic of Kazakhstan.
“Lead Manager or ING”	ING Bank N.V., London Branch, in its capacity as lead manager for the admission.
“Listing Rules”	The listing rules made by the Financial Services Authority under section 73A of the Financial Services and Markets Act 2000.
“London Stock Exchange”	London Stock Exchange plc.
“Master GDRs”	The Master Regulation S GDR and the Master Rule 144A GDR.
“Master Regulation S GDR”	The Master Regulation S Global Depositary Receipt evidencing the Regulation S GDRs.
“Master Rule 144A GDR”	The Master Rule 144A Global Depositary Receipt evidencing the Rule 144A GDRs.
“NBK”	National Bank of Kazakhstan.
“Offer”	The offer of GDRs to institutional and certain other investors as described in “Subscription and Sale”.
“Offer Price”	The offer price of the GDRs set forth on the cover page of this prospectus.
“Official List”	The official list of the Financial Services Authority.
“Order”	The FSMA (Financial Promotion) Order 2005.
“PEAK”	Prime Estate Activities Kazakhstan LLP.
“PORTAL”	The PORTAL™ Market of the NASDAQ Stock Exchange, Inc.
“Prospectus Directive”	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading, and amending Directive 2001/34/EC.
“Prospectus Rules”	The prospectus rules made by the Financial Services Authority under section 73A of the Financial Services and Markets Act 2000 (as amended).
“QIB”	A qualified institutional buyer as defined in Rule 144A.
“Qualified Investors”	Qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive.
“Regulation S”	Regulation S under the Securities Act.
“Regulatory Information Service”	A service, approved by the UK Financial Services Authority, through which listed companies shall disseminate regulatory information.
“Rule 144A”	Rule 144A under the Securities Act.
“Securities Act”	The United States Securities Act of 1933, as amended.
“Share”	An ordinary share in the capital of the Company, with a par value of US\$0.10.
“UKLA” or “UK Listing Authority”	The Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000.
“Valuation Reports”	The reports prepared by Scot Holland in association with CB Richard Ellis and dated 24 and 25 May 2007 relating to certain properties owned by us.
“Valuer”	Scot Holland in association with CB Richard Ellis.
“We”, “Us”, “Our”, the “Company” or the “Group”	Kazakhstan Kagazy plc and, as the context requires, its direct and indirect consolidated subsidiaries.

GLOSSARY OF TECHNICAL AND INDUSTRY TERMS

Set forth below are definitions of technical terms relating to the paper and real estate industries:

“Class” (of property)	A subjective division of buildings by desirability among tenants and investors. Criteria include age, location, construction type and quality, attractiveness of style, level of maintenance, level of facilities and so on. The class may be based on standards for market acceptance or the type of construction materials used. Classes based on market acceptance are not equivalent to those based on construction materials.
“Class A”	A Class A property has high quality and is well designed, using above-average materials, workmanship, and finish; is sought by investors and prestigious tenants; and is excellently fitted out and maintained and very well managed, especially if the building is more than 10 years old. Attractive and efficient, these building are the most desirable in their markets.
“Class B”	A Class B property offers useful space without special attractions; a functional layout and design, although it is not unique; average to good maintenance, management and facilities and is either of relatively recent construction or has recently been refurbished.
“coated paper”	Paper coated for the production of magazines.
“container board”	Paper made to produce corrugated packaging.
“corrugated board”	Board made out of liners and fluting in three, five or seven layers where respectively one, two or three middle layers are corrugated.
“fluting”	The middle, corrugated, layer in corrugated board, which gives corrugated board its thickness and stacking strength. It is made from recycled paper or broadleaf tree wood, or a mixture of both.
“hygienic paper”	Paper made from cotton or soft cellulose for easy moisture absorption. It is used for tissues, paper towels, toilet paper and other hygiene products.
“kraft liner”	Paper to produce corrugated packaging made from virgin fibre or pine wood.
“office paper”	Paper used as copying, printing or writing paper.
“recycled container board”	Paper made from recycled paper to produce corrugated packaging.
“schrenz”	Paper made from low quality waste paper such as magazines and newsprint and used mostly for liners. It is the lowest quality paper produced.
“test liner”	Paper used for outside liners to produce corrugated board, made from recycled paper.
“test liner 3”	A type of liner made from mixed waste paper in one or more layers.
“semi chemical”	Paper used to produce corrugated packaging, made from broadleaf trees.
“top test liner” or “test liner 1”	A type of liner used in the production of corrugated board, made from recycled paper, with a top cellulose brown, white or mottled layer.
“virgin fibre”	Cellulose.
“wellenstof”	Paper used for the corrugated, middle layer in corrugated board production, and made exclusively from recycled fibre (waste paper) and starch for stiffness.

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BDO Kazakhstanaudit
International audit

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Licenses:

General State License on audit activity #0000276 issued by Ministry of Finance of RK dated 24.06.2004 (original license #0000001 AK Kazakhstanaudit was reregistered due to change of name to BDO Kazakhstanaudit).

"APPROVED"



REPORT OF THE INDEPENDENT AUDITORS

To the Shareholders of Kazakhstan Kagazy JSC

We have audited the accompanying consolidated financial statements of Kazakhstan Kagazy JSC and its subsidiaries (hereafter "the Group") for the years ended 31 December 2004, 2005 and 2006, which comprise the Consolidated Balance Sheets, the Consolidated Income Statements, the Consolidated Statements of Changes in Shareholders' Equity and the Consolidated Cash Flow statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group for the years ended 31 December 2004, 2005 and 2006, and of its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

Auditor
«BDO Kazakhstanaudit» LLP
Qualifying Certificate #497 issued by
Qualifying Commission of RK on attestation
of auditors dated 18.01.2000



R.K.Taipova

050036, Almaty city, microdistrict 6, 56-A
Reg number: 61409-1910-TOO

S. Kh. Koshkimbayev, E.Kh. Mamleev, A.E. Koshkimbayev,
E.B. Kaparva, I.V. Sipakova, R.K. Taipova, D.V. Lariionov

30 May 2007

CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2006, 2005 AND 2004

ASSETS	Notes	31 December 2006	31 December 2005	31 December 2004
		KZT'000	KZT'000	KZT'000
Non-current assets				
Property, plant and equipment.....	5	22,561,504	10,543,225	5,316,934
Intangible assets.....	6	5,117	3,397	1,783
Prepayments in respect of construction contracts.....	7	2,887,336	293,473	354,889
VAT recoverable.....		1,100,645	—	—
Cash and cash equivalents on special deposits.	8	345,000	—	—
		26,899,602	10,840,095	5,673,606
Current assets				
Inventories	9	6,094,200	1,094,415	321,385
Prepayments in respect of goods and construction contracts.....	10	7,590,292	1,104,153	755,832
Other current assets.....	11	790,728	5,621	895
Trade and other receivables	12	626,981	3,149,966	1,095,542
Cash and cash equivalents.....	13	80,584	43,557	37,897
		15,182,785	5,397,712	2,211,551
Total assets		42,082,387	16,237,807	7,885,157
EQUITY AND LIABILITIES				
Equity				
Share capital.....	14	6,356,996	4,380,496	657,039
Share premium	14	3,953,000	—	—
Revaluation reserve		1,822,202	872,406	1,034,098
Retained earnings		906,953	705,942	304,079
		13,039,151	5,958,844	1,995,216
Non-current liabilities				
Interest bearing loans and borrowings.....	15	17,096,716	7,178,599	2,734,246
Deferred tax liabilities	16	998,728	508,673	476,888
Other long-term liabilities.....		—	—	17,367
		18,095,444	7,687,272	3,228,501
Current liabilities				
Interest bearing loans and borrowings.....	15	6,163,829	961,821	1,582,020
Corporate income tax payable		9,488	9,098	—
Other tax liabilities	17	65,331	23,114	11,087
Trade and other payables.....	18	4,709,144	1,597,658	1,068,333
		10,947,792	2,591,691	2,661,440
Total equity and liabilities.....		42,082,387	16,237,807	7,885,157

The accompanying notes are an integral part of these financial statements

Authorised and approved on behalf of the Board of Directors

M.A. Arip
Director of Kagazy Investment ltd LLP,
Sole shareholder of Kazakhstan Kagazy JSC

S.N. Dikhanbayeva
Finance director,
Kazakhstan Kagazy JSC

**CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006, 2005 AND 2004**

	Notes	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
		KZT'000	KZT'000	KZT'000
Revenue	19	7,004,313	4,425,936	2,144,649
Cost of sales.....		(5,183,269)	(3,009,114)	(1,390,897)
Gross profit		1,821,044	1,416,822	753,752
Selling, expenses.....	20	(458,094)	(226,868)	(212,694)
Administrative expenses.....	21	(489,846)	(307,281)	(196,730)
Finance costs	22	(884,969)	(635,386)	(375,555)
Other income and expenses	23	185,348	34,941	298,397
Profit before tax		173,483	282,228	267,170
Income tax expense.....	24	(54,905)	(42,057)	(12,952)
Profit for the year		118,578	240,171	254,218
Earnings per share				
Basic and diluted (KZT per share).....	25	22	223	500

The accompanying notes are an integral part of these financial statements
Authorised and approved on behalf of the Board of Directors

M.A. Arip
Director of Kagazy Investment ltd LLP,
Sole shareholder of Kazakhstan Kagazy JSC

S.N. Dikhanbayeva
Finance director,
Kazakhstan Kagazy JSC

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2006, 2005 AND 2004**

	Share capital ¹	Share premium ²	Revaluation reserves ³	Retained earnings ⁴	TOTAL EQUITY
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
Balance at 1 January 2004	80	—	1,061,861	22,098	1,084,039
Transfer of depreciation on revalued property, plant and equipment	—	—	(27,763)	27,763	—
Net income recognised directly in equity	—	—	(27,763)	27,763	—
Profit for the year.....	—	—	—	254,218	254,218
Total recognised income and expense for the year	—	—	(27,763)	281,981	254,218
Issue of shares.....	656,959	—	—	—	656,959
Balance at 31 December 2004	657,039	—	1,034,098	304,079	1,995,216
Balance at 1 January 2005	657,039	—	1,034,098	304,079	1,995,216
Transfer of depreciation on revalued property, plant and equipment	—	—	(76,036)	76,036	—
Disposal of revalued property, plant and equipment.....	—	—	(85,656)	85,656	—
Net income recognised directly in equity	—	—	(161,692)	161,692	—
Profit for the year.....	—	—	—	240,171	240,171
Total recognised income and expense for the year	—	—	(161,692)	401,863	240,171
Issue of shares.....	3,723,457	—	—	—	3,723,457
Balance at 31 December 2005	4,380,496	—	872,406	705,942	5,958,844
Balance at 1 January 2006	4,380,496	—	872,406	705,942	5,958,844
Transfer of depreciation on revalued property, plant and equipment	—	—	(74,322)	74,322	—
Revaluation of property, plant and equipment (net deferred tax).....	—	—	1,032,229	—	1,032,229
Disposal of revalued property, plant and equipment.....	—	—	(8,111)	8,111	—
Net income recognised directly in equity	—	—	949,796	82,433	1,032,229
Profit for the year.....	—	—	—	118,578	118,578
Total recognised income and expense for the year	—	—	949,796	201,011	1,150,807
Issue of shares.....	1,976,500	3,953,000	—	—	5,929,500
Balance at 31 December 2006	6,356,996	3,953,000	1,822,202	906,953	13,039,151

The accompanying notes are an integral part of these financial statements

- 1 Share capital is the amount subscribed for shares at nominal value.
- 2 Share premium represents the excess of the amount subscribed for share capital over the nominal value of these shares net of share issue expenses.
- 3 Revaluation reserves represents the cumulative surplus value of the property, plant and equipment over historic cost less amounts transferred to retained earnings representing the proportion of the revaluation reserve charged in the income statement in respect of depreciation of the revalued properties.
- 4 Retained earnings represent the cumulative profit/(loss) of the Group attributable to the equity shareholders.

Authorised and approved on behalf of the Board of Directors

M.A. Arip
Director of Kagazy Investment Ltd LLP,
Sole shareholder of Kazakhstan Kagazy JSC

S.N. Dikhanbayeva
Finance director,
Kazakhstan Kagazy JSC

**CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006, 2005 AND 2004**

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
	KZT'000	KZT'000	KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax.....	173,483	282,228	267,170
Adjustments for:			
Depreciation of property, plant and equipment.....	204,538	154,541	107,444
Amortisation of intangible assets.....	711	479	148
Amortisation of bond discount.....	46,552	25,668	—
Loss on disposal of property, plant and equipment.....	14,213	87,784	—
Foreign exchange profit/(loss) on loans and interest.....	(179,950)	85,502	(332,038)
Interest expense.....	846,794	592,620	375,555
	1,106,341	1,228,822	418,279
Decrease/(increase) in trade and other receivables.....	2,522,822	(2,054,474)	(725,402)
(Increase) in inventories.....	(302,097)	(466,390)	(37,580)
(Increase) in other current assets.....	(785,107)	(4,718)	(736)
(Increase) in prepayments in respect of goods and construction contracts...	(6,486,139)	(348,329)	(438,466)
Increase in other tax liabilities.....	42,217	12,027	2,560
(Increase) in non-current VAT recoverable.....	(1,100,645)	—	—
Increase in trade and other payables.....	2,893,065	565,010	170,246
Interest paid.....	(575,538)	(628,786)	(520,698)
Income tax paid.....	(6,811)	(1,124)	(50)
<i>Net cash used in operating activities</i>	(2,691,892)	(1,697,962)	(1,131,847)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment.....	(2,281,373)	(836,769)	(136,521)
Purchase of intangible assets.....	(2,431)	(2,193)	(1,771)
Proceeds from sale of property, plant and equipment and construction in progress.....	313,861	19,025	—
Expenditure on construction in progress including advance payments in respect of construction contracts.....	(10,856,061)	(1,868,396)	(1,188,475)
Capitalised borrowing costs on construction in progress.....	(532,822)	(207,852)	(88,421)
Payments of cash and cash equivalents into special deposits.....	(345,000)	—	—
<i>Net cash used in investing activities</i>	(13,703,826)	(2,896,185)	(1,415,188)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of bonds.....	6,380,874	3,814,713	—
Receipt of bank loans.....	9,617,623	1,659,262	4,473,844
Proceeds from issue of shares.....	1,231,112	903,712	656,959
Settlement of bank loans.....	(796,869)	(1,760,513)	(2,390,080)
Redemption of non-current liabilities.....	—	(17,367)	(163,966)
<i>Net cash from financing activities</i>	16,432,740	4,599,807	2,576,757
NET INCREASE IN CASH AND CASH EQUIVALENTS	37,022	5,660	29,722
Currency translation adjustment.....	5	—	—
NET INCREASE IN CASH AND CASH EQUIVALENTS	37,027	5,660	29,722
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	43,557	37,897	8,175
CASH AND CASH EQUIVALENTS AT YEAR END	80,584	43,557	37,897

The accompanying notes are an integral part of these financial statements

Authorised and approved on behalf of the Board of Directors

M.A. Arip

Director of Kagazy Investment Ltd LLP,
Sole shareholder of Kazakhstan Kagazy JSC

S.N. Dikhanbayeva

Finance director,
Kazakhstan Kagazy JSC

**Notes to consolidated financial statements
for the Years ended 31 December 2006, 2005 and 2004**

Note 1. Description of the business and corporate information

Kazakhstan Kagazy JSC (the “Company”) is an open joint-stock company registered in the Republic of Kazakhstan. The Company’s principal operating office is at the following address: Abay village, Karasay District, Almaty Region.

The Company and its subsidiaries (the “Group”) operate in two major reportable business segments, which are:

- 1) the production and sale of paper, corrugated packaging and other paper products (“Paper”); and
- 2) the development of land and construction of property for either the purposes of sale, or retention as investment property (“Property”).

The Company is in the process of changing its principal activity to that of a holding company for its two separate paper and real estate businesses. The Company will however continue to operate its own paper manufacturing assets until these can be transferred to one of its subsidiaries. The Company will also continue to directly hold some of its real estate assets (during the three years ended 31 December 2006 the Company’s activities included manufacturing, sales and marketing of paper products). The Company’s immediate parent entity is Kagazy Investment Ltd. LLP (prior to 4 May 2007 the immediate parent was Kagazy Invest LLP). The Company conducts most of its operations through its subsidiaries and the principal activities of those subsidiaries are detailed below:

Entity:	Principal activity	Immediate parent entity
Operating in the Paper Business:		
Kagazy Recycling LLP	Production of paper, corrugated materials, sheeting and hygienic paper	Kazakhstan Kagazy JSC
Kagazy Trading LLP	Trading and marketing of various paper products, purchases of chemicals for paper production	Kagazy Recycling LLP
Ecopak Osiyo LLC	Distribution and sale of paper products	Kagazy Recycling LLP
EcopacAsia LLC	Distribution and sale of paper products	Kagazy Recycling LLP
Operating in the Paper Business:		
Prime Estate Activities Kazakhstan LLP (“PEAK”).....	Property and land development for real estate projects	Kazakhstan Kagazy JSC
PEAK Akzhal LLP	PEAK Logistics centre	PEAK

All the above group companies are incorporated and operate in the Republic of Kazakhstan, except for Ecopak Osiyo LLC and EcopacAsia LLC which operate in Uzbekistan and Kyrgyzstan respectively.

Further details of the above subsidiaries are set out in Note 23 Other information on subsidiaries to these financial statements.

Employees

As of 31 December 2006 the Group employed 965 persons (2005 – 727 persons, 2004 – 588 persons).

Directors’ responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with International Financial Reporting Standards (IFRS and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) as adopted by the EU.

The directors prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the company. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUTHORISATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were authorised for issue on 29 May 2007 by Kagazy Investment Ltd LLP, the sole shareholder of Kazakhstan Kagazy JSC.

Note 2. Basis of preparation of consolidated financial statements

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented unless otherwise stated.

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) as adopted by the EU and with those parts of Kazakh Law applicable to companies preparing their financial statements under IFRS.

(a) *Amendments to published standards and interpretations to existing standards effective in 2006 adopted by the Group*

– *IFRIC 4, Determining whether an Arrangement contains a Lease* (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets ('the asset'); and (b) the arrangement conveys a right to use the asset. Management assessed the impact of IFRIC 4 on the Group's operations by reviewing all the existing arrangements. There was no impact of the adoption of IFRIC 4 on the results or net assets of the Group.

– *IAS 39 (Amendment) The Fair Value Option* (effective from 1 January 2006). This amendment changes the identification of financial instruments classified at fair value through the profit and loss account and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of the financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group applied this amendment from 1 January 2006, which has no impact on the results or net assets of the Group.

– *IAS 21 (Amendment) Net Investment in a Foreign Operation* (effective 1 January 2006). The amendment requires exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation to be recognised initially in a separate component of equity in the consolidated financial statements. In particular, it relates to treatment of such monetary items that are denominated in a currency other than the functional currency of either the reporting entity or the foreign operation. This requirement applies irrespective of the currency of the monetary item and of whether the monetary item results from a transaction with the reporting entity or any of its subsidiaries. The Group applied this amendment from 1 January 2006, which has no impact on the results or net assets of the Group.

(b) *Standards, interpretations and amendments to published standards effective in 2006 but are not relevant to the Group*

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2006 but are currently not relevant to the Group's operations:

– *IAS 19 (Amendment), Employee Benefits* (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. This amendment is not relevant to the Group's operations, as the Group does not have any defined employment benefit schemes as of 31 December 2006, 2005 and 2004.

– *IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intra-group Transactions* (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intra-group transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intra-group transactions that would qualify as a hedged item in the consolidated financial statements as of 31 December 2006, 2005 and 2004.

– *IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts* (effective from 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value and subsequently measured at the higher of: (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to IAS 39 and concluded that it is not relevant to the Group.

– *IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006). These amendments are not relevant to the Group's operations as the Group is not a first-time adopter of IFRS nor does it carry out exploration for and evaluation of mineral resources.

– *IFRS 6, Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006). IFRS 6 is not relevant to the Group's operations.

– *IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (effective from 1 January 2006). IFRIC 5 is not relevant to the Group's operations.

– *IFRIC 6, Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* (effective from 1 December 2005). IFRIC 6 is not relevant to the Group's operations.

(c) *Standards, amendments and interpretations to published standards not yet effective*

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods but the Group has decided not to adopt early. These are:

– *IAS 23 Borrowing Costs (revised) (effective from 1 January 2009)*. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The Group will apply this standard in the accounting period beginning 1 January 2009 and the application is not expected to result in any impact on the results or net assets of the Group.

– *IFRS 7, Financial Instruments: disclosures and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures* (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions and the disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS.

The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 to the accounts for the period beginning on 1 January 2007.

– *IFRS 8**, Operating Segments* (effective from 1 January 2009). This standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. It replaces IAS 14, Segmental Reporting. The Group will apply this standard in the accounting period beginning on 1 January 2009 and the application will not result in any impact on the results or net assets of the Group.

– *IFRIC 7, Applying the restatement approach under IAS 29, Financial Reporting in Hyperinflationary Economies* (effective for accounting periods beginning on or after 1 March 2006). IFRIC 7 provides guidance on the application of IAS 29 requirements in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the company was not hyperinflationary in the prior period. IFRIC 7 is not relevant to the Group as none of the Group companies has a currency of hyperinflationary economy as its functional currency.

– *IFRIC 8, Scope of IFRS 2* (effective for accounting periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving issuance of equity instruments to establish whether or not they fall within the scope of IFRS 2. It applies to the situations where the identifiable consideration received is less than the fair value of the equity instruments issued. Management is currently assessing the impact of IFRIC 8 on the Group financial statements.

– *IFRIC 9, Reassessment of embedded derivatives* (effective for accounting periods beginning on or after 1 June 2006). IFRIC 9 requires the entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when an entity becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. Management is currently assessing the impact of IFRIC 9 on the Group financial statements.

– *IFRIC 10**, Interim Financial Reporting and Impairment* (effective for accounting periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007 but it is not expected to have any impact on the Group's financial statements.

– *IFRIC 11**, IFRS 2 – Group and Treasury Share Transactions* (effective for accounting periods beginning on or after 1 March 2007). Share-based payment transactions in which an entity receives services as consideration for its own equity instruments shall be accounted for as equity-settled. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement. It also applies regardless of whether: (a) the employee's rights to the entity's equity instruments were granted by the entity itself or by its shareholder(s); or (b) the share-based payment arrangement was settled by the entity itself or by its shareholder(s). As the Group has not entered into any share based payment transactions, adoption of this standard is not expected to have any impact on the Group's financial statements.

– *IFRIC 12**, Service Concession Arrangements* (effective for accounting periods beginning on or after 1 January 2008). IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Group's operations due to absence of such arrangements.

** Please note that these standards have not yet been endorsed by the European Financial Reporting and Advisory Group

Note 3. Critical accounting estimates and judgements

The Group makes estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Carrying values of property, plant and equipment (“PP&E”)

The Group monitors internal and external indicators of impairment relating to its PP&E. Management has considered whether any indicators of impairment have arisen relating to either the Group's paper business, or property business, particularly with respect to the expected revenues and profits from the operation of the paper business and external valuations. After assessing these, management has concluded that no impairment has arisen in respect of these assets during and since the year ended 31 December 2006.

(b) Carrying values of trading properties

The Group monitors internal and external indicators of the net realisable value of its trading properties. Management has considered whether any indicators of a significant reduction in net realisable values have arisen relating to the Group's trading properties, particularly with reference to external valuations. After assessing these, management have concluded that no provisions are required in respect of the carrying values of the trading properties during and since the year ended 31 December 2006.

(c) Useful lives of intangible assets and PP&E

Intangible assets and PP&E are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Due to the long lives of certain assets, changes to the estimates used can result in significant variations in the carrying value.

(d) Fair value of financial instruments

The Group determines the fair value of financial instruments that are not quoted, based on estimates using present values or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Where market prices are not readily available, fair value is either based on estimates obtained from independent experts or quoted market prices of comparable instruments. In that regard, the derived fair value estimates cannot be substantiated by comparison with independent markets and, in many cases, could not be realised immediately.

(e) Income taxes

The Group is subject to income tax in the Republic of Kazakhstan and significant judgement is required in determining the provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Group recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when, despite the Group's belief that its tax return positions are supportable, the Group believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

(f) Legal proceedings

In accordance with IFRS the Group only recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Realisation of any contingent liabilities not currently recognised or disclosed in the financial statements could have a material effect on the Group's financial position. Application of these accounting principles to legal cases requires the Group's management to make determinations about various factual and legal matters beyond its control. The Group reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

Note 4. Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements of the Group:

Basis of consolidation

Subsidiaries are those companies controlled, directly or indirectly by Kazakhstan Kagazy JSC. Control exists where the Company has the power directly or indirectly to govern the financial and

operating policies of an enterprise so as to obtain benefits from its activities. Except as noted below, subsidiaries are consolidated from the date of acquisition (i.e. the date on which control of the subsidiary effectively commences) to the date of disposal (i.e. the date on which control over the subsidiary effectively ceases).

Except as noted below, the financial statements of subsidiaries are included in the consolidated financial statements using the acquisition method of accounting. On the date of acquisition the assets and liabilities of the relevant subsidiaries are measured at their fair values. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Accounting for the Group's acquisition of entities under common control

The Group acquired its controlling interests in its wholly owned subsidiaries Kagazy Recycling LLP, PEAK Akzhal LLP, Prime Estate Activities Kazakhstan LLP and Kagazy Trading LLP (together the "Acquired Entities") through transactions under common control, as defined in IFRS 3 Business Combinations. Further details of these acquisitions are set out in Note 30 Other information on subsidiaries to the financial statements. The directors note that transactions under common control are outside the scope of IFRS 3 and that there is no guidance elsewhere in IFRS covering such transactions. IFRS contain specific guidance to be followed where a transaction falls outside the scope of IFRS. This guidance is included at paragraphs 10 to 12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. This requires, *inter alia*, that where IFRS does not include guidance for a particular issue, the directors may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards. In this regard, it is noted that the United States Financial Accounting Standards Board (FASB) has issued an accounting standard covering business combinations (FAS 141) that is similar in a number of respects to IFRS 3. Further there is currently a major project being run jointly by the IASB and FASB to converge IFRS and US GAAP. In contrast to IFRS 3, FAS 141 does include, as an Appendix, limited accounting guidance for transactions under common control which, as with IFRS 3, are outside the scope of that accounting standard. The guidance contained in FAS 141 indicates that a form of accounting that is similar to pooling of interests accounting, which was previously set out in APB Opinion 16, may be used when accounting for transactions under common control.

Having considered the requirements of IAS 8, and the guidance included within FAS 141, it is considered appropriate to use a form of accounting which is similar to pooling of interests when dealing with the transaction in which the Group acquired its controlling interests in the Acquired Entities.

In consequence, the financial statements for Kazakhstan Kagazy JSC report the result of operations for the period as though the acquisition of its controlling interests through transactions under common control had occurred on incorporation of each of the Acquired Entities. The effects of inter company transactions have been eliminated in determining the results of operations for the periods prior to the acquisition of the controlling interest, meaning that those results are on substantially the same basis as the results of operations for the period after the acquisition of the controlling interest.

Similarly, the consolidated balance sheets and other financial information have been presented as though the assets and liabilities of the combining entities had always been part of the Group.

Recognition of revenue

Revenue comprises the fair value of the consideration receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes and after eliminating sales within the Group.

Revenue is recognised when the significant risks and rewards of ownership together with the effective control have passed to the customer.

Revenue is not recognised unless it is probable that the economic benefits associated with the sales transaction will flow to the Group and the amount of revenue and associated costs incurred in respect of the relevant transaction can be reliably measured.

Foreign currency translation

In accordance with IAS21, transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (the “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement. The presentational currency for the Group consolidated financial statements is the Kazakh Tenge (“KZT”).

On consolidation, the results of overseas operations are translated into KZT, the presentational currency of the Group, at rates approximating to those ruling when the transaction took place. All assets and liabilities of overseas operations are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at the opening rate and the results of overseas operations at the actual rate are recognised directly in equity.

The functional currency of the Company and its material subsidiaries is Kazakh Tenge (KZT).

Official Rates as published by the National Bank of Kazakhstan

	31 December 2006	Average for 2006	31 December 2005	Average for 2005	31 December 2004	Average for 2004
KZT/USD	<u>127.00</u>	<u>126.09</u>	<u>133.77</u>	<u>132.88</u>	<u>130.00</u>	<u>136.04</u>

Property, plant and equipment

Items of PP&E are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs.

Items of PP&E are subsequently carried at fair value, based on periodic valuations by independent professionally qualified appraisers.

If an asset’s carrying amount is increased as a result of a revaluation, the increase is credited directly to equity as a revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. If the asset’s carrying amount is decreased as a result of a revaluation, the decrease is recognised in the consolidated income statement except to the extent that it reverses any revaluation reserve previously recognised in respect of that asset, in which case it is recognised in the income statement as an impairment.

On the sale or disposal of a revalued asset, the revaluation reserve attributable to that asset is transferred to retained earnings.

The Group recognises in the carrying amount of an item of PP&E the costs of improvements and repairs that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet this criteria for capitalisation are recognised in the consolidated income statement as an expense as incurred.

Land and construction in progress are not depreciated. Depreciation of PP&E is charged to the income statement within cost of sales, selling expenses and administrative expenses, so as to write off the depreciable amount over the estimated useful life of an asset and is calculated using a straight line method. As revalued PP&E are depreciated, a transfer is made between the revaluation reserve and retained earnings, the amount transferred is the difference between depreciation based on the revalued carrying value of the asset and depreciation based on the asset’s original cost. Where parts of an item of PP&E have different useful lives, they are accounted for as separate items of PP&E.

The depreciable amount is the cost or value of an item of PP&E, or revalued amount, less its residual value. The residual value is the estimated amount that the Group would currently obtain from disposal of the item of PP&E, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value, the useful lives and depreciation method are reviewed at each financial year-end. The effect of any changes from previous estimates is accounted for as a change in an accounting estimate.

The estimated useful lives of the Group's PP&E are as follows:

	Useful life, years	Annual depreciation rate
Buildings and constructions	33-50	2-3%
Machinery and equipment.....	14-33	3-7%
Transportation facilities	20-33	3-5%
Other	6.5-33	3-15%

The gain or loss arising on a sale or disposal of an item of PP&E is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in consolidated income statement.

Construction in progress

Non current assets under construction are carried at cost, less any recognised impairment loss. Construction in progress comprises costs directly related to construction of PP&E or investment property including an appropriate allocation of directly attributable variable overheads that are incurred in construction and qualifying borrowing costs.

When the assets are ready for their intended use, their cost is transferred to the relevant class of PP&E, or investment property.

Borrowing costs

Where construction of a qualifying asset is financed through specific borrowings, the finance costs incurred in the course of construction, less any investment income from temporary investment of those loan proceeds, are included within the cost of the asset. All other finance costs are recognised in the consolidated income statement as finance expenses.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its PP&E to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Intangible assets

Intangible assets are stated at cost of acquisition less any accumulated amortisation and impairment losses. Intangible assets are amortised using the straight-line method based upon estimated useful lives. Amortisation of intangible assets is charged to the income statement at the following rates:

	Annual amortisation rate
Software.....	15%
Other intangible assets.....	15%

Inventories

Inventories are initially recognised at cost and subsequently valued at the lower of cost and net realisable value, using a weighted average cost basis to determine the cost of interchangeable items.

The cost of inventories includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of the manufacturing overheads.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Trading properties

Trading properties are accounted for within inventories and initially recognised at cost. Subsequently trading properties are valued at lower of cost and net realisable value. Cost of the trading properties includes expenditures incurred in acquisition of the trading properties and the cost of developing them to their existing condition.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. In assessing the net realisable value of trading properties the Group takes into account suitable external advice including independent professional valuations and recent comparable transactions.

Cash and cash equivalents

Cash and cash equivalents includes the cash on hand, cash with banks, deposits and highly liquid marketable securities with original maturity of less than three months, which can be readily converted to the set amounts of cash and are not exposed to any significant risks of value fluctuation and accountable at their cost.

Prepayments and other current assets

Advances or prepayments made for supply of goods, works and services are recognised as other current and non-current assets measured at cost. The non-current portion of prepayments consists of advances made to contractors under construction contracts that will be capitalized as construction progresses.

Interest bearing loans and borrowings

Bank borrowings are initially recognised at fair value less any transaction costs directly attributable to the borrowings. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet.

Other interest bearing liabilities (including bonds) are initially recognised at fair values less attributable transaction costs. Subsequent to initial recognition, other interest bearing borrowing are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Loans and borrowings are classified as current liabilities except for the events when the Group has the unconditional right to defer the settlement of the liability for, at least, one year after the date of balance sheet.

Trade and other payables

Trade payables and other short term monetary items are recognised at amortised cost.

Financial instruments

Financial assets and liabilities are initially recognised at fair value, which is the fair value of consideration given or received, respectively, including, or net of, any transaction costs incurred, other than where a financial instrument is classified at fair value through profit or loss, in which case transaction costs are expensed immediately.

The Group classifies financial assets depending upon the intent of management at the time of the purchase. Investments may be classified as loans and receivables; held-to-maturity investments; available-for-sale financial assets; financial assets at fair value through profit or loss, as appropriate.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the trade and other receivables are derecognised or impaired, as well as through the amortisation process.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets classified as held for trading, derivatives, and other assets designated as such on inception. Assets are carried in the balance sheet at fair value with gains and losses recognised in the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as such or are not classified in any of the other three financial asset categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, in which case the charge for impairment is recognised in the income statement together with any related portion of the cumulative gain or loss previously reported in equity.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the obligation can be made, but the timing and amount is uncertain.

Share capital and share premium

Share capital is stated by the Group as the total par (nominal) value of issued and paid ordinary shares. Any amounts paid up in excess of the par value of ordinary shares are recognised as share premium.

Retirement benefits

Contributions to defined contribution pension schemes are charged to consolidated income statement in the year to which they relate.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets received by the Group under finance leases are recognised as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the consolidated income statement and classified as finance costs.

Payments under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the lease.

Income taxes and deferred taxes

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Note 5. Property, plant and equipment

	Land	Buildings and constructions	Machinery and equipment	Transport facilities	Other property, plant and equipment	Construction in progress	TOTAL
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
Cost or valuation							
Balance as at 01/01/2004	41,896	1,592,621	3,251,621	17,883	24,167	1,146,045	6,074,233
Additions	—	16,877	77,412	29,843	9,492	833,586	967,210
Transferred from construction in progress	—	93,198	166,438	—	—	(259,636)	—
Transferred from inventories	—	—	—	—	2,897	—	2,897
Reclassification	—	5,669	(331)	1,015	(5,338)	—	1,015
Capitalisation of borrowing costs	—	—	—	—	—	88,421	88,421
Balance as at 31/12/2004	41,896	1,708,365	3,495,140	48,741	31,218	1,808,416	7,133,776
Additions	540,305	52,723	180,355	34,263	26,515	1,929,816	2,763,977
Transferred from construction in progress	—	388,612	—	—	—	(388,612)	—
Transferred from inventories	—	1,659	606	—	—	—	2,265
Contribution to the charter capital	2,513,104	—	—	—	343	—	2,513,447
Reclassification	—	(800)	800	—	—	—	—
Capitalisation of borrowing costs	—	—	—	—	—	207,852	207,852
Disposals	—	—	(120,124)	—	(213)	—	(120,337)
Balance as at 31/12/2005	3,095,305	2,150,559	3,556,777	83,004	57,863	3,557,472	12,500,980
Additions	1,751,959	109,191	295,101	48,875	76,149	8,262,200	10,543,475
Transferred from construction in progress	—	1,261,280	4,512,244	—	—	(5,773,524)	—
Capitalisation of borrowing cost	—	—	—	—	—	532,822	532,822
Revaluation	1,474,553	40	—	—	1	—	1,474,594
Disposals	(119,975)	(11,845)	(1,386)	(8,389)	(7,380)	(182,151)	(331,126)
Balance as at 31/12/2006	6,201,842	3,509,225	8,362,736	123,490	126,633	6,396,819	24,720,745
Accumulated depreciation							
Balance as at 01/01/2004	—	672,025	1,029,610	3,031	3,717	—	1,708,383
Charge for the period	—	37,307	66,645	1,266	2,226	—	107,444
Reclassification	—	(11)	820	1,015	(809)	—	1,015
Balance as at 31/12/2004	—	709,321	1,097,075	5,312	5,134	—	1,816,842
Charge for the period	—	43,080	101,559	5,599	4,303	—	154,541
Reclassification	—	—	21	—	(21)	—	—
Disposals	—	—	(13,578)	—	(50)	—	(13,628)
Balance as at 31/12/2005	—	752,401	1,185,077	10,911	9,366	—	1,957,755
Charge for the period	—	74,208	107,766	15,921	6,643	—	204,538
Disposals	—	(492)	(438)	(462)	(1,660)	—	(3,052)
Balance as at 31/12/2006	—	826,117	1,292,405	26,370	14,349	—	2,159,241
Net book value							
As at 31/12/2003	41,896	920,596	2,222,011	14,852	20,450	1,146,045	4,365,850
As at 31/12/2004	41,896	999,044	2,398,065	43,429	26,084	1,808,416	5,316,934
As at 31/12/2005	3,095,305	1,398,158	2,371,700	72,093	48,497	3,557,472	10,543,225
As at 31/12/2006	6,201,842	2,683,108	7,070,331	97,120	112,284	6,396,819	22,561,504

The Group has the right of ownership in respect of all its PP&E. The major portion of construction in progress is represented by a construction of 36,500 square meters of warehouse premises, which is expected to be completed in June 2007. Construction in progress totalling to 1,804,219 thousand KZT, 712,328 thousand KZT and 383,940 thousand KZT represent the amounts paid to Arka-stroy LLP for construction services in 2006, 2005 and 2004 respectively.

The land was revalued as at 31 December 2006 on an open market basis by Appraise Consult LLP, an independent qualified appraiser.

Pledged property, plant and equipment.

As at 31 December 2006 the net book value of PP&E and land plots pledged as security under bank loans total 3,556,181 thousand KZT and 306,209 thousand KZT respectively (also see Note 29 Contingent liabilities).

Note 6. Intangible assets

	Software	Other intangible assets	Total
	KZT'000	KZT'000	KZT'000
Cost			
Balance as at 01/01/04	134	65	199
Additions	1,626	145	1,771
Balance as at 31/12/04	1,760	210	1,970
Additions	2,193	—	2,193
Disposals.....	(133)	(66)	(199)
Balance as at 31/12/05	3,820	144	3,964
Additions	2,374	57	2,431
Balance as at 31/12/06	6,194	201	6,395
Accumulated depreciation			
Balance as at 01/01/04	22	17	39
Charge for the period	139	9	148
Balance as at 31/12/04	161	26	187
Charge for the period	447	32	479
Disposals.....	(63)	(36)	(99)
Balance as at 31/12/05	545	22	567
Charge for the period	678	33	711
Balance as at 31/12/06	1,223	55	1,278
Net book value			
As at 31/12/2003	112	48	160
As at 31/12/2004	1,599	184	1,783
As at 31/12/2005	3,275	122	3,397
As at 31/12/2006	4,971	146	5,117

Note 7. Prepayments in respect of construction contracts

	31 December 2006	31 December 2005	31 December 2004
	KZT'000	KZT'000	KZT'000
Advances made to Arka-stroy LLP in respect of construction contracts in KZT.....	2,874,796	—	—
Advances made for installation services and purchase of PP&E.....	12,540	293,473	354,889
Total.....	2,887,336	293,473	354,889

Advances made in respect of construction contracts to Arka-stroy LLP totalling 2,874,796 thousand KZT will be capitalised in 2007 as construction progresses.

Note 8. Cash and cash equivalents on special deposits

	31 December 2006	31 December 2005	31 December 2004
	KZT'000	KZT'000	KZT'000
Total cash and cash equivalents on special deposits.....	1,126,784	168	—
Less current portion (see Note 11).....	(781,784)	(168)	—
Non-current portion.....	345,000	—	—

On 28 April 2006 the Company opened a deposit at Alliance Bank JSC for 1.5 billion KZT for up to 2 years bearing interest of 5.98% p.a. Out of this deposit 385 million KZT of bonds interest were repaid during the year ended 31 December 2006.

Note 9. Inventories

	31 December 2006	31 December 2005	31 December 2004
	KZT'000	KZT'000	KZT'000
Trading property	5,139,378	306,641	—
Finished, goods.....	507,848	402,874	103,200
Raw materials.....	416,621	351,798	191,130
Work in progress	30,353	33,102	27,055
Total.....	6,094,200	1,094,415	321,385

The market value, assessed by an independent qualified appraiser, of the trading property under development as at 31 December 2006 was 11,276,287 thousand KZT. Trading property under development consists of land plots that the Group intends to sell once the development programme is finished. As at 31 December 2006 all of the trading property was under construction and was pledged as security under bank loans received by the Group.

The amount of inventory consumed within the cost of sales is not materially different from the amount disclosed as the cost of sales in the consolidated income statement of the Group for the years ended 31 December 2006, 2005 and 2004.

Note 10. Prepayments in respect of goods and construction contracts

	31 December 2006	31 December 2005	31 December 2004
	KZT'000	KZT'000	KZT'000
Advances made to Arka-stroy LLP in respect of construction contracts in KZT.....	6,339,279	—	—
Advances made for goods in currency other than KZT ...	716,671	587,995	318,999
Advances made for goods in KZT.....	482,604	388,802	419,443
Advances made for services and works in KZT	85,562	166,227	27,433
Advances made for works and services in currency other than KZT	10,648	5,601	—
Advances made	7,634,764	1,148,625	765,875
Reserve for doubtful advances made.....	(44,472)	(44,472)	(10,043)
Net advances made	7,590,292	1,104,153	755,832

Note 11. Other current assets

	31 December 2006	31 December 2005	31 December 2004
	KZT'000	KZT'000	KZT'000
Current portion of cash and cash equivalents on special deposits (see Note 8)	781,784	168	—
Prepaid expenses	8,944	5,453	895
Total	790,728	5,621	895

Note 12. Trade and other receivables

	31 December 2006	31 December 2005	31 December 2004
	KZT'000	KZT'000	KZT'000
Trade receivables	620,831	2,215,603	1,001,617
Reserve for doubtful trade receivables	(107,226)	(63,737)	(15,052)
Net trade receivables	513,605	2,151,866	986,565
Employees' receivables.....	35,128	29,187	2,465
Other receivables.....	96,347	928,353	107,844
Reserve for doubtful other receivables	(22,148)	(22,148)	(49,503)
Net other receivables	109,327	935,392	60,806
Taxes recoverable	4,049	62,708	48,171
Total	626,981	3,149,966	1,095,542

Note 13. Cash and cash equivalents

	31 December 2006	31 December 2005	31 December 2004
	KZT'000	KZT'000	KZT'000
Cash held at banks in KZT.....	70,063	25,743	6,229
Cash on hand in KZT.....	8,967	11,266	31,665
Cash held at banks in currency other than KZT.....	1,554	6,548	3
Total.....	80,584	43,557	37,897

Note 14. Share capital

Kazakhstan Kagazy JSC was established in February 2001 in the form of closed joint stock company with the charter capital of 80 thousand KZT. In 2004 and 2005 additional shares were issued at nominal value.

On 31 May 2006 1,976,500 ordinary shares were issued in excess of nominal value in exchange for 1,231,112 thousand KZT in cash and the land plots contributed by Kagazy Invest LLP. According to independent appraisers, the total value of the land plots being transferred in exchange for the shares was 4,698,387,980 KZT at the date of contribution.

The following table summarises changes in the Share capital:

	Nominal value	Share premium	Number of ordinary shares, authorised, issued and fully paid
	KZT'000	KZT'000	
As at 1 January 2004.....	80	—	80
Increase in share capital.....	656,959	—	656,959
As at 31 December 2004.....	657,039	—	657,039
Increase in share capital.....	3,723,457	—	3,723,457
As at 31 December 2005.....	4,380,496	—	4,380,496
Increase in share capital.....	1,976,500	3,953,000	1,976,500
As at 31 December 2006.....	6,356,996	3,953,000	6,356,996

As of 31 December 2004, 2005 and 2006, the sole shareholder of Kazakhstan Kagazy JSC was Kagazy Invest LLP. The ultimate parent company of the Company and the Group from 2005 is Holding Invest LLP, registered in the Republic of Kazakhstan. Also see Note 33 Events after the balance sheet date.

Authorised share capital as at 31 December 2006 was 6,560,751 ordinary shares.

Note 15. Interest bearing loans and borrowings

	31 December 2006	31 December 2005	31 December 2004
	KZT'000	KZT'000	KZT'000
Non-current:			
Bonds (net of discount, see table below).....	10,267,807	3,840,381	—
Bank loans	6,828,909	3,338,218	2,734,246
Total non-current loans and borrowings	17,096,716	7,178,599	2,734,246
Current:			
Bank loans	6,163,829	961,821	1,582,020
Total interest bearing loans and borrowings	23,260,545	8,140,420	4,316,266

(a) Interest rates

The bank loans are secured on the assets of the Group, and are from the following banks at the fixed rates of interest shown:

	31 December 2006	%	31 December 2005	%	31 December 2004	%
	KZT'000		KZT'000		KZT'000	
Alliance Bank JSC	9,446,640	7-14	1,380,504	7	876,549	13-19
Kazkommertsbank JSC	1,928,172	11-13	2,278,502	13	2,548,330	13
Nurbank JSC	1,472,824	13-14	—		—	
Kazakhstan Development Bank JSC.....	145,102	10.5	535,037	10.5	891,387	10.5
Caspian Bank JSC	—		105,996	12.5-13	—	
Total	12,992,738		4,300,039		4,316,266	

The bonds are listed on the Kazakh Stock Exchange and bear interest at the following rates:

	31 December 2006	31 December 2005	31 December 2004
	KZT'000	KZT'000	KZT'000
Floating rate bonds at par value @ 2.5% p.a. + inflation	4,000,000	4,000,000	—
Discount on bonds	(127,535)	(159,619)	—
Floating rate bonds at par value @ 1.5% p.a. + inflation	6,620,000	—	—
Discount on bonds	(224,658)	—	—
Total bonds (net of discount)	10,267,807	3,840,381	—

(b) **Repayment dates of borrowings**

The repayment dates of the Group's borrowings are as follows.

	31 December 2006				
	1 year or less	1 – 2 years	2 – 5 years	More than 5 years	Total
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
Interest bearing loans and borrowings:					
Fixed rate	6,163,829	212,886	6,616,023	—	12,992,738
Floating rate.....	—	—	7,310,112	2,957,695	10,267,807
Total	6,163,829	212,886	13,926,135	2,957,695	23,260,545

As at 31 December 2006, the amounts falling due in more than 5 years are due for repayment on 20 August 2013.

	31 December 2005			
	1 year or less	1 – 2 years	2 – 5 years	Total
	KZT'000	KZT'000	KZT'000	KZT'000
Interest bearing loans and borrowings:				
Fixed rate	961,821	152,837	3,185,381	4,300,039
Floating rate.....	—	—	3,840,381	3,840,381
Total	961,821	152,837	7,025,762	8,140,420

	31 December 2005			
	1 year or less	1 – 2 years	2 – 5 years	Total
	KZT'000	KZT'000	KZT'000	KZT'000
Interest bearing loans and borrowings:				
Fixed rate	1,582,020	371,430	2,362,816	4,316,266
Total	1,582,020	371,430	2,362,816	4,316,266

(c) **Currency of borrowings**

The Group's borrowings are denominated in the following currencies:

	31 December 2006				
	Kazakh Tenge	US Dollars	Euros	Other*	Total
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
Interest bearing loans and borrowings:					
Fixed rate	7,538,212	4,127,885	1,326,641	—	12,992,738
Floating rate.....	10,267,807	—	—	—	10,267,807
	17,806,019	4,127,885	1,326,641	—	23,260,545
Cash and cash equivalents:					
Fixed rate	1,126,784	—	—	—	1,126,784
Non interest bearing balances	72,752	1,554	—	6,278	80,584
	1,199,536	1,554	—	6,278	1,207,368
Net borrowings as at 31 December 2006	16,606,483	4,126,331	1,326,641	(6,278)	22,053,177

31 December 2005

	Kazakh Tenge	US Dollars	Euros	Other*	Total
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
Interest bearing loans and borrowings:					
Fixed rate	39,000	4,194,043	66,996	—	4,300,039
Floating rate	3,840,381	—	—	—	3,840,381
	<u>3,879,381</u>	<u>4,194,043</u>	<u>66,996</u>	<u>—</u>	<u>8,140,420</u>
Cash and cash equivalents:					
Fixed rate	168	—	—	—	168
Non interest bearing balances	30,045	6,298	250	6,964	43,557
	<u>30,213</u>	<u>6,298</u>	<u>250</u>	<u>6,964</u>	<u>43,725</u>
Net borrowings as at 31 December 2005	<u>3,849,168</u>	<u>4,187,745</u>	<u>66,746</u>	<u>(6,964)</u>	<u>8,096,695</u>

See also in Note 8 Cash and cash equivalents on special deposits.

* In the currencies of Uzbekistan and Kyrgyzstan.

31 December 2004

	Kazakh Tenge	US Dollars	Total
	KZT'000	KZT'000	KZT'000
Interest bearing loans and borrowings:			
Fixed rate	803,600	3,512,666	4,316,266
Cash and cash equivalents:			
Non interest bearing balances	37,894	3	37,897
	<u>37,894</u>	<u>3</u>	<u>37,897</u>
Net borrowings as at 31 December 2004	<u>765,706</u>	<u>3,512,663</u>	<u>4,278,369</u>

There were no undrawn loan facilities, or loans agreed, but not yet borrowed, as at 31 December 2006, 2005 and 2004.

Note 16. Deferred tax liabilities

	2006	2005	2004
	KZT'000	KZT'000	KZT'000
Deferred tax liabilities as of the beginning of year	508,673	476,888	463,936
Deferred income tax expense	47,692	31,785	12,952
Deferred tax liabilities arising on revaluation of PP&E	442,363	—	—
Deferred tax liabilities as of the end of year	<u>998,728</u>	<u>508,673</u>	<u>476,888</u>

Note 17. Other tax liabilities

	31 December 2006	31 December 2005	31 December 2004
	KZT'000	KZT'000	KZT'000
Social tax and social insurance.....	20,139	7,283	6,678
Individual income tax.....	11,525	1,634	2,792
Withholding tax paid for non-residents	4,507	11,696	104
Payment for environment pollution	399	2,461	1,513
Other taxes.....	28,761	40	—
Total.....	65,331	23,114	11,087

Note 18. Trade and other payables

	31 December 2006	31 December 2005	31 December 2004
	KZT'000	KZT'000	KZT'000
Current payables to suppliers and contractors in KZT	3,973,878	617,517	419,069
Bank interest payable	419,020	189,531	46,785
Advances received.....	114,331	298,745	287,300
Current payables to suppliers and contractors in currency other than KZT.....	64,678	364,280	208,679
Wages and salaries payable	53,233	26,696	26,108
Other current payables	47,589	84,514	47,942
Liabilities on pension payments	16,391	6,639	9,306
Current provision for employees' vacation leaves.....	11,414	7,227	6,911
Other current liabilities.....	8,610	—	—
Current part of leasing payments	—	2,509	16,233
Total.....	4,709,144	1,597,658	1,068,333

Note 19. Revenue

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
	KZT'000	KZT'000	KZT'000
Finished products	3,828,960	3,434,617	2,101,955
Goods for resale	3,158,378	991 319	42,694
Services	16,975	—	—
Total.....	7,004,313	4,425,936	2,144,649

Note 20. Selling expenses

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
	KZT'000	KZT'000	KZT'000
Transportation expenses	152,326	140,216	166,873
Expenses on wages of employees	92,783	31,548	18,452
Operating rentals	69,914	23,983	5,426
Increase of doubtful debts reserve and bad debts write-off expense	42,809	—	2,586
Marketing and advertising	41,031	14,553	—
Social tax	4,430	2,073	1,545
Communication services	3,911	37	78
Depreciation	3,606	264	72
Natural loss on incurred at transportation	2,800	—	—
Railroad carriage dispatch and treatment	2,736	967	—
Customs and brokerage services	2,524	2,071	2,915
Cargo certification and testing	2,465	1,051	596
Other dues and taxes	2,224	1,956	135
Railroad use	1,981	226	—
Training	1,798	74	—
Business trips	1,676	602	324
Postage and courier expenses	1,389	—	3
Fuel costs	1,259	—	—
Security costs	1,072	—	—
Other selling and distribution expenses	25,360	7,247	13,689
Total	458,094	226,868	212,694

Note 21. Administrative expenses

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
	KZT'000	KZT'000	KZT'000
Wages and salaries	146,635	109,231	83,547
Property tax	42,463	188	7
Depreciation deductions	35,948	11,136	9,076
Bank services	28,721	21,503	12,743
Social tax	23,520	14,797	10,459
Audit services	22,777	12,313	7,185
Operating rental expenses	22,463	8,451	5,309
Transportation expenses	21,127	29,020	9,617
Communication services	18,140	16,139	11,683
Landscaping and other costs	15,136	3	—
Social payments expenses	13,543	9,927	2,280
Insurance expenses	10,283	2,080	590
Training	9,305	2,558	80
Business travel	8,170	7,812	5,729
Fines, penalties	7,792	21,448	6,246
Non-resident VAT	7,013	220	—
Miscellaneous materials	5,596	3,281	1,216
Utility expenses	3,489	53	332
Listing fees	2,728	2,000	—
Office expenses	2,356	1,017	1,024
Consulting services	2,252	810	1,739
Power supply	1,753	—	—
Certification	1,444	—	—
Announcements in the press	1,413	657	245
Sponsor aid	1,350	3	—
Software maintenance	1,176	3,288	2,929
Advertising and PR	1,175	—	60
Underwriter's services	1,151	109	—
Financial assets valuation services	—	—	4,055
Other administrative expenses	30,927	29,237	20,579
Total	489,846	307,281	196,730

Note 22. Finance costs

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
	KZT'000	KZT'000	KZT'000
Bank loans interest	823,168	562,860	375,555
Depreciation of discount on bonds	38,174	25,668	—
Commissions charged for financing.....	23,627	46,858	—
Total	884,969	635,386	375,555

Note 23. Other income and expenses

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
	KZT'000	KZT'000	KZT'000
Foreign exchange profit/(loss)	149,708	(93,362)	310,710
Interest income	52,453	2,705	—
Reversals of losses from doubtful liabilities	—	—	6,300
Loss on disposal of other assets	(3,407)	(87,784)	—
Other	(13,406)	213 382	(18,643)
Total	185,348	34,941	298,397

Note 24. Income tax expense

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
	KZT'000	KZT'000	KZT'000
Current tax expense			
– Income tax on profits for the year	7,213	10,272	—
Total current tax expense	7,213	10,272	—
Deferred tax expense			
– Origination and reversal of temporary differences.....	47,692	31,785	12,952
Total tax expense	54,905	42,057	12,952

The reasons for the differences between the actual tax charge for the year and the standard rate of income tax in the Republic of Kazakhstan applied to profits for the year as follows:

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
	KZT'000	KZT'000	KZT'000
Profit before tax.....	173,483	282,228	267,170
At standard rate of 30%.....	52,045	84,668	80,151
Expenses not deducted for tax purposes	116,946	7,509	12,365
Reduced tax rates and exemptions granted.....	(114,086)	(50,120)	(79,564)
Total tax expense	54,905	42,057	12,952

Note 25. Earnings per share

Basic EPS is determined by dividing the net profit or loss for the period attributable for ordinary shareholders by the weighted average number of ordinary shares outstanding during the reporting period.

The calculation of the basic and diluted earnings per share is based on the following data:

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
	KZT'000	KZT'000	KZT'000
Net profit for the year	118,578	240,171	254,218
Weighted average number of shares (thousands of shares)	5,343	1,076	508

There were no potential shares during the period from 1 January 2004 to 31 December 2006.

Note 26. Non-cash transaction

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
	KZT'000	KZT'000	KZT'000
Inventories introduced for equity participation	—	306 641	—
PP&E introduced for equity participation	4,698,388	2,513,104	—

Note 27. Financial instruments – risk management

The Group is exposed through its operations to one or more of the following financial risks:

- *Fair value or cash flow interest risk*
The Group is obtaining loans and borrowings with fixed and bonds with floating interest rates. The Board of Directors is responsible for decision making on borrowings based on market conditions and risk of incurring debt financing at the interest rates higher than market rates and cash flow interest risk so as to reach appropriate level of exposure to these risks.
- *Currency risk*
Most part of the Group's revenue and costs, except for equipment and consumables imported from abroad, is denominated in Tenge. The Group is drawing loans in foreign currencies for financing its long-term investment programmes. The Group's management is evenly spreading its financial assets in various currencies in order to reduce the risk of losses that may arise from currency exchange rate fluctuations.
- *Liquidity risks*
The liquidity risk of the Group is managed centrally. New borrowings are taken where additional funding is required, and surplus funds not required in the near future are utilised to repay existing borrowings.
- *Market price risks*
The Group is exposed to the influence of market prices on its products, as well as prices on property and property rent.
The management of the Group believes that the exposure of its current activities to the risk of market price fluctuations is at an acceptable level.
- *Credit risks*
The Group is exposed to credit risk from credit sales. It is the Group's policy to assess the credit risk of new customers before entering into contracts. The Group mainly trades with established long-term customers.

Note 28. Financial assets and liabilities -numerical information*Maturity of bank loans*

Carrying values of financial liabilities exposed to fair value and cash flow interest risk:

Maturity	31 December 2006	31 December 2005	31 December 2004
	KZT'000	KZT'000	KZT'000
Fall due within one year.....	6,163,829	961 821	1,582,020
Fall due from one to two years.....	212 886	152 837	371 430
Fall due from two to five years.....	6,616,023	3,185,381	2,362,816
Total.....	12,992,738	4,300,039	4,316,266

All amounts fall due within 5 years.

Interest risks

Liabilities of the Group depending on interest rates and currencies:

Currency	Liabilities with floating interest rate 2006	Liabilities with fixed interest rate 2006	Total
	KZT'000	KZT'000	KZT'000
KZT	10,267,807	7,538,212	17,806,019
USD	—	4,127,885	4,127,885
EURO	—	1,326,641	1,326,641
Total	10,267,807	12,992,738	23,260,545

Currency	Liabilities with floating interest rate 2005	Liabilities with fixed interest rate 2005	Total
	KZT'000	KZT'000	KZT'000
KZT	3,840,381	39,000	3,879,381
USD	—	4,194,043	4,194,043
EURO	—	66,996	66,996
Total	3,840,381	4,300,039	8,140,420

Currency	Liabilities with floating interest rate 2004	Liabilities with fixed interest rate 2004	Total
	KZT'000	KZT'000	KZT'000
KZT	—	803 600	803 600
USD	—	3,512,666	3,512,666
Total	—	4,316,266	4,316,266

Floating interest rate liabilities represent bonds denominated in KZT.

Note 29. Contingent liabilities

On 21 March 2002 the Company obtained a guarantee for 5 million USD from Kazkommertsbank JSC with the term from 25 March 2002 to 25 May 2007 as security for its loan for the same value from Kazakhstan Development Bank JSC. In January 2007, as the Company repaid this loan, the bank guarantee value was reduced to 1.5 million USD. On 2 April 2007 as Kazakhstan Development Bank JSC loan was settled by the Company in full, the bank guarantee expired. See also a Note 33 Events after a balance sheet date.

Kagazy Recycling was established by the Company in 2006 for the purpose of combining all the paper business assets of commonly controlled affiliates of the Group into one division. These commonly controlled affiliates were Kagazy Processing LLP and Kagazy Gofrotara LLP. In order to transfer these paper business assets it has been necessary for the group to provide pledges the lenders of Kagazy Processing LLP and Kagazy Gofrotara LLP. Details of the transactions that give rise to these guarantees are disclosed below:

- On 20 December 2006 Kagazy Processing LLP sold to Kagazy Recycling LLP a land plot with an area of 0.81 ha at the cost of 26,504 thousand KZT. This land plot is pledged as security against a bank loan of 2,177 thousand USD drawn by Kagazy Processing on 24 June 2005 from Alliance Bank JSC.

- On 29 December 2006 Kagazy Gofrotara LLP sold to Kagazy Recycling LLP and to PEAK LLP land plots with an area of 4 ha and 5 ha costing 104,922 and 174,783 thousand KZT respectively.
- These land plots of 4 and 5 ha with the total cost of 279,705 thousand KZT are pledged as security against a loan of 2,000,927 thousand KZT drawn on 2 March 2006 by Gofrotara LLP from Kazkommertsbank JSC.

Also see Note 1 Description of the business corporate information and Note 32 Related party transactions.

Note 30. Other information on subsidiaries

Set out below are details of the more significant subsidiaries of the Group and their legal status:

(a) *Kagazy Recycling LLP*

Kagazy Recycling LLP was incorporated as Kagazy Gofra LLP on 1 February 2006 as a 100% subsidiary of Kagazy Invest LLP (the 100% parent of the Company), and was renamed Kagazy Recycling LLP on 24 August 2006. The Company acquired Kagazy Recycling LLP on 22 December 2006.

(b) *PEAK Akzhal LLP*

PEAK Akzhal LLP was incorporated as Kazakhstan Kagazy Trading House LLP (“KKTH”) on 23 January 2004 as a 100% subsidiary of the Company.

KKTH was sold by the Company to Kagazy Invest LLP on 17 March 2004, and was subsequently acquired by Prime Estate Activities Kazakhstan LLP from Kagazy Invest LLP on 29 December 2006.

KKTH was renamed PEAK Akzhal LLP on 30 December 2006.

In November 2006 the Group was restructured and Kagazy Trading LLP was re-registered as a subsidiary of Kagazy Recycling LLP through the sale of its share charter capital.

(c) *Prime Estates Activities Kazakhstan LLP*

Prime Estate Activities Kazakhstan LLP (PEAK LLP) was incorporated on 9 January 2006 as Megalogistics Terminal Services LLP (“MTS”) by Holding Invest LLP (the 100% parent of Kagazy Invest LLP).

On 13 June 2006 MTS was acquired by Mr. K. K. Zhekebatyrov for its nominal value, and on 24 August 2006 MTS was renamed as Prime Estates Activities Kazakhstan LLP (“PEAK”).

The Company acquired PEAK for its nominal value On 20 December 2006.

For the period under Mr. K. K. Zhekebatyrov ownership PEAK was either under the direct control of Holding Invest LLP or the indirect control via Kagazy Invest LLP.

(d) *Kagazy Trading LLP*

Kagazy Trading LLP was incorporated as Papier Invest LLP on 13 June 2003, and was reregistered as Kagazy Trading LLP in February 2004. The founding participants on incorporation were Mr. K. K. Zhekebatyrov and Mr M. A. Arip.

The Company acquired Kagazy Trading LLP from the founding participants for nominal value on 2 August 2005.

From the period from incorporation to 2 August 2005, Kagazy Trading LLP was controlled by Kagazy Invest LLP.

(e) *EcopacAsia LLC*

EcopacAsia LLC was incorporated as a subsidiary of KKTH on 19 August 2005, and was acquired by Kagazy Recycling LLP on 1 December 2006.

(f) *Ecopak Osiyo LLC*

Ecopak Osiyo LLC was registered as a 95% subsidiary of KKTH on 3 June 2005, and was acquired by Kagazy Recycling LLP on 1 December 2006.

Also see Note 1 Description of the business corporate information and Note 32 Related party transactions.

Note 31. Segmental information

A segment is a distinguishable component of the Group that is engaged in providing products or services in a particular business sector (business segment), or in providing products or services in within a particular economic environment (geographical segment), which is subject to risks are rewards that are different from those of other segments. Segmental information is presented in respect of the Group's primary basis of segmentation in business segments.

The Groups primary reporting format for reporting segment information is business segments, paper and property, as disclosed in Note 1 Description of the business corporate information.

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
	KZT'000	KZT'000	KZT'000
Segment income statement			
Revenue – paper	7,004,313	4,425,936	2,144,649
Segment result – paper	1,045,115	914,909	642,725
Segment result – property.....	(39,116)	—	—
Interest income	52,453	2,705	—
Interest expense.....	(884,969)	(635,386)	(375,555)
Income tax expense.....	(54,905)	(42,057)	(12,952)
Profit for the year	118,578	240,171	254,218
	31 December 2006	31 December 2005	31 December 2004
	KZT'000	KZT'000	KZT'000
Segment balance sheet			
Assets – paper.....	18,992,021	13,418,062	7,885,157
Liabilities – paper	(15,815,539)	(10,286,263)	(5,898,193)
Net assets – paper	3,176,482	3,131,799	1,986,964
Assets – property	23,090,366	2,819,745	—
Liabilities – property	(13,227,697)	—	—
Net assets – property	9,862,669	2,819,745	—
Assets – total	42,082,387	16,237,807	7,885,157
Liabilities – total.....	(29,043,236)	(10,286,263)	(5,898,193)
Net assets – total	13,039,151	5,951,544	1,986,964

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
	KZT'000	KZT'000	KZT'000
Other			
Capital expenditure			
– Paper.....	14,340,923	8,030,121	5,316,934
– Property	8,220,581	2,513,104	—
Total.....	22,561,504	10,543,225	5,316,934
Segment depreciation and amortisation			
– Paper.....	204,538	154,541	107,444
– Property	—	—	—
Total.....	204,538	154,541	107,444

Materially all of the Group's assets, liabilities, sales and other transactions arose in the Republic of Kazakhstan. The Group started its real estate development business segment in 2005 and that segment had no revenue in the course of the years ended 31 December 2006 and 2005.

Note 32. Related party transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one of them can exercise control over the other or is under common control or can significantly influence the other party's operational and financial decision making.

The nature of the relationships with related parties with which the Group had executed significant transactions in the course of 12 months ended 31 December 2006, 2005 and 2004, or had significant balances outstanding as of 31 December 2006, 2005 and 2004, is detailed as follows:

Related party	Nature relationship with the Group
Mr. M. A. Arip.....	Shareholder (via participation in holding companies) and General Director of the Company
Mr. B. A. Zhunusov.....	Shareholder (via participation in holding companies) and Chairman of the Board of Directors of the Company
Mr. K. K. Zhekebatyrov.....	Manager in holding companies
Kagazy Gofrotara LLP.....	100% equity is owned by Kagazy Invest LLP
Kagazy Processing LLP	100% equity is owned by Kagazy Invest LLP
Kagazy Invest LLP	100% equity is owned by M. A. Arip (50%) and B. A. Zhunusov (50%)
Kazvtorsyr'e LLP.....	100% equity is owned by Mr. K. K. Zhekebatyrov, a relative of B.A. Zhunusov, Chairman of the Board of Directors of the Company
K-Vtorsyr'e LLP	Mr. Zhekebatyrov K.K. is owner of 100% of its shares
Holding Invest LLP	Messrs. M.M. Arip and B.A. Zhunusov each own 50% of shares in equity, Holding Invest LLP owns 100% of Kagazy Invest LLP equity
Kontakt Service Plus LLP.....	90% of equity is owned by Mr. Y.A. Bogday, a relative of Mr. B.A. Zhunusov, Chairman of the Board of Directors of the Company
Papcel Kazakhstan LLP.....	Kagazy Invest LLP is participating in its equity

In 2004, 2005 and 2006 the Group was engaged in transactions with related parties, such as sales of products and PP&E, rent of premises, purchase of products and services as well as provision of financial aid. All these transactions were conducted on the basis of market prices and conditions. Following is the summary of such transactions:

Current accounts payable by the Group to related parties	31 December 2006	31 December 2005	31 December 2004
	KZT'000	KZT'000	KZT'000
Kagazy Processing LLP	2,450,595	—	—
Kagazy Gofrotara LLP.....	1,055,338	—	—
Kontakt Service Plus LLP.....	355	—	—
Kagazy Invest LLP	103	—	—
Holding Invest LLP	19	81,693	—
Papcel Kazakhstan LLP	—	75,088	—
Mr. B. A. Zhunusov	—	—	8,382
Total	3,506,410	156,781	8,382

Current accounts receivable by the Group from related parties	31 December 2006	31 December 2005	31 December 2004
	KZT'000	KZT'000	KZT'000
Kazvtorsyr'e LLP.....	159,489	165,820	—
K-Vtorsyr'e LLP	62,257	65,373	77,805
Kagazy Processing LLP	—	344,840	—
Kagazy Gofrotara LLP.....	—	309,304	—
Kagazy Invest LLP	—	88,651	7,456
Kontakt Service Plus LLP.....	—	26,512	329,352
Mr. B. A. Zhunusov	—	63	—
Mr. M. A. Arip.....	—	—	3,476
Papcel Kazakhstan LLP	—	—	1,370
Total	221,746	1,000,563	419,459

Related party	Services and goods provided to the Group in 2006	Amount in KZT'000
Kagazy Gofrotara LLP	Non-current assets	2,831,289
Kagazy Processing LLP	Non-current assets, paper and cardboard cutting services	2,413,378
Kazvtorsyr'e LLP	Non-current assets, major supplies of waste paper	509,841
Papcel Kazakhstan LLP	Construction and installation services of waste processing workshop	146,363
Holding Invest LLP	Land property for logistics project	64,894
K-Vtorsyr'e LLP	Supplies of waste paper	3,398
Kagazy Invest LLP	Provision of financial aid	1,078
Total		5,970,241

<u>Related party</u>	<u>Services and goods provided to the Group in 2005</u>	<u>Amount in KZT'000</u>
Papcel Kazakhstan LLP	Spare parts for production equipment	235,000
K-Vtorsyr'e LLP	Supplies of waste paper, vehicle rental services	214,252
Kazvtorsyr'e LLP	Supplies of waste paper	37,719
Kontakt Service Plus LLP	Production equipment	1,772
Kagazy Gofrotara LLP	Consumable materials	260
Kagazy Invest LLP	Vehicle rental services	104
Total		489,107

<u>Related party</u>	<u>Services and goods provided to the Group in 2004</u>	<u>Amount in KZT'000</u>
Papcel Kazakhstan LLP	Construction and installation services of paper machine	346,428
K-Vtorsyr'e LLP	Supplies of waste paper	102,823
Total		449,251

<u>Related party</u>	<u>Services and goods provided by the Group in 2006</u>	<u>Amount in KZT'000</u>
Kagazy Processing LLP	Land property and cutting equipment for various types of paper and cardboard	205,812
Kagazy Gofrotara LLP	Land property for production facilities construction	102,757
Kagazy Invest LLP	Provision of financial aid	3,891
Kazvtorsyr'e LLP	Provision of equipment for operating hire	1,459
Total		313,919

<u>Related party</u>	<u>Services and goods provided by the Group in 2005</u>	<u>Amount in KZT'000</u>
Holding Invest LLP	Consulting services	278,261
Kontakt Service Plus LLP	Corrugated products	235,513
Papcel Kazakhstan LLP	Paper, cardboard	235,000
Kagazy Invest LLP	Consulting services, office equipment	21,890
Kagazy Gofrotara LLP	Transport, communication services, work clothing	19,570
K-Vtorsyr'e LLP	Waste paper	768
Kazvtorsyr'e LLP	Paper, equipment rental, souvenirs	119
Total		791,121

<u>Related party</u>	<u>Services and goods provided by the Group in 2004</u>	<u>Amount in KZT'000</u>
Kontakt Service Plus LLP	Corrugated products	66,787
K-Vtorsyr'e LLP	Corrugated products	16
Total		66,803

Compensation of key management

Total compensation of the Group directors and other members of key management include contract salaries, bonuses, vacation leave payments etc. This amount is included in the general and administrative expenses of the consolidated income statement and comprises 31,094 thousand KZT for 12 months ended on 31 December 2004, 42,494 thousand KZT for 12 months ended on 31 December 2005, 50,855 thousand KZT for 12 months ended 31 December 2006. Over the course of these reporting periods the Group's key management personnel consisted of 12 directors and managers.

Note 33. Events after the balance sheet date

On 29 January 2007, PEAK LLP repaid in advance a loan totalling 5.85 billion KZT. On 29 January 2007 Arka-stroy LLP returned prepayments totalling 5,879,972 thousand KZT received from the Group in respect of construction services.

On 23 January 2007 the Board of Directors of the EBRD approved provision of financing to Kagazy Recycling LLP of approximately 90 million USD with the following financing structure:

1. Subordinated loan with a 10 million USD conversion right, with an interest rate of 15% p.a., repayment of the loan principal amount and interest to be made in 4 equal semi-annual instalments from 15 January 2014 to 15 July 2015.
2. Principal A and B loan totalling 33 million Euro, with interest rate equal to 6-months EUROLIBOR plus 4% (3%). Repayment of the principal amount is to be made in 10 equal semi-annual instalments from 15 July 2009 to 15 January 2015, with the interest payable semi-annually on 15 January and 15 July of each year.
3. Kazkommertsbank JSC loan and leases – 42 million USD. Envisaged loan interest rate is 11% p.a. and lease interest rate is EUROLIBOR plus 5.5% with 3 years grace period.

On 28 February 2007 PEAK Akzhal LLP entered into a Credit Line Agreement with Kazkommertsbank JSC for 20 million USD. In March 2007 6 million USD of the proceeds of this credit line were utilised for construction of logistics centre and 12,173 thousand USD for the settlement of the loan totalling 1,471,492 thousand KZT, that was obtained in February 2006 from Nurbank JSC.

On 2 April 2007 the Group made a final payment of 145,102 thousand KZT to settle in full the loan obtained on 20 March 2002 from the Development Bank of Kazakhstan JSC. See Note 15 Interest bearing loans and borrowings and Note 29 Contingent liabilities.

On 25 May 2007 the above Subordinated and Principal A and B loan agreements with EBRD were signed.

Note 34. Ultimate parent company and ultimate controlling party

Kagazy Invest LLP was the ultimate parent of the Company for the year ended 31 December 2004. It was controlled directly by its beneficial owners Messrs. M. A. Arip and B. A. Zhunusov. In the second half of 2005 Messrs. M. A. Arip and B. A. Zhunusov transferred their equity ownership in Kagazy Invest LLP to Holding Invest LLP which became the ultimate parent of the Company.

From 10 May 2007 the ultimate parent of the Company is Kazakhstan Kagazy PLC, registered in the Isle of Man.

The ultimate controlling parties of the Company for the three years ended 31 December 2006 were its two 50% beneficial owners Messrs. M. A. Arip and B. A. Zhunusov as detailed in Note 32 Related party transactions.

Licenses:

General State License on audit activity #0000276 issued by Ministry of Finance of RK dated 24.06.2004 (original license #0000001 AK Kazakhstanaudit was reregistered due to change of name to BDO Kazakhstanaudit).

"APPROVED"

Managing partner, General Director
"BDO Kazakhstanaudit", LLP

S.Kh. Koshkimbayev



REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF KAZAKHSTAN KAGAZY JSC

Introduction

We have reviewed the accompanying condensed consolidated interim balance sheet of Kazakhstan Kagazy JSC as at 31 March 2007 and the related condensed consolidated interim statements of income, changes in equity and cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Financial Reporting Standard IAS 34, Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34.

Auditor

«BDO Kazakhstanaudit» LLP
Qualifying Certificate #497 issued by
Qualifying Commission of RK on attestation
of auditors dated 18.01.2000



R.K.Taipova

INTERIM CONSOLIDATED BALANCE SHEETS
AS AT 31 MARCH 2007 AND 31 DECEMBER 2006

	Notes	31 March 2007	31 December 2006
		Unaudited	Audited
		KZT'000	KZT'000
ASSETS			
Non-current assets			
Property, plant and equipment	3	26,105,827	22,561,504
Intangible assets	4	4,935	5,117
Non-current receivables.....		15,200	—
Prepayments in respect of construction contracts.....	5	4,211,795	2,887,336
VAT recoverable		1,100,645	1,100,645
Cash and cash equivalents on special deposits	6	175,000	345,000
		31,613,402	26,899,602
Current assets			
Inventories	7	6,320,000	6,094,200
Prepayments in respect of goods and construction contracts.....	8	1,770,543	7,590,292
Other current assets.....	9	769,293	790,728
Trade and other receivables	10	1,100,526	626,981
Cash and cash equivalents	11	263,917	80,584
		10,224,279	15,182,785
Total assets		41,837,681	42,082,387
EQUITY AND LIABILITIES			
Equity			
Share capital.....	12	6,356,996	6,356,996
Share premium	12	3,953,000	3,953,000
Revaluation reserve		2,782,966	1,822,202
Retained earnings.....		931,725	906,953
		14,024,687	13,039,151
Non-current liabilities			
Interest bearing loans and borrowings.....	13	21,734,320	17,096,716
Deferred tax liabilities		1,421,287	998,728
		23,155,607	18,095,444
Current liabilities			
Interest bearing loans and borrowings.....	13	347,644	6,163,829
Corporate income tax payable		8,420	9,488
Other tax liabilities	14	47,536	65,331
Trade and other payables.....	15	4,253,787	4,709,144
		4,657,387	10,947,792
Total equity and liabilities.....		41,837,681	42,082,387

The accompanying notes are an integral part of these financial statements

INTERIM CONSOLIDATED INCOME STATEMENTS
FOR THREE MONTHS ENDED 31 MARCH 2007 AND 31 MARCH 2006

	Notes	Three months ended	Three months ended
		31 March	31 March
		2007	2006
		Unaudited	Unaudited
		KZT'000	KZT'000
Revenue	17	1,686,597	1,426,321
Cost of sales		(1,115,176)	(1,047,757)
Gross profit		571,421	378,564
Selling expenses	18	(85,836)	(93,611)
Administrative expenses	19	(151,607)	(88,399)
Finance costs	20	(445,267)	(122,892)
Other income and expenses	21	124,369	125,863
Profit before tax		13,080	199,525
Income tax expense		(4,055)	(862)
Profit for the period		9,025	198,663
Earnings per share			
Basic and diluted (KZT per share)	22	1	45

The accompanying notes are an integral part of these financial statements

**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN
SHAREHOLDERS' EQUITY**

FOR THREE MONTHS ENDED 31 MARCH 2007 AND 31 MARCH 2006

	Share capital ¹	Share premium ²	Revaluation reserves ³	Retained earnings ⁴	TOTAL EQUITY
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
Unaudited					
Balance at 1 January 2006	4,380,496	—	872,406	705,942	5,958,844
Transfer of depreciation on revalued property, plant and equipment.....	—	—	(18,580)	18,580	—
Revaluation of property, plant and equipment (net of deferred tax)	—	—	45	—	45
Net income recognised directly in equity	—	—	(18,535)	18,580	45
Profit for the period.....	—	—	—	198,663	198,663
Total recognised income and expense for the period	—	—	(18,535)	217,243	198,708
Balance at 31 March 2006	<u>4,380,496</u>	<u>—</u>	<u>853,871</u>	<u>923,185</u>	<u>6,157,552</u>
Balance at 1 January 2007	6,356,996	3,953,000	1,822,202	906,953	13,039,151
Transfer of depreciation on revalued property, plant and equipment.....	—	—	(15,417)	15,417	—
Revaluation of property, plant and equipment (net of deferred tax)	—	—	976,511	—	976,511
Disposal of property, plant and equipment	—	—	(330)	330	—
Net income recognised directly in equity	—	—	960,764	15,747	976,511
Profit for the period.....	—	—	—	9,025	9,025
Total recognised income and expense for the period	—	—	960,764	24,772	985,536
Balance at 31 March 2007	<u>6,356,996</u>	<u>3,953,000</u>	<u>2,782,966</u>	<u>931,725</u>	<u>14,024,687</u>

The accompanying notes are an integral part of these financial statements

- 1 Share capital is the amount subscribed for shares at nominal value.
- 2 Share premium represents the excess of the amount subscribed for share capital over the nominal value of these shares net of share issue expenses.
- 3 Revaluation reserves represents the cumulative surplus value of the property, plant and equipment over historic cost less amounts transferred to retained earnings representing the proportion of the revaluation reserve charged in the income statement in respect of depreciation of the revalued properties.
- 4 Retained earnings represent the cumulative profit/(loss) of the group attributable to the equity shareholders.

INTERIM UNAUDITED CONSOLIDATED CASH FLOW STATEMENTS

FOR THREE MONTHS ENDED 31 MARCH 2007 AND 31 MARCH 2006

	Three months ended 31 March 2007	Three months ended 31 March 2006
	Unaudited	Unaudited
	KZT'000	KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	13,080	199,525
Adjustments for:		
Depreciation of property, plant and equipment	116,392	59,360
Amortisation of intangible assets	233	148
Amortisation of bond discount.....	6,738	3,886
Profit/(loss) on disposal of property, plant and equipment.....	957	(18,328)
Foreign exchange loss on loans and interest	(92,662)	(109,142)
Interest expense.....	438,529	119,006
	483,267	254,455
(Increase) in trade and other receivables	(473,974)	(179,702)
(Increase) in inventories	(225,802)	(658,564)
Decrease/(increase) in other assets.....	21,435	(978,136)
Decrease in prepayments in respect of goods and construction contracts	5,819,749	—
(Decrease)/increase in other tax liabilities.....	(17,781)	176,332
(Decrease)/increase in trade and other payables.....	(418,348)	1,519,311
Interest paid	(506,620)	(182,133)
Income tax paid	(1,068)	(315)
Net cash from / (used in) operating activities	4,680,858	(48,752)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(92,975)	(144,187)
Purchase of intangible assets	(51)	—
Proceeds from sale of property, plant and equipment and construction in progress.....	5,222	133,802
Expenditure on construction in progress including advance payments in respect of construction contracts.....	(2,494,630)	(311,875)
Capitalised borrowing costs on construction in progress.....	(119,305)	(100,329)
Payments of cash and cash equivalents into special deposits.....	170,000	—
(Increase) in non-current receivables	(15,200)	—
Net cash used in investing activities	(2,546,939)	(422,589)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of bonds	264,565	—
Receipt of bank loans	5,134,385	913,082
Settlement of bank loans	(7,349,536)	(160,384)
Net cash (outflow)/inflow from financing activities	(1,950,586)	752,698
NET INCREASE IN CASH AND CASH EQUIVALENTS	183,333	281,357
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD .	80,584	43,557
CASH AND CASH EQUIVALENTS AT PERIOD END	263,917	324,914

The accompanying notes are an integral part of these financial statements

**Notes to interim consolidated financial statements
for three months ended 31 March 2007**

Note 1. Description of the business and corporate information

Kazakhstan Kagazy JSC (the “Company”) is an open joint-stock company registered in the Republic of Kazakhstan. The Company’s principal operating office is at the following address: Abay village, Karasay District, Almaty Region.

The Company and its subsidiaries operate in two major reportable business segments, which are:

- 1) The production and sale of paper, corrugated packaging and other paper products (“Paper”); and
- 2) The development of land and construction of property for either the purposes of sale, or retention as investment (“Property”).

The Company is in the process of changing its principal activity to that of a holding company for its two separate paper and real estate businesses. The Company will however continue to operate its own paper manufacturing assets until these can be transferred to one of its subsidiaries. The Company will also continue to directly hold some of its real estate assets (during the three years ended 31 December 2006 the Company’s activities included manufacturing, sales and marketing of paper products). The Company’s immediate parent entity is Kagazy Investment Ltd. LLP (prior to 4 May 2007 the immediate parent was Kagazy Invest LLP). The Company conducts most of its operations through its subsidiaries and the principal activities of those subsidiaries are detailed below:

<u>Entity:</u>	<u>Principal activity</u>	<u>Immediate parent entity</u>
Operating in the Paper Business:		
Kagazy Recycling LLP	Production of paper, corrugated materials, sheeting and hygienic paper	Kazakhstan Kagazy JSC
Kagazy Trading LLP	Trading and marketing of various paper products, purchases of chemicals for paper production	Kagazy Recycling LLP
Ecopak Osiyo LLC	Distribution and sale of paper products	Kagazy Recycling LLP
EcopacAsia LLC	Distribution and sale of paper products	Kagazy Recycling LLP
Operating in the Property Business:		
Prime Estate Activities Kazakhstan LLP (“PEAK”)	Property and land development for real estate projects	Kazakhstan Kagazy JSC
PEAK Akzhal LLP	PEAK Logistics centre	PEAK

All the above Group companies are incorporated and operate in the Republic of Kazakhstan, except for Ecopak Osiyo LLC and EcopacAsia LLC which operate in Uzbekistan and Kyrgyzstan respectively.

Seasonality of Results

The revenues of our paper business are affected by seasonal fluctuations in demand, the first quarter of the year usually experiences the lowest demand from customers and therefore our quarterly results cannot be extrapolated to give an indication of full year results.

Directors’ responsibilities

The directors are responsible for preparing the interim financial statements in accordance with International Financial Reporting Standards (IFRS and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) as adopted by the EU.

The directors prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUTHORISATION OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

These interim consolidated financial statements were authorised for issue by the Board of Directors of Kazakhstan Kagazy JSC on 29 May 2007.

Note 2. Basis of preparation of condensed consolidated financial statements

These interim condensed consolidated financial statements are for the three months ended 31 March 2007 and have been prepared in accordance with the International Financial Reporting Standards (IFRS and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) as adopted by the EU, including the international Accounting Standard (IAS) 34 *Interim Financial Reporting* and with those parts of Kazakh Law applicable to companies preparing their financial statements under IFRS.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with other International Financial Reporting Standards (IFRS) have been condensed or omitted pursuant to IAS 34. These unaudited interim consolidated financial statements should be read in conjunction with the audited financial statements and the footnotes thereto included in the financial statements for the three years ended 31 December 2006. The balance sheet as at 31 December 2006 has been extracted from the audited financial statements for the year ended 31 December 2006, in respect of which the audit opinion was unqualified.

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows as of and for the three months ended March 31, 2007 have been made. The results of operations for the three months ended 31 March 2007 are not necessarily indicative of the operating results for the full year.

Functional currency

The functional currency of the Company and its material subsidiaries is Kazakh Tenge (KZT).

Official Rates as published by the National Bank of Kazakhstan

	31 March 2007	Average for 1st Quarter 2007	31 December 2006	Average for 2006	Average for 1st Quarter 2006	31 March 2006
KZT/USD	123.84	124.85	127.00	126.09	131.10	128.45

Note 3. Property, plant and equipment

	Land	Buildings and constructions	Machinery and equipment	Transport Facilities	Other property, plant and equipment	Construction in progress	TOTAL
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
Cost or valuation							
Balance as at 01/01/2006	3,095,305	2,150,559	3,556,777	83,004	57,863	3,557,472	12,500,980
Additions	1,751,959	109,191	295,101	48,875	76,149	8,262,200	10,543,475
Transferred from construction in progress	—	1,261,280	4,512,244	—	—	(5,773,524)	—
Capitalisation of borrowing cost	—	—	—	—	—	532,822	532,822
Revaluation.....	1,474,553	40	—	—	1	—	1,474,594
Disposals.....	(119,975)	(11,845)	(1,386)	(8,389)	(7,380)	(182,151)	(331,126)
Balance as at 31/12/2006	6,201,842	3,509,225	8,362,736	123,490	126,633	6,396,819	24,720,745
Additions	17,394	30,853	902,946	12,072	10,029	1,170,170	2,143,464
Transferred from construction in progress	—	2,111,803	360,324	—	—	(2,472,127)	—
Capitalisation of borrowing costs...	—	—	—	—	—	128,416	128,416
Revaluation.....	1,395,016	—	—	—	—	—	1,395,016
Disposals.....	—	(533)	(3,487)	(4,832)	(768)	—	(9 620)
Balance as at 31/03/2007	7,614,252	5,651,348	9,622,519	130,730	135,894	5,223,278	28,378,021
Accumulated depreciation							
Balance as at 01/01/2006	—	752,401	1,185,077	10,911	9,366	—	1,957,755
Charge for the period	—	74,208	107,766	15,921	6,643	—	204,538
Disposals.....	—	(492)	(438)	(462)	(1,660)	—	(3 052)
Balance as at 31/12/2006	—	826,117	1,292,405	26,370	14,349	—	2,159,241
Charge for the period	—	16,874	92,935	2,861	3,723	—	116,393
Reclassification.....	—	(49)	(1,562)	(1,735)	(94)	—	(3 440)
Balance as at 31/03/2007	—	842,942	1,383,778	27,496	17,978	—	2,272,194
Net book value							
As at 31/12/2006	6,201,842	2,683,108	7,070,331	97,120	112,284	6,396,819	22,561,504
As at 31/03/2007	7,614,252	4,808,406	8,238,741	103,234	117,916	5,223,278	26,105,827

The Group has the right of ownership in respect of all its PP&E. The major portion of construction in progress is represented by a construction of 36,500 square meters of warehouse premises, which is expected to be completed in June 2007. Construction in progress totalling to 943,676 thousand KZT and 1,804,219 thousand KZT represent the amounts paid to Arka-stroy LLP for construction services as at 31 March 2007 and 31 December 2006 respectively.

The land was revalued as at 31 March 2007 on an open market basis by Appraise Consult LLP, an independent qualified appraiser.

Pledged property, plant and equipment.

As at 31 March 2007 the net book value of PP&E and land plots pledged as security under bank loans total 4,548,232 thousand KZT and 306,209 thousand KZT respectively (also see Note 23 Contingent liabilities).

Note 4. Intangible assets

	Software	Other intangible assets	Total
	KZT'000	KZT'000	KZT'000
Cost			
Balance as at 01/01/2006	3,820	144	3,964
Additions	2,374	57	2,431
Balance as at 31/12/06	6,194	201	6,395
Additions	—	51	51
Balance as at 31/03/2007	6,194	252	6,446
Accumulated depreciation			
Balance as at 01/01/2006	545	22	567
Charge for the period	678	33	711
Balance as at 31/12/2006	1,223	55	1,278
Charge for the period	222	11	233
Balance as at 31/03/2007	1,445	66	1,511
Net book value			
As at 31/12/2006	4,971	146	5,117
As at 31/03/2007	4,749	186	4,935

Note 5. Prepayments in respect of construction contracts

	31 March 2007	31 December 2006
	KZT'000	KZT'000
Advances made to Arka-stroy LLP in respect of construction contracts in KZT	4,211,795	2,874,796
Advances made for installation services and purchase of PP&E	—	12,540
Total	4,211,795	2,887,336

Advances made in respect of construction contracts to Arka-stroy LLP totalling 4,211,795 thousand KZT will be capitalised in 2007 as construction progresses.

Note 6. Cash and cash equivalents on special deposits

	31 March 2007	31 December 2006
	KZT'000	KZT'000
Cash and cash equivalents on special deposits	927,316	1,126,784
Less current portion (see Note 9)	(752,316)	(781,784)
Non-current portion	175,000	345,000

On 28 April 2006 the Company opened a deposit at Alliance Bank JSC for 1.5 billion KZT for up to 2 years bearing interest of 5.98% p.a. Out of this deposit 210 million KZT of bonds interest were repaid during the three months ended 31 March 2007.

Note 7. Inventories

	31 March 2007	31 December 2006
	KZT'000	KZT'000
Trading property.....	5,172,547	5,139,378
Finished goods.....	610,082	507,848
Raw materials.....	459,834	416,621
Work in progress.....	77,537	30,353
Total.....	6,320,000	6,094,200

The market value, assessed by an independent qualified appraiser, of the trading property under development as at 31 March 2007 was 13,729,643 thousand KZT. Trading property under development consists of land plots that the Group intends to sell once the development programme is finished. As at 31 March 2007 all of the trading property was under construction and was pledged as security under bank loans received by the Group.

Note 8. Prepayments in respect of construction contracts

	31 March 2007	31 December 2006
	KZT'000	KZT'000
Advances made to Arka-stroy LLP in respect of construction contracts in KZT.....	829,134	6,339,279
Advances made for goods in KZT.....	412,650	482,604
Advances made for goods in currency other than KZT.....	339,777	716,671
Advances made for works and services in KZT.....	189,303	85,562
Advances made for works and services in currency other than KZT.....	38,479	10,648
Advances made.....	1,809,343	7,634,764
Reserve for doubtful advances made.....	(38,800)	(44,472)
Net advances made.....	1,770,543	7,590,292

Note 9. Other current assets

	31 March 2007	31 December 2006
	KZT'000	KZT'000
Cash and cash equivalents on special deposits (see Note 6).....	752,316	781,784
Prepaid expenses.....	16,977	8,944
Other current assets.....	769,293	790,728

Note 10. Trade and other receivables

	31 March 2007	31 December 2006
	KZT'000	KZT'000
Trade receivables.....	774,171	620,831
Reserve for doubtful trade receivables	(65,055)	(107,226)
Net trade receivables	709,116	513,605
Employees' receivables.....	38,267	35,128
Other receivables.....	118,919	96,347
Reserve for doubtful other receivables	(23,605)	(22,148)
Net other receivables	133,581	109,327
Taxes recoverable.....	257,829	4,049
Total.....	1,100,526	626,981

Note 11. Cash and cash equivalents

	31 March 2007	31 December 2006
	KZT'000	KZT'000
Cash held at banks in currency other than KZT	196,174	1,554
Cash held at banks in KZT	51,435	70,063
Cash on hand in KZT	14,450	8,967
Other cash balances	1,858	—
Total.....	263,917	80,584

Note 12. Share capital

Kazakhstan Kagazy JSC was established in February 2001 in the form of closed joint stock company with the charter capital of 80 thousand KZT. In 2004 and 2005 additional shares were issued at nominal value.

On 31 May 2006 1,976,500 ordinary shares were issued in excess of nominal value in exchange for 1,231,112 thousand KZT in cash and the land plots contributed by Kagazy Invest LLP. According to independent appraisers, the total value of the land plots being transferred in exchange for the shares was 4,698,387,980 KZT at the date of contribution.

The following table summarises changes in the Share capital:

	Nominal value	Share premium	Number of ordinary shares, authorised, issued and fully paid
	KZT'000	KZT'000	
As at 1 January 2006.....	4,380,496	—	4,380,496
Increase in share capital	1,976,500	3,953,000	1,976,500
As at 31 December 2006	6,356,996	3,953,000	6,356,996
As at 1 January 2007.....	6,356,996	3,953,000	6 356,996
Increase in share capital	—	—	—
As at 31 March 2007	6,356,996	3,953,000	6,356,996

As of 31 March 2006 and 2007, the sole shareholder of Kazakhstan Kagazy JSC was Kagazy Invest LLP:

The ultimate parent company of Kazakhstan Kagazy JSC and the Group from 2005 is Holding Invest LLP, registered in the Republic of Kazakhstan.

Authorised share capital of as of 31 March 2007 is 6,560,751 ordinary shares.

Note 13. Interest bearing loans and borrowings

	31 March 2007	31 December 2006
	KZT'000	KZT'000
Non-current:		
Bonds (net of discount, see table below)	10,539,109	10,267,807
Bank loans	10,538,217	6,828,909
Financial leasing liabilities	656,994	—
Total non-current loans and borrowings	21,734,320	17,096,716
Current:		
Bank loans	199,456	—
Financial leasing liabilities	148,188	6,163,829
Total current loans and borrowings	347,644	6,163,829
Total interest bearing loans and borrowings	22,081,964	23,260,545

(c) Interest rates

The bank loans are secured on the assets of the Group, and are from the following banks at the fixed rates of interest shown:

	31 March 2007	%	31 December 2006	%
	KZT'000		KZT'000	
Current portion of long-term bank loans, including:	347,644		181,869	
Kazkommertsbank JSC	148,188	11	—	
Kazakhstan Development Bank JSC	141,492	10.5	145,102	10.5
Alliance Bank JSC	57,964	14	36,767	14
Short-term bank loans, including:	—		5,981,960	
Alliance Bank JSC	—		5,850,000	7
Nurbank JSC	—		131,960	13
Total current loans and borrowings	347,644		6,163,829	

The bonds are listed on the Kazakh Stock Exchange and bear interest at the following rates:

	31 March 2007	31 December 2006
	KZT'000	KZT'000
Non-current:		
Floating rate bonds at par value @ 2.5% p.a. + inflation	4,000,000	4,000,000
Discount on bonds	(123,271)	(127,535)
Floating rate bonds at par value @ 1.5% p.a. + inflation	6,900,000	6,620,000
Discount on bonds	(237,620)	(224,658)
Total bonds (net of discount)	10,539,109	10,267,807

(d) **Repayment dates of borrowings**

The repayment dates of the Group's borrowings are as follows.

31 March 2007					
	1 year or less	1 – 2 years	2 – 5 years	More than 5 years	Total
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
Interest bearing loans and borrowings:					
Fixed rate	347,644	4,656,838	6,538,373	—	11,542,855
Floating rate	—	—	7,314,376	3,224,733	10,539,109
Total	347,644	4,656,838	13,852,749	3,224,733	22,081,964

As at 31 March 2007, the amounts falling due in more than 5 years are due for repayment on 20 August 2013.

31 December 2006					
	1 year or less	1 – 2 years	2 – 5 years	More than 5 years	Total
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
Interest bearing loans and borrowings:					
Fixed rate	6,163,829	212,886	6,616,023	—	12,992,738
Floating rate	—	—	7,310,112	2,957,695	10,267,807
Total	6,163,829	212,886	13,926,135	2,957,695	23,260,545

Note 14. Other tax liabilities

	31 March 2007	31 December 2006
	KZT'000	KZT'000
Social tax and social insurance	9,611	20,139
Individual income tax	6,444	11,525
Withholding tax for a non-residents	6,305	4,507
Payment for environment pollution	—	399
Other taxes	25,176	28,761
Total	47,536	65,331

Note 15. Trade and other payables

	31 March 2007	31 December 2006
	KZT'000	KZT'000
Current payables to suppliers and contractors in KZT	3,676,845	3,973,878
Bank interest payable.....	312,320	419,020
Advances received	86,253	114,331
Other current payables.....	56,856	47,589
Wages and salaries payable	56,436	53,233
Current payables to suppliers and contractors in currency other than KZT	47,471	64,678
Liabilities on pension payments.....	8,698	16,391
Provisions for employees' vacation.....	3,965	11,414
Other current liabilities	4,943	8,610
Total	4,253,787	4,709,144

Note 16. Financial assets and liabilities*Interest risks*

The information on liabilities of the Group depending on currencies and interest rates is as follows:

Liabilities as of 31 March 2007

Currency	With floating interest rate	With fixed interest rate	Total
	KZT'000	KZT'000	KZT'000
KZT	10,539,109	1,718,265	12,257,374
USD.....	—	5,674,483	5,674,483
EURO	—	4,126,966	4,126,966
Russian Rouble	—	23,141	23,141
Total	10,539,109	11,542,855	22,081,964

Liabilities as of 31 December 2006

Currency	With floating interest rate	With fixed interest rate	Total
	KZT'000	KZT'000	KZT'000
KZT	10,267,807	7,538,212	17,806,019
USD.....	—	4,127,885	4,127,885
EURO	—	1,326,641	1,326,641
Total	10,267,807	12,992,738	23,260,545

Floating interest rate liabilities represent bonds denominated in KZT.

Note 17. Revenue

	Three months ended 31 March 2007	Three months ended 31 March 2006
	KZT'000	KZT'000
Finished products	917,102	686,497
Goods for resale	720,948	739,824
Services	48,547	—
Total	1,686,597	1,426,321

Note 18. Selling expenses

	Three months ended 31 March 2007	Three months ended 31 March 2006
	KZT'000	KZT'000
Transportation expenses	28,804	33,684
Expenses on wages of employees'	26,381	9,654
Operating rental expenses	14,622	22,268
Marketing and advertising	8,244	25,008
Other selling and distribution expenses	6,794	2,850
Post and courier services	991	147
Total	85,836	93,611

Note 19. Administrative expenses

	Three months ended 31 March 2007	Three months ended 31 March 2006
	KZT'000	KZT'000
Wages and salaries	83,377	38,194
Property tax	22,631	8,391
Bank services	13,815	3,417
Social tax	10,924	4,592
Depreciation deductions	7,542	5,958
Communication services	6,584	4,618
Transportation expenses	3,303	8,060
Social payments expenses	2,613	2,545
Other administrative expenses	818	12,624
Total	151,607	88,399

Note 20. Finance costs

	Three months ended 31 March 2007	Three months ended 31 March 2006
	KZT'000	KZT'000
Bank loans interest	438,529	101,708
Depreciation of discount on bonds	6,738	3,886
Commissions charged for financing	—	17,298
Total	445,267	122,892

Note 21. Other income and expenses

	Three months ended 31 March 2007	Three months ended 31 March 2006
	KZT'000	KZT'000
Interest income	15,383	—
Profit/(loss) on disposal of other assets.....	(957)	18,328
Foreign exchange profit.....	79,731	108,922
Other.....	30,212	(1,387)
Total	124,369	125,863

Note 22. Earnings per share

Basic EPS is determined by dividing the net profit or loss for the period attributable for ordinary shareholders by the weighted average number of ordinary shares outstanding during the reporting period.

The calculation of the basic and diluted earnings per share is based on the following data:

	Three months ended 31 March 2007	Three months ended 31 March 2006
	KZT'000	KZT'000
Net profit for the period	9,025	198,663
Weighted average number of shares (thousands of shares)	6,356,996	4,380,496

There were no potential shares during the period from 1 January 2006 to 31 March 2007.

Note 23. Contingent liabilities

On 21 March 2002 the Company obtained a guarantee for 5 million USD from Kazkommertsbank JSC with the term from 25 March 2002 to 25 May 2007 as security for the loan obtained from Kazakhstan Development Bank JSC. In January 2007, as the Company repaid this loan, the bank guarantee value was reduced to 1.5 million USD. On 2 April 2007 as Kazakhstan Development Bank JSC loan was settled by the Company in full, the bank guarantee expired.

Kagazy Recycling was established by the Company in 2006 for the purpose of combining all the paper business assets of commonly controlled affiliates of the Group into one division. These commonly controlled affiliates were Kagazy Processing LLP and Kagazy Gofrotara LLP. In order to transfer these paper business assets it has been necessary for the group to provide pledges the lenders of Kagazy Processing LLP and Kagazy Gofrotara LLP. Details of the transactions that give rise to these guarantees are disclosed below:

- On 20 December 2006 Kagazy Processing LLP sold to Kagazy Recycling LLP a land plot with an area of 0.81 ha at the cost of 26,504 thousand KZT. This land plot is pledged as security against a bank loan of 2,177 thousand USD drawn by Kagazy Processing on 24 June 2005 from Alliance Bank JSC.
- On 29 December 2006 Kagazy Gofrotara LLP sold to Kagazy Recycling LLP and to PEAK LLP land plots with an area of 4 ha and 5 ha costing 104,922 and 174,783 thousand KZT respectively.
- These land plots of 4 and 5 ha with the total cost of 279,705 thousand KZT are pledged as security against a loan of 2,000,927 thousand KZT drawn on 2 March 2006 by Gofrotara LLP from Kazkommertsbank JSC.

Also see Note 1 Description of the business corporate information and Note 25 Related party transactions.

Note 24. Segmental information

A segment is a distinguishable component of the Group that is engaged in providing products or services in a particular business sector (business segment), or in providing products or services in within a particular economic environment (geographical segment), which is subject to risks are rewards that are different from those of other segments. Segmental information is presented in respect of the Group's primary basis of segmentation in business segments.

The Groups primary reporting format for reporting segment information is business segments, paper and property, as disclosed in Note 1 Description of the business corporate information.

	Three months ended 31 March 2007	Three months ended 31 March 2006
	KZT'000	KZT'000
Segment income statement		
Revenue – paper	1,686,597	1,426,321
Segment result – paper	483,888	322,417
Segment result – property	(40,924)	—
Interest income	15,383	—
Interest expense	(445,267)	(122,892)
Income tax expense	(4,055)	(862)
Profit for the period	9,025	198,663
	Three months ended 31 March 2007	Three months ended 31 March 2006
	KZT'000	KZT'000
Segment balance sheet		
Assets – paper.....	19,136,418	18,992,021
Liabilities – paper	(15,794,645)	(15,815,539)
Net assets – paper	3,341,773	3,176,482
Assets – property.....	22,701,263	23,090,366
Liabilities – property	(12,018,349)	(13,227,697)
Net assets – property	10,682,914	9,862,669
Assets – total	41,837,681	42,082,387
Liabilities – total.....	(27,812,994)	(29,043,236)
Net assets – total	14,024,687	13,039,151

	Three months ended 31 March 2007	Three months ended 31 March 2006
	KZT'000	KZT'000
Other		
Capital expenditure		
– Paper.....	14,036,680	8,040,403
– Property.....	12,069,147	2,884,424
Total	26,105,827	10,924,827
Segment depreciation and amortisation		
– Paper.....	116,626	59,360
– Property.....	—	—
Total	116,626	59,360

Materially all of the Group's assets, liabilities, sales and other transactions arose in the Republic of Kazakhstan. The Group started its real estate development business segment in 2005 and that segment had no revenue in the course of the three months ended 31 March 2007 and 31 March 2006.

Note 25. Related party transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one of them can exercise control over the other or is under common control or can significantly influence the other party's operational and financial decision making.

The nature of the relationships with related parties with which the Group had executed significant transactions in the course of three months ended 31 March 2007 and 31 March 2006, or had significant balances outstanding as of 31 March 2007 and 31 December 2006, is detailed as follows:

Related party	Nature relationship with the Group
Mr. M. A. Arip	Shareholder (via participation in holding companies) and General Director of the Company
Mr. B. A. Zhunusov	Shareholder (via participation in holding companies) and Chairman of the Board of Directors of the Company
Mr. K. K. Zhekebatyrov	Manager in holding companies
Kagazy Gofrotara LLP	100% equity is owned by Kagazy Invest LLP
Kagazy Processing LLP	100% equity is owned by Kagazy Invest LLP
Kagazy Invest LLP	100% equity is owned by M. A. Arip (50%) and B. A. Zhunusov (50%)
Kazvtorsyr'e LLP	100% equity is owned by Mr. K. K. Zhekebatyrov., a relative of B. A. Zhunusov, Chairman of the Board of Directors of the Company
K-Vtorsyr'e LLP	Mr. K. K. Zhekebatyrov is owner of 100% of its shares
Holding Invest LLP	Messrs. M. A. Arip and B. A. Zhunusov each own 50% of shares in equity, Holding Invest LLP owns 100% of Kagazy Invest LLP equity
Kontakt Service Plus LLP	90% of equity is owned by Mr. Bogday Y.A., a relative of Mr. B. A. Zhunusov, Chairman of the Board of Directors of the Company
Papcel Kazakhstan LLP	Kagazy Invest LLP is participating in its equity

In 2006 and 2007 the Group was engaged in transactions with related parties, such as sales of products and property, plant and equipment, rent of premises, purchase of products and services as well as provision of financial aid. All these transactions were conducted on the basis of market prices and conditions. Following is the summary of such transactions:

Current accounts payable by the Group to related parties

	31 March 2007	31 December 2006
	KZT'000	KZT'000
Kagazy Processing LLP	2,460,116	2,450,595
Kagazy Gofrotara LLP	965,212	1,055,338
Kagazy Invest LLP	37,097	103
Holding Invest LLP	19	19
Kontakt Service Plus LLP	355	355
Total	3,462,799	3,506,410

Current accounts receivable by the Group from related parties

	31 March 2007	31 December 2006
	KZT'000	KZT'000
Kazvtorsyr'e LLP	154,383	159,489
K-Vtorsyr'e LLP	61,459	62,257
Total	215,842	221,746

Related party	Services and goods provided to the Group in 1st quarter of 2007	Amount in KZT'000
Kagazy Gofrotara LLP	Non-current assets, spare parts and rental of equipment...	917,578
Kazvtorsyr'e LLP	Major supplies of waste paper	121,503
Kagazy Processing LLP	Corrugated products, pallets, meshes and other materials.	5,292
K-Vtorsyr'e LLP	Vehicle	700
Total		1,045,073

Related party	Services and goods provided by the Group in 1st quarter of 2006	Amount in KZT'000
Kazvtorsyr'e LLP	Rental of equipment and vehicles, office paper	373
Kagazy Invest LLP	Vehicle rental, sale of office equipment and computers, paper	323
Total		696

Compensation of key management

Total compensation of the Group directors and other members of key management include contract salaries, bonuses, vacation leave payments etc. This amount is included in the general and administrative expenses of the consolidated income statement and comprises 11,900 thousand KZT for 3 months ended on 31 March 2007, 10,725 thousand KZT for 3 months ended on 31 March 2006. Over the course of these reporting periods the Group's key management personnel consisted of 12 directors and managers.



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The Directors
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18 July 2007

ING Bank N.V., London Branch
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EC2M 5TQ
United Kingdom

Dear Sirs

Kazakhstan Kagazy PLC (the “Company”)

Introduction

We report on the financial information set out on pages F-60 to F-62. This financial information has been prepared for inclusion in the prospectus dated 18 July of the Company (the “Prospectus”) on the basis of the accounting policies set out in note 1 to the financial information. This report is required by item 20.1 of annex X of the Commission Regulation (EC) No. 809/2004 (the “PD Regulation”) and is given for the purpose of complying with that item and for no other purpose.

Responsibilities

As described on Page F-60, the directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information and in accordance with applicable law and International Financial Reporting Standards (“IFRSs”) adopted by the European Union.

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the Prospectus, and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by the law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of annex X of the PD Regulation, consenting to its inclusion in the Prospectus.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Company as at the date stated in accordance with the basis of preparation set out in note 1 to the financial information and has been prepared in accordance with applicable IFRSs as described in note 1 to the financial information.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of annex X of the PD Regulation.

Yours faithfully

BDO Stoy Hayward LLP
Chartered Accountants

Responsibility

The Directors are responsible for preparing the financial information set out below on the basis of preparation set out in note 1 to the financial information and in accordance with applicable law and International Financial Reporting Standards (“IFRSs”) adopted by the European Union.

Income statement and cash flow statement

The Company did not trade during the period and accordingly no income statement or cash flow statement has been prepared. The Company made neither a profit or a loss nor had any other recognised gains or losses.

Balance sheet as at 31 March 2007

		As at 31 March 2007
		<u>US\$</u>
Assets:		
Current assets		
Other receivables.....	2	<u>0.20</u>
Total current assets		<u>0.20</u>
Total assets		<u><u>0.20</u></u>
Equity and liabilities:		
Equity		
Share capital	3	<u>0.20</u>
Total equity		<u><u>0.20</u></u>

Statement of changes in equity

There were no changes in equity other than the shares issued during the period as disclosed in note 3 to the financial statements.

Notes to the financial information

1 Accounting policies

Basis of preparation

The Company was incorporated as Kazakhstan Kagazy Plc on 15 March 2007.

The financial information has been prepared in accordance with IFRSs issued by the International Accounting Standards Board (“IASB”) and with the standing interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB.

2 Trade and other receivables

	As at 31 March 2007
	US\$
Amounts due from shareholders	0.20

At 31 December 2007 the amount outstanding from each of Pleco Limited (“Pleco”) and Oreo Limited (“Oreo”) (see note 5) was US \$0.10.

3 Share capital

	Number of shares	As at 31 March 2007
		US\$
Issued, allotted, called up and fully paid		
Ordinary shares of US\$0.10 each	2	0.20

On incorporation 2 ordinary shares of US\$0.10 each were issued at par.

4 Post balance sheet events

On 10 May 2007 the Company entered into an agreement with Maksat Arip and Baglan Zhunussov (both directors of the Company), and Oreo Limited and Pleco Limited (see note 5). In accordance with this agreement:

- The Company issued 27,241 ordinary shares of US\$0.10 each to each of Oreo Limited and Pleco Limited (54,482 in total);
- Mr. Arip and Mr. Zhunussov transferred 2,000 ordinary shares of €1 each (1,000 shares each) in Megasol Investments Limited to the Company;
- Oreo Limited issued 1,362 ordinary shares of €1 each to Mr. Arip, and Pleco Limited issued 1,362 ordinary shares of €1 each to Mr. Zhunussov.

In the opinion of the directors this transaction does not constitute a business combination as defined by IFRS 3: Business Combinations.

Megasol Investments Limited is a holding company which indirectly owns the entire issued share capital of Kazakhstan Kagazy JSC, a company incorporated in Kazakhstan. Kazakhstan Kagazy JSC operates a paper and property business in Kazakhstan.

On 25 June 2007, Oreo Limited and Pleco Limited were each allotted a further 24,972,758 ordinary shares of no par value at US\$0.00000004 per share (Oreo Limited and Pleco Limited each paying subscription money of US\$1). On 13 July 2007, the Company adopted new Articles of Association which, *inter alia*, set the par value of the Company’s shares at US\$0.10 (the “Par Value”). On 13 July 2007, the Company reduced its share capital so as to extinguish the outstanding liability of US\$0.09999996 on each of the 24,972,758 shares of US\$0.10 issued to each of Oreo Limited and Pleco Limited.

5 *Ultimate controlling parties*

As at 31 March 2006, the Company was jointly owned and controlled by Oreo Limited and Pleco Limited. The 100% shareholder and controlling party of Oreo Limited was Maksat Arip. The 100% shareholder and controlling party of Pleco Limited was Baglan Zhunussov.

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