



## THE REPUBLIC OF KAZAKHSTAN

*represented by the Ministry of Finance of the Republic of Kazakhstan  
acting upon authorisation of the Government of the Republic of Kazakhstan*

## U.S.\$10,000,000,000 Global Medium Term Note Programme

Under the Global Medium Term Note Programme described in this Base Prospectus (the “**Programme**”), the Republic of Kazakhstan (the “**Issuer**” or “**Kazakhstan**”), represented by the Ministry of Finance of the Republic of Kazakhstan acting upon the authorisation of the Government of the Republic of Kazakhstan, subject to compliance with relevant laws, regulations and directives, may from time to time issue notes (the “**Notes**”). The aggregate principal amount of Notes outstanding at any time will not exceed U.S.\$10,000,000,000 (or its equivalent in other currencies).

This Base Prospectus has been approved by the Financial Conduct Authority (the “**FCA**”) as competent authority under Regulation (EU) 2017/1129 of the European Parliament and of the Council dated 14 June 2017 (as amended, the “**Prospectus Regulation**”). The FCA only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer or the quality of the Notes that are the subject of this Base Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes. Application has been made for Notes issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list of the FCA (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Notes to be admitted to trading on the London Stock Exchange’s regulated market (the “**Market**”). References in this Base Prospectus to Notes being “**listed**” (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2014/65/EU (“**MiFID II**”). The Programme and the Notes may also be listed and admitted to trading on the Astana International Exchange (“**AIX**”). Notice of the aggregate nominal amount of interest (if any) payable in respect of, the issue price of, and any other terms and conditions not contained herein that are applicable to, each Tranche (as defined below) of Notes will be set forth in a final terms document (the “**Final Terms**”) or in a separate prospectus specific to such Tranche (the “**Drawdown Prospectus**”) as described below in “*Final Terms and Drawdown Prospectuses*”, which, with respect to Notes to be admitted to the Official List and to be admitted to trading on the Market, will be delivered to the FCA and to the London Stock Exchange on or before the date of issue of the Notes of such Tranche.

This Base Prospectus is valid for 12 months from its date in relation to Notes which are to be admitted to trading on a regulated market in the European Economic Area (the “**EEA**”). The obligation to supplement this Base Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Base Prospectus is no longer valid.

The Notes of each Series (as defined in “*Overview of the Programme*”) will be issued in registered form and may be offered and sold (a) outside the United States in reliance on Regulation S (“**Regulation S**”) under the Securities Act of 1933, as amended (the “**Securities Act**”) (the “**Unrestricted Notes**”) and represented by a registered global note certificate (an “**Unrestricted Global Note**”) without interest coupons which may be deposited on the relevant issue date (i) in the case of a Series intended to be cleared through Euroclear Bank SA/NV (“**Euroclear**”) and/or Clearstream Banking S.A. (“**Clearstream, Luxembourg**”) with a common depositary (the “**Common Depositary**”) and (ii) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream, Luxembourg, or delivered outside of a clearing system, as agreed between the Issuer and the relevant Dealers, and/or (b) within the United States only to “qualified institutional buyers” (“**QIBs**”) (as defined in Rule 144A under the Securities Act (“**Rule 144A**”)) in reliance on Rule 144A (the “**Restricted Notes**”) and will be represented by one or more registered global note certificates (each a “**Restricted Global Note**”) and together with the Unrestricted Global Notes, the “**Global Notes**”), without interest coupons, which, as specified in the Final Terms may be cleared through Euroclear and/or Clearstream, Luxembourg or through The Depository Trust Company (“**DTC**”) and which may be deposited on the relevant issue date with either a Common Depositary or a custodian (the “**Custodian**”) for DTC and registered in the name of Cede & Co. as nominee for DTC. Prospective purchasers are hereby notified that sellers of Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Interests in Restricted Global Notes will be subject to certain restrictions on transfer. See “*Transfer Restrictions*”. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, Notes in definitive form will not be issued in exchange for beneficial interests in a Global Note.

The Issuer’s current long term debt rating by Standard & Poor’s Credit Market Services Europe Limited (“**S&P**”) is BBB- (outlook stable), Moody’s Investors Service Ltd. (“**Moody’s**”) is Baa3 (outlook positive) and Fitch Ratings Limited (“**Fitch**”) is BBB (outlook stable). Tranches of Notes to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche of Notes will be (a) issued by a credit rating agency established in the EEA and registered under Regulation (EU) No. 513/2011 (the “**CRA Regulation**”), or (b) issued by a credit rating which is not established in the EEA but will be endorsed by a credit rating agency which is established in the EEA and registered under the CRA Regulation or (c) issued by a credit rating agency which is not established in the EEA but which is certified under the CRA Regulation will also be disclosed in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency. Each of S&P, Moody’s and Fitch is established in the European Union (the “**EU**”), domiciled in the United Kingdom, and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009 on Credit Rating Agencies as amended by the CRA Regulation. The list of credit rating agencies registered and/or certified under the CRA Regulation is available on the European Securities and Markets (“**ESMA**”) website (<http://www.esma.europa.eu/page/list-registered-and-certified-CRAs>) (last updated 5 July 2019).

The Notes have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any State or other jurisdiction of the United States, and may not be sold within the United States or for the account or benefit of, any U.S. person (as such terms are defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a summary of certain restrictions on resale, see “*Subscription and Sale*” and “*Transfer Restrictions*”.

This Base Prospectus should be read and construed together with any amendment or supplement hereto. Further, in relation to any Series of Notes, this Base Prospectus should be read and construed together with the relevant Final Terms.

Neither this Base Prospectus nor the Notes are required to be registered or cleared under the regulations of the Kazakhstan Stock Exchange (the “**KASE**”).

Investing in the Notes involves certain risks. See “*Risk Factors*” beginning on page 6.

Amounts payable under the Notes may be calculated by reference to either LIBOR or EURIBOR, which are provided by ICE Benchmark Administration Limited (“**ICE**”) and the European Money Markets Institute (the “**EMMI**”), respectively. As at the date of this Base Prospectus, both ICE and EMMI appear on the register of administrators and benchmarks established and maintained by the ESMA pursuant to Article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the “**Benchmark Regulation**”).

*Arrangers and Permanent Dealers*

**Citigroup**

**“First Heartland Securities” JSC**

**Société Générale Corporate & Investment Banking**

**UBS Investment Bank**

## **RESPONSIBILITY STATEMENT**

This Base Prospectus constitutes a base prospectus for the purposes of the Prospectus Regulation and for the purpose of giving information with regard to the Issuer and the Notes which, according to the particular nature of the Issuer and of the Notes, is necessary to enable investors to make an informed assessment of the economic, fiscal and political condition of the Issuer and the rights attaching to the Notes.

The Issuer accepts responsibility for the information contained in this Base Prospectus and declares that, to the best of its knowledge, the information contained in this Base Prospectus (including the information incorporated herein by reference) is in accordance with the facts and the Base Prospectus makes no omission likely to affect their import.

To the best of the knowledge and belief of the Issuer, this Base Prospectus contains all information regarding the Issuer and the Notes which (in the context of the issue of the Notes) is material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Base Prospectus on the part of the Issuer are honestly held or made and are not misleading in any material respect; this Base Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing.

No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus in connection with the offering, issue and sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any Arranger or Dealer (each as defined in “*Overview of the Programme*”).

Neither the Arrangers nor the Dealers have separately verified the information contained herein. None of the Arrangers or the Dealers makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Base Prospectus. Neither this Base Prospectus nor any Final Terms are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arrangers or the Dealers that any recipient of this Base Prospectus or any Final Terms should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus and any Final Terms and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Arrangers or the Dealers undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Base Prospectus and any Final Terms nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arrangers or the Dealers.

Generally, investment in emerging markets such as Kazakhstan is only suitable for investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors are urged to consult their own legal and financial advisers before making an investment. Emerging markets can also experience more instances of corruption by government officials and misuse of public funds than do more mature markets, which could affect the ability of governments to meet their obligations under issued securities.

Investors should also note that emerging markets such as Kazakhstan are subject to rapid change and that the information set out in this Base Prospectus may become outdated relatively quickly.

## **SUPPLEMENTS TO THIS BASE PROSPECTUS**

If at any time the Issuer shall be required to prepare a supplementary prospectus pursuant to section 87G of the Financial Services and Markets Act 2000 (the “**FSMA**”), the Issuer will prepare and make available an appropriate amendment or supplement to this Base Prospectus or a further Base Prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Market, shall constitute a supplementary prospectus as requested by the UK Listing Authority and Section 87G of the FSMA.

The Issuer has undertaken, in connection with the listing of the Notes on the Official List, that in the event of a change in the condition of the Issuer, which is material in the context of the Programme or the issue of Notes, and if there is a significant new factor, material mistake or inaccuracy relating to the information contained in this Base Prospectus which is capable of affecting the assessment of any Notes, which inclusion would be required by investors for the purpose of making an informed assessment of the economic, fiscal and political

condition of the Issuer and the rights attaching to the relevant Notes, the Issuer will prepare or procure the preparation of a supplement to this Base Prospectus or, as the case may be, publish a new base prospectus, for use in connection with that or any subsequent issue by the Issuer of Notes listed on the Official List.

### IMPORTANT NOTICES

Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Note shall, under any circumstances, create any implication that the information contained in this Base Prospectus is accurate subsequent to the date hereof or that there has been no change in the affairs of the Issuer since the date hereof or the date upon which the Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the economic, fiscal and political condition of the Issuer since the date hereof or the date upon which the Base Prospectus has been most recently amended or supplemented or any other information supplied in connection with the Programme is correct as at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. This Base Prospectus may only be used for the purpose for which it has been published.

The requirement to publish a base prospectus under the Prospectus Regulation only applies to Notes which are to be admitted to trading on a regulated market situated or operating within a Member State(s) and/or offered to the public in the Member State(s) other than in circumstances where an exemption is available under Article 1(4) of the Prospectus Regulation. References in this Base Prospectus to “**Non-PR Notes**” are to Notes issued by the Issuer for which no base prospectus is required to be published under the Prospectus Regulation. The U.K. Listing Authority has neither approved nor reviewed information contained in this Base Prospectus in connection with Non-PR Notes.

The distribution of this Base Prospectus and any Final Terms and the offering, sale or delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Issuer, the Arrangers and the Dealers to inform themselves and to observe any such restriction. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus and any Final Terms and the offering material relating to the Notes, see “*Subscription and Sale*”. In particular, Notes have not been and will not be registered under the Securities Act and will be offered and sold outside the United States of America (“**U.S.**”) to non U.S. persons in reliance on Regulation S and sold in the U.S. to QIBs in reliance on Rule 144A. Prospective purchasers of Notes are hereby notified that sellers of Notes may be relying on the exemption from registration requirements of Section 5 of the Securities Act provided by Rule 144A.

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Arrangers or the Dealers to subscribe for, or purchase, any Notes. In particular, this Base Prospectus does not constitute an offer of securities to the public in the United Kingdom. Consequently this document is being distributed only to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order and other persons to whom it may be lawfully communicated falling within article 49(1) of the Order (all such persons together being referred to as “**relevant persons**”). Any person who is not a relevant person should not act or rely on this document or any of its contents. Persons into whose possession this Base Prospectus may come are required by the Issuer, the Arrangers and the Dealers to inform themselves about and to observe such restrictions.

### STABILISATION

**In connection with the issue of any Tranche (as defined in “*Overview of the Programme*”) of Notes, the Dealer or Dealers (if any) named as the stabilising manager(s) (the “**Stabilising Manager(s)**”) (or persons acting on behalf of the Stabilising Manager(s)) in the relevant Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over allotment must be conducted by the Stabilising**

**Manager(s) (or persons acting on behalf of the Stabilising Manager(s)) in accordance with all applicable laws, regulations and rules.**

## **NOTICE TO PROSPECTIVE UNITED STATES INVESTORS**

**THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER REGULATORY AUTHORITY IN THE UNITED STATES, NOR HAVE ANY OF THE FOREGOING AUTHORITIES REVIEWED OR PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.**

This Base Prospectus is being furnished only to a limited number of investors in the United States who are persons reasonably believed to be QIBs and to investors outside the United States. Any reproduction or distribution of this Base Prospectus, in whole or in part, in the United States and any disclosure of its contents or use of any information herein in the United States for any purpose, other than in considering an investment by the recipient in the Notes, is prohibited. Each potential investor in the Notes, by accepting delivery of this Base Prospectus agrees to the foregoing and each purchaser or holder of interests in Notes will be deemed, by its acceptance or purchase of any such Notes, to have made certain acknowledgements, representations and agreements as set out in “*Subscription and Sale*” and “*Transfer Restrictions*”.

## **MIFID II PRODUCT GOVERNANCE / TARGET MARKET**

The Final Terms in respect of any Notes may include a legend titled “MiFID II Product Governance” that will outline the target market assessment in respect of such Notes and which channels for distribution of such Notes (or beneficial interests therein) are appropriate. In those cases, any person or entity subsequently offering, selling or recommending such Notes (or beneficial interests therein) (a “**distributor**”) should take into consideration the target market assessment; *however*, a distributor subject to MiFID II will remain responsible for undertaking its own target market assessment in respect of such Notes (or beneficial interests therein) (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID II product governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any Dealer subscribing for any Notes (or beneficial interests therein) is a manufacturer in respect of such Notes (or beneficial interests therein), but otherwise none of the Arrangers, the Dealers or any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

## **SINGAPORE SFA PRODUCT CLASSIFICATION**

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “**SFA**”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), unless otherwise stated in the Final Terms in respect of any Notes and notified to the Dealers prior to an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

## **FORWARD LOOKING STATEMENTS**

Certain statements included herein may constitute “forward looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”); however, this Base Prospectus is not entitled to the benefit of the safe harbour created thereby. Such statements, certain of which can be identified by the use of forward looking terminology such as “believes”, “expects”, “may”, “are expected to”, “intends”, “will”, “will continue”, “should”, “could”, “would be”, “seeks”, “approximately”, “estimates”, “predicts”, “projects”, “aims” or “anticipates”, or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions, involve a number of risks and uncertainties. Such forward looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be

incapable of being realised. Therefore, undue reliance should not be placed on them. The Issuer has based these forward looking statements on its current view with respect to future events and financial results.

Forward looking statements speak only as at the date on which they are made and the Issuer undertakes no obligation to update publicly any of them in light of new information or future events. Forward looking statements involve inherent risks and uncertainties. Forward looking statements include, but are not limited to: (i) plans with respect to the implementation of economic policy; (ii) expectations about the behaviour of the economy if certain economic policies are implemented; (iii) the outlook for gross domestic product, inflation, exchange rates, interest rates, commodity prices, foreign investment, balance of payments, trade and fiscal balances; and (iv) estimates of external debt repayment and debt service.

The Issuer cautions that a number of important factors could cause actual results to differ materially from those contained in any forward looking statement. The information contained in this Base Prospectus identifies important factors that could cause such differences, including, but not limited, to the following adverse external factors, such as:

- changes in international oil and gas prices, foreign exchange rates or prevailing interest rates, which could adversely affect Kazakhstan's balance of payments and external reserves;
- adverse events in other emerging market countries, which could dampen foreign investment or adversely affect the trading price of the Notes; and
- adverse domestic factors, such as:
  - changes in economic or other policies, including monetary policy applicable in Kazakhstan, which could affect inflation, growth rates and/or other aspects of the Kazakhstan economy;
  - a decline in foreign direct investment ("**FDI**"), increases in domestic inflation, high domestic interest rates, exchange rate volatility or an increase in the level of domestic and external debt, which could lead to lower economic growth, a decrease in Kazakhstan's fiscal revenues or an increase in debt service requirements; and
  - any deterioration in political or economic stability or in investor perceptions thereof.

The sections of this Base Prospectus entitled "*Risk Factors*", "*The Republic of Kazakhstan*" and "*The Economy of Kazakhstan*" contain a more complete discussion of the factors that could adversely affect the Issuer. In light of these risks, uncertainties and assumptions, the forward looking events described in this Base Prospectus may not occur. The Issuer does not undertake any obligation to update or revise any forward looking statement, whether as a result of new information, future events or otherwise, except as may be required by law or applicable regulations. All subsequent written and oral forward looking statements attributable to the Issuer or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Base Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward looking statements.

## **FINAL TERMS AND DRAWDOWN PROSPECTUSES**

In this section the expression "necessary information" means, in relation to any Tranche of Notes, the information necessary to enable investors to make an informed assessment of the prospects of the Issuer and of the rights attaching to the Notes. In relation to the different types of Notes which may be issued under the Programme, the Issuer has endeavoured to include in this Base Prospectus all of the necessary information except for information relating to the Notes which is not known at the date of this Base Prospectus and which can only be determined at the time of an individual issue of a Tranche of Notes.

Any information relating to the Notes which is not included in this Base Prospectus and which is required in order to complete the necessary information in relation to a Tranche of Notes will be contained either in the relevant Final Terms or in a Drawdown Prospectus.

For a Tranche of Notes which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, complete this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes which is the subject of Final Terms are the Terms and Conditions of the Notes described in the relevant Final Terms as supplemented to the extent described in the relevant Final Terms.

The terms and conditions applicable to any particular Tranche of Notes which is the subject of a Drawdown Prospectus will be the Terms and Conditions of the Notes as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus. In the case of a Tranche of Notes which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise.

## **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents, which have previously been published and approved by, filed with or notified to the FCA shall be incorporated in, and form part of, this Base Prospectus and, for so long as the Programme remains in effect and (in the case of any of the referenced Terms and Conditions of the Notes) Notes to which such Terms and Conditions of the Notes are applicable shall be outstanding, copies of each such document may be inspected during normal business hours at the specified office of the Fiscal Agent and such documents may also be viewed electronically and free of charge at: [http://www.minfin.gov.kz/irj/portal/anonymous?NavigationTarget=ROLES://portal\\_content/mf/kz.ecc.roles/kz.ecc.anonymous/kz.ecc.anonymous/kz.ecc.anonym\\_budgeting/budgeting/state\\_securities\\_fdlr](http://www.minfin.gov.kz/irj/portal/anonymous?NavigationTarget=ROLES://portal_content/mf/kz.ecc.roles/kz.ecc.anonymous/kz.ecc.anonymous/kz.ecc.anonym_budgeting/budgeting/state_securities_fdlr)

- the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 24 September 2014 (pages 13-46 inclusive) prepared by the Issuer in connection with the Programme;
- the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 19 June 2015 (pages 13-48 inclusive) prepared by the Issuer in connection with the Programme; and
- the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 26 October 2018 (pages 20-51 inclusive) prepared by the Issuer in connection with the Programme.

The non-incorporated parts of a document listed above are either not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus. To the extent that any document or information incorporated by reference in this Base Prospectus, itself incorporates any information by reference, either expressly or impliedly, such information will not form part of this Base Prospectus for the purpose of the Prospectus Regulation, except where such information or documents are stated within this Base Prospectus as specifically being incorporated by reference or where this Base Prospectus is specifically defined as including such information.

## **ENFORCEMENT OF FOREIGN JUDGMENTS AND AWARDS**

The Issuer is a sovereign state and substantially all of its assets are located in the Republic of Kazakhstan. As a result, it may not be possible (a) to effect service of process upon the Issuer outside of the Republic of Kazakhstan, (b) to enforce against it in courts of jurisdictions other than the Republic of Kazakhstan, judgments obtained in such courts unless the Issuer has effectively waived its state immunity or (c) to enforce against it in the Republic of Kazakhstan's courts, judgments obtained in other jurisdictions unless that other jurisdiction and the Republic of Kazakhstan are party to a treaty on mutual recognition and enforcement of judgments. Neither the United Kingdom nor the U.S. is party to any such treaty with the Republic of Kazakhstan and even if an applicable international treaty is in effect, the recognition and enforcement in Kazakhstan of a foreign judgment will in all events be subject to exceptions and limitations provided for in the laws of the Republic of Kazakhstan. For example, a court in Kazakhstan may refuse to recognise or enforce a foreign judgment if its recognition or enforcement would contradict public policy. As a result, it may be difficult to obtain recognition or enforcement in the Republic of Kazakhstan of a foreign judgment in respect of the Notes.

Nevertheless, the Issuer will irrevocably appoint the Ambassador of the Republic of Kazakhstan to the Court of St. James's as its authorised agent on whom process may be served in any action arising out of or based on the Notes in an English Court.

The Issuer will also agree that any claims or disputes arising in respect of the Notes shall be referred to and finally settled by arbitration in accordance with the rules of the London Court of International Arbitration. The Republic of Kazakhstan is a party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the “**New York Convention**”) and, accordingly, an arbitral award should generally be recognised and enforceable in Kazakhstan under the New York Convention provided the conditions to enforcement set out in the New York Convention are met. Kazakhstan’s Law On International Arbitration No. 23-III together with Kazakhstan’s Civil Procedure Code provide clear statutory guidelines for the enforcement of arbitral awards under the conditions set forth in the New York Convention and since under the Terms and Conditions of the Notes the Issuer has, to the fullest extent permitted by applicable laws, waived any immunity that may be otherwise attributed to it in respect of the Notes, the Issuer should not be able to claim any immunity for itself or its property in relation to proceedings in Kazakhstan to enforce such an award.

However, the enforcement of a foreign judgment by Kazakhstan’s courts in respect of the State’s obligations under the Notes is limited by the Civil Code of the Republic of Kazakhstan, under which enforcement against State assets is limited to assets which are held by the State treasury. Assets held by the State treasury include all property and other assets not allocated to state-owned entities, assets of the Republic Budget and objects of State ownership (such as natural resources). Therefore, it will not be possible for claimants to enforce judgements against assets which have been allocated to state-owned entities.

## **PRESENTATION OF INFORMATION**

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same item of information may vary to reflect such rounding, and figures shown as totals may not be the arithmetical aggregate of their components.

Statistical data appearing in this Base Prospectus has, unless otherwise stated, been obtained from the Ministry of National Economy of Kazakhstan (the “**MNE**”), the Ministry of Finance of Kazakhstan (the “**Ministry of Finance**”) and the National Bank of Kazakhstan (the “**NBK**”). Some statistical information has also been derived from information publicly made available by third parties such as the International Monetary Fund (the “**IMF**”), the International Bank for Reconstruction and Development (the “**IBRD**”) and other third parties. Where such third party information has been so sourced the source is stated where it appears in this Base Prospectus. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced inaccurate or misleading. Similar statistics may be obtainable from other sources, but the underlying assumptions, methodology and, consequently, the resulting data may vary from source to source. Information included in this Base Prospectus and identified as being derived from information published by Kazakhstan or one of its agencies or instrumentalities is included herein on the authority of such publication as a public official document of Kazakhstan. All other information herein with respect to Kazakhstan is included herein as a public official statement made on the authority of the Ministry of Finance. Although every effort has been made to include in this Base Prospectus the most reliable and the most consistently presented data, no assurance can be given that such data was compiled or prepared on a basis consistent with international standards. However, as far as the Issuer is aware and is able to ascertain from information published by these parties, the information has been accurately reproduced and no facts have been omitted which would render the reproduced information inaccurate or misleading. All statistical data included in this Base Prospectus is subject to future revision and amendment. In particular, the methodology used to compile any statistical data in the future may change if new data sources, classifications or principles are introduced. Similarly, certain statistical data contained in this Base Prospectus is provisional based on figures that the Republic of Kazakhstan and/or its agencies believe to be based on reasonable assumptions and the most recent information available. Specifically, the statistical data set out in this Base Prospectus for the year of 2018 and the interim period in 2019, or at the relevant date in 2019, may subsequently be adjusted or revised and may differ from previously published financial and economic information. In the same way, certain statistical data for the year of 2018 and the relevant interim period in 2019, and/or as at the relevant date in 2019, has been presented as a percentage of GDP based on MNE’s provisional figures for nominal GDP for the year of 2018 and six months ended 30 June 2019, respectively. Accordingly, such economic information for periods of 2018 and 2019 set out in this Base Prospectus may be subsequently adjusted or revised. The Republic of Kazakhstan does not expect any of such revisions or adjustments to be materially different from the previously published data. In addition, certain numbers (for example, total public debt as at 30 June 2019 as a percentage of GDP and international reserves as at 30 June 2019 as a percentage of GDP) are calculated using projected GDP for 2019.



Projected GDP for 2019 is calculated on the basis of historical macroeconomic data for four sectors (agriculture, industry, construction and services) and taking into account the current investment and budgetary situation and the implementation of Government programmes.

The information presented in this Base Prospectus with respect to the State Budget has been prepared substantially in accordance with the guidelines and definitions set forth in the Budget Code of the Republic of Kazakhstan dated 4 December 2008 No. 95-IV (the “**Budget Code**”) and applicable budget laws including the Law of the Republic of Kazakhstan “On the Republican Budget for 2019-2021”, No. 197-VI, dated 30 November 2018.

References to gross domestic product (“**GDP**”) are to nominal GDP unless indicated otherwise.

In this Base Prospectus, unless otherwise specified, references to “**Kazakhstan**” or the “**State**” are to the Republic of Kazakhstan; references to “**Government**” or “**Parliament**” are to the Government or Parliament of Kazakhstan, respectively; references to the “**CIS**” are to the Commonwealth of Independent States; references to “**KZT**” and “**Tenge**” are to the currency of Kazakhstan; and references to “**U.S. dollars**” and “**U.S.\$**” are to the currency of the United States of America. References to “**billions**” are to thousands of millions.

Conversions of amounts from Tenge to U.S. dollars are solely for the convenience of the reader and, unless otherwise stated, are made at various exchange rates. No representation is made that Kazakhstan Tenge or U.S. dollar amounts referred to herein could have been or could be converted to U.S. dollars or Tenge, as the case may be, at any particular rate or at all.

Websites referred to in this Base Prospectus and the information therein do not form part of (and are not incorporated into) this Base Prospectus.

## EXCHANGE RATES

Solely for convenience, this Base Prospectus includes conversions of certain Tenge amounts into U.S. dollars at specified rates. Unless otherwise stated, any consolidated statement of financial position data in U.S. dollars is converted from Tenge at the applicable exchange rate on the date of such consolidated statement of financial position (or, if no such rate was quoted on such date, the immediately preceding date on which such rate was quoted) and any income statement data in U.S. dollars is converted from Tenge into U.S. 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 published exchange rates for U.S. dollars on the KASE, as reported by the NBK.

The following table sets forth the period-end, average and high and low rates for Tenge, each expressed in Tenge and based on the Tenge/U.S. dollar exchange rates quoted on the KASE, as reported by the NBK for the periods indicated:

	<b>Period End</b>	<b>Average<sup>(1)</sup></b>	<b>High</b>	<b>Low</b>
	<i>(Tenge/U.S. dollar)</i>			
<b>Month</b>				
January 2019 .....	380.51	378.38	384.20	373.66
February 2019 .....	377.26	377.87	382.74	373.56
March 2019 .....	380.04	378.00	380.06	374.96
April 2019 .....	381.94	379.55	381.94	377.11
May 2019 .....	381.37	380.01	381.97	378.01
June 2019 .....	380.53	382.02	384.53	377.18
July 2019 .....	384.56	383.78	385.10	380.53
August 2019 .....	387.46	386.70	387.73	384.20

	<b>Period End</b>	<b>Average<sup>(1)</sup></b>	<b>High</b>	<b>Low</b>
	<i>(Tenge/U.S. dollar)</i>			
<b>Year</b>				
2014 .....	182.35	181.30	184.95	154.06
2015 .....	339.47	225.72	349.12	182.35
2016 .....	333.29	331.61	383.91	327.66
2017 .....	332.33	325.10	345.00	310.40
2018 .....	384.20	342.63	384.20	318.31

Source: NBK

Notes:

- (1) The average rate is calculated based on the rate on each business day of the month for monthly averages, and on the last business day of each month for annual averages.

As at 16 September 2019, the official exchange rate of the NBK was U.S.\$1.00 to KZT 386.71.

The exchange rates set out in the table above may differ from the actual rates used in the preparation of the information appearing in this Base Prospectus. The inclusions of these exchange rates is not meant to suggest that any amount of the currencies specified above has been, or could be, converted into the applicable currency at the exchange rates indicated or at any other exchange rate.

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## OVERVIEW OF THE PROGRAMME

*This overview does not purport to be complete and must be read as an introduction to this Base Prospectus and any decision to invest in the Notes should be based on a consideration of this Base Prospectus as a whole.*

*Words and expressions defined in “Terms and Conditions of the Notes” shall have the same meanings in this overview.*

<b>Issuer</b>	The Republic of Kazakhstan represented by the Ministry of Finance of the Republic of Kazakhstan acting upon the authorisation of the Government of the Republic of Kazakhstan
<b>Description and Size</b>	<p>Global Medium Term Note Programme</p> <p>U.S.\$10,000,000,000 (or its equivalent in other currencies calculated in accordance with the provisions of the Programme Agreement) outstanding at any one time. The Issuer may increase the amount of the Programme at any time in accordance with the Programme Agreement.</p>
<b>Arrangers</b>	Citigroup Global Markets Limited “First Heartland Securities” JSC Société Générale UBS AG London Branch
<b>Dealers</b>	<p>Citigroup Global Markets Limited “First Heartland Securities” JSC Société Générale UBS AG London Branch</p> <p>The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranche of Notes or in respect of the whole Programme. References in this Base Prospectus to “<b>Permanent Dealers</b>” are to those person listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to “<b>Dealers</b>” are to all Permanent Dealers and all persons appointed as a dealers in respect of one or more Tranches of Notes.</p>
<b>Fiscal Agent, Exchange Agent and Calculation Agent</b>	Citibank, N.A., London Branch
<b>Principal Paying and Transfer Agent</b>	Citibank, N.A., London Branch
<b>Registrar</b>	Citigroup Global Markets Europe AG
<b>Method of Issue</b>	<p>The Notes will be issued in series (each, a “<b>Series</b>”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may comprise one or more tranches of notes (each, a “<b>Tranche</b>”) issued on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the denominations, issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Final Terms or the Drawdown Prospectus (as the case may be) which, for the purposes of that Tranche only, supplements the Terms and Conditions of the Notes and this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes</p>

are the Terms and Conditions of the Notes as supplemented, amended or replaced by the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be).

<b>Issue Price</b>	Notes may be issued at any price on a fully paid basis, as specified in the Final Terms. The price and amount of the Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.
<b>Form of Notes</b>	<p>Each Series of Notes will be issued in registered form only.</p> <p>Restricted Notes will initially be represented by a Restricted Global Note and Unrestricted Notes will initially be represented by an Unrestricted Global Note. The Global Notes will be exchangeable for Definitive Note Certificates (as defined herein) in the limited circumstances specified in the Global Notes.</p>
<b>Clearing Systems</b>	Euroclear, Clearstream, Luxembourg and DTC, unless otherwise agreed, and such other clearing system as may be agreed between the Issuer, the Fiscal Agent and the relevant Dealer(s).
<b>Currencies</b>	Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal, regulatory and central bank requirements.
<b>Maturities</b>	Subject to compliance with all relevant laws, regulations, directives and/or central bank requirements, any maturity.
<b>Denominations</b>	<p>Notes will be issued in such denominations as may be specified in the relevant Final Terms (the “<b>Specified Denomination</b>”), provided that, subject to the below, the Specified Denomination(s) shall not be less than €100,000 or its equivalent in another currency. For so long as the Notes are represented by a Global Note, and the relevant clearing system(s) so permit, subject to the below, the Notes shall be tradeable only in the minimum authorised denomination of €100,000 or its equivalent in another currency and higher integral multiples of any smaller amount specified in the relevant Final Terms.</p> <p>Interests in the Restricted Notes shall be held in amounts of not less than U.S.\$200,000 or its equivalent in other currencies. Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA will have a minimum denomination of £100,000 (or its equivalent in another currency).</p>
<b>Interest</b>	Notes may be interest-bearing or non interest-bearing (as set out in the relevant Final Terms). Interest (if any) may accrue at a fixed rate or a floating rate.
<b>Redemption</b>	The relevant Final Terms will specify the basis for calculating the redemption amounts payable. Unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise would constitute a contravention of section 19 of the FSMA will have a minimum redemption amount of £100,000 (or its equivalent in the relevant currency).

<b>Status of the Notes</b>	Subject as set out in “ <i>Negative Pledge</i> ” below, the Notes are unsecured obligations of the Issuer which rank <i>pari passu</i> , without any preference among themselves and at least <i>pari passu</i> in right of payment with all other outstanding present and future unsecured External Indebtedness (as defined in the Terms and Conditions of the Notes) of the Issuer.
<b>Negative Pledge</b>	The Notes will have the benefit of a negative pledge as described in Condition 6 ( <i>Negative Pledge</i> ).
<b>Credit Ratings</b>	<p>Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche of Notes will be (a) issued by a credit rating agency established in the EEA and registered under the CRA Regulation, or (b) issued by a credit rating which is not established in the EEA but will be endorsed by a credit rating agency which is established in the EEA and registered under the CRA Regulation or (c) issued by a credit rating agency which is not established in the EEA but which is certified under the CRA Regulation will also be disclosed in the relevant Final Terms. The list of credit rating agencies registered and/or certified under the CRA Regulation is available on the ESMA website (<a href="http://www.esma.europa.eu/page/list-registered-and-certified-CRAs">http://www.esma.europa.eu/page/list-registered-and-certified-CRAs</a>) (last updated 5 July 2019).</p> <p>A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.</p>
<b>Taxation</b>	<p>All payments of principal and interest in respect of the Notes will be made free and clear of withholding or deduction for any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within the Republic of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law.</p> <p>In that event, the Issuer shall pay such amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction has been required, subject to certain exceptions set out in Condition 12 (<i>Taxation</i>).</p>
<b>Governing Law</b>	English law.
<b>Transfer Restrictions</b>	<p>The offering and sale of Notes is subject to applicable laws and regulations including, without limitation, those of the United States, the United Kingdom, Singapore and the Republic of Kazakhstan. See “<i>Subscription and Sale</i>”.</p> <p>The Notes have not been and will not be registered under the Securities Act or any U.S. state securities law. Consequently, the Notes may not be sold in the United States except pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act and any applicable state securities laws. See “<i>Transfer Restrictions</i>”.</p> <p>Neither this Base Prospectus nor the Notes are required to be registered or cleared under the regulations of the KASE.</p>
<b>Listing and Trading</b>	Applications have been made for the Notes to be admitted during the twelve months after the date hereof to listing on the Official List and to trading on the Market and references to “listing” shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market.

Notes may also be unlisted or may be listed or admitted to trading, as the case may be, on any market (including any unregulated or regulated market for the purposes of MiFID II) as may be agreed among the Issuer and the relevant Dealer(s) or (in the case of a direct purchase of Notes by an investor) the relevant Noteholders(s) in relation to each relevant Series.

**Enforcement of Notes in Global Form**

In the case of Global Notes, individual investors' rights against the Issuer are governed by a deed of covenant dated 26 October 2018 (the "**Deed of Covenant**"), a copy of which is available for inspection at the specified office of the Fiscal Agent and may also be viewed electronically and free of charge at: [http://www.minfin.gov.kz/irj/portal/anonymous?NavigationTarget=ROLES://portal\\_content/mf/kz.ecc.roles/kz.ecc.anonymous/kz.ecc.anonymous/kz.ecc.anonym\\_budgeting/budgeting/state\\_securities\\_fdlr](http://www.minfin.gov.kz/irj/portal/anonymous?NavigationTarget=ROLES://portal_content/mf/kz.ecc.roles/kz.ecc.anonymous/kz.ecc.anonymous/kz.ecc.anonym_budgeting/budgeting/state_securities_fdlr)

**Risk Factors**

Investing in the Notes involves a high degree of risk, which investors should ensure they fully understand. These include: risks associated with emerging markets, risks relating to Kazakhstan and risks relating to the Notes. See "*Risk Factors*".

## **RISK FACTORS**

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. Most of these factors are contingencies, which may or may not occur.*

*In addition, factors which the Issuer believes are material for the purpose of assessing the market risks associated with the Notes are also described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on, or in connection with, the Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.*

### **Factors which are material for the purpose of assessing the risks associated with the Issuer**

#### **Risks relating to Kazakhstan's global position as an emerging market**

##### ***Kazakhstan is an emerging market and subject to greater risk than more developed markets***

Investors in emerging markets such as Kazakhstan should be aware that such markets are subject to greater risk than more developed markets, including in some cases significant legal, regulatory, economic, social 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 Base Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, making an investment in emerging markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

Disruptions in the international capital markets and changing regulatory environments can lead to reduced liquidity and increased credit risk premiums for certain market participants and result in a reduction of available financing. Countries located in emerging markets may be particularly susceptible to these disruptions and changes and also to reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty.

In addition, the availability of credit to entities operating within emerging markets is significantly influenced by levels of investor confidence in such markets as a whole. Accordingly, any factors that impact market confidence, such as a decrease in credit ratings or state or central bank intervention in a particular market, could affect the price or availability of funding for entities within any of these markets, which could, in turn, have an impact on the wider economies of such markets.

Fluctuations in the global economy or an increase in the perceived risks associated with investing in countries located in emerging markets could reduce foreign investment in Kazakhstan and, as a result, have an adverse effect on Kazakhstan's economy. If foreign investment in Kazakhstan's economy decreases, it may experience liquidity constraints. Kazakhstan's economy is also not immune from developments in the economies of other countries located in emerging markets. Even if Kazakhstan's economy remains relatively stable, financial unrest or instability experienced in one or more countries located in emerging markets, especially countries in the CIS, around the Caspian Sea or in Central Asia (some of which have recently experienced significant political instability, including terrorism and internal unrest), could have a negative impact upon Kazakhstan's economy.

Any of the aforementioned risks could have a negative effect on Kazakhstan's economy, and thus could have a material adverse effect on the trading price of the Notes.



## **Risks relating to Kazakhstan's financial condition from external exposures or factors**

### ***Kazakhstan's economy is vulnerable to external shocks and fluctuations in the global economy***

Kazakhstan's economy and finances have been affected adversely by global financial developments and political changes in certain emerging markets. Real GDP growth decreased from 4.2% in 2014 to 1.2% in 2015 and 1.1% in 2016 before increasing to 4.1% in 2017 and 2018. According to preliminary data, real GDP growth year-on-year in the six months ended 30 June 2018 was 4.1%. The GDP growth rate in 2014 was adversely affected by a deterioration in the external economic environment and a general slowdown in economic growth globally. Specifically, the slowing of the growth rate in 2014 as compared to the previous year was principally attributable to a decrease in oil production and the indirect effects of the slowdown in the Russian economy in connection with the sanctions imposed in that year. The rapid decrease in GDP growth rate in 2015 was principally attributable to a fall in global demand for oil and gas and the resulting decrease in oil production and a fall in oil prices. While in recent years Kazakhstan has sought to diversify its economy and, in particular, to increase export of products of manufacturing industries, Kazakhstan continues to remain heavily reliant on oil and gas industry and hydrocarbon exports. For more information on the risks associated with the relatively undiversified nature of Kazakhstan's economy and a significant degree of reliance of the country's public finances on the performance of the oil and gas industry, see *“—Any material reduction in the price of commodities, particularly oil and petroleum products, may materially adversely affect the revenues and financial condition of Kazakhstan”*.

Changes in both the global and domestic environment have resulted in, among other things, lower liquidity levels across the banking sector, tighter credit conditions for Kazakhstani companies generally and fluctuating global demand for, and instability in, the price of crude oil and other commodities and downward pressure on the Tenge. For instance Tenge experienced a significant depreciation against the U.S. dollar in 2018 (from KZT 332.33 per U.S.\$1.00 as at 31 December 2017 to KZT 384.2 per U.S.\$1.00 as at 31 December 2018). This significant depreciation of Tenge against the U.S. dollar in 2018 was mainly due to significant deterioration of external factors, such as depreciation of the Russian ruble and the decrease in crude oil prices (starting from October 2018) due to increased oil reserves and oil production by principal exporters.

While Kazakhstan's economy has generally recovered following the global financial crisis, its economy remains vulnerable to external shocks and the economic performance of its trading partners. A significant decline in economic growth in the EU or any of Kazakhstan's other major trading partners, including Russia (whether or not resulting from sanctions imposed by, among others, the U.S. and the EU), could have a material adverse effect on Kazakhstan's balance of trade and adversely affect Kazakhstan's economic growth. Kazakhstan also depends on neighbouring states to access world markets for a number of its major exports. Should access to these export routes be materially impaired, this could adversely impact Kazakhstan's economy. Events occurring in one geographic or financial market sometimes have so-called “contagion effects”, whereby they result in an entire region or class of investments being disfavoured by international investors. Kazakhstan has been adversely affected by contagion effects in the past and it is possible that the market for investments in Kazakhstan, including the Notes, will be similarly affected in the future by negative economic or financial developments in neighbouring countries or countries whose economies or credit ratings are similar to those of Kazakhstan. See *“—Sanctions imposed on Russia could have an indirect adverse impact on Kazakhstan's economy”* below. The most significant contagion affecting Kazakhstan's economy is the global change in prices for energy resources and metals.

There can be no assurance that weaknesses in the global economy, or a future external economic crisis, will not have a negative effect on Kazakhstan's economy or on investors' confidence in Kazakhstan's markets. This could affect Kazakhstan's ability to raise capital in the international debt markets and may have a material adverse effect on the trading price of the Notes.

***Any material reduction in the price of commodities, particularly oil and petroleum products, may materially adversely affect the revenues and financial condition of Kazakhstan***

Kazakhstan is a major exporter of commodities, including oil, natural gas, steel, copper, ferrous-alloys, iron ore, aluminium, coal, lead, zinc and wheat. In 2018 and the six months ended 30 June 2019, mineral products accounted for 74.5% and 72.5%, respectively, of Kazakhstan's exports based on actual trade flows (or 78.7% and 76.3%, respectively, of Kazakhstan's exports on a customs basis), and, in particular, fuel and energy products accounted for 70.0% and 66.7%, respectively, of Kazakhstan's exports based on actual trade flows. Kazakhstan's economy and the State Budget, therefore, particularly rely on fiscal revenues from the export of minerals, in particular crude oil and oil products. Taxes on oil and petroleum product companies are a major source of revenue for the National Fund of Kazakhstan (the "**National Fund**"), which has an important stabilising function in the Kazakhstan economy and is responsible for accumulating financial resources for the benefit of future generations in Kazakhstan. The National Fund is currently the source for official transfers to the State Budget, which amounted to KZT 2.6 trillion in 2018 and are budgeted to be KZT 2,820 billion in 2019. As at 1 August 2019, the National Fund held foreign currency assets of U.S.\$59.9 billion. These assets allow the National Fund to act as a fiscal buffer against external shocks to the economy and to compensate for losses that may be incurred as a result of tax revenues from extraction sector enterprises being less than anticipated in a given year. It also provides protection to The Republic of Kazakhstan against a devaluation of the Tenge. However, there can be no assurance that the resources of the National Fund will be sufficient in the event of a sustained decline in oil prices. Moreover, the saving function of the National Fund is guaranteed by its minimum required balance, being equal to 30% of the projected GDP for the relevant budget year. Therefore, should a guaranteed transfer or targeted transfer from the National Fund jeopardise the minimum required balance for the saving function, such transfer will be reduced accordingly or not be made at all, if necessary.

International crude oil prices have fluctuated widely in recent years in response to global supply and demand, general economic conditions, competition from other energy sources and other factors. Any decrease in oil and gas prices has a significant negative impact on budget revenues. In 2014, when, according to the U.S. Energy Information Agency, the spot price of Brent crude oil averaged U.S.\$98.89/bbl, revenues from the oil sector amounted to KZT 4,184 billion. However, by 2016, when the spot price of Brent crude oil averaged only U.S.\$43.74/bbl, revenues from the oil sector decreased materially, amounting to KZT 1,769 billion in that year. Kazakhstan's 2019 Budget Law (as amended) assumes an average price per barrel of Brent crude oil of U.S.\$55 in 2019, 2020 and 2021. However, there can be no assurance that international crude oil prices will stay at or above that level or that further revisions of the State Budget will not be required in light of continuing oil price volatility.

Any material reduction in commodity prices generally would have an adverse effect on Kazakhstan's economy and a sustained or material decline in the price of crude oil will have a significant effect on Kazakhstan's budgetary revenues and foreign reserves and may materially adversely affect Kazakhstan's financial condition, including its ability to make payments on the Notes.

***Production problems in the oil industry may result in reduced revenue for the National Fund***

The development of the Kashagan oil field has experienced material delays in achieving forecast production and significant cost overruns associated with the need to replace the oil and gas pipelines, which has led to continued reduced revenue for the National Fund. Production of oil from the Caspian shelf of the Kashagan field started on 11 September 2013, but was suspended on 25 September 2013, and then resumed only on 28 September 2016 (and initially at a significantly reduced output). No assurance can be given that similar stoppages of production will not occur in the future. Occurrence of similar circumstances in the future could result in continued reduced revenue for the National Fund, which, in turn, could have a significant effect on Kazakhstan's budgetary revenues and may materially adversely affect Kazakhstan's financial condition, including its ability to make payments on the Notes.

***In large part due to the elevated level of non-performing loans and other assets quality-related issues, Kazakhstan's banking sector remains weak and vulnerable to external shocks***

Following the onset of the global financial crisis in 2008, credit growth in Kazakhstan stopped due to the lack of availability of wholesale debt financing, deposits became volatile and property prices decreased significantly. Oil prices declined significantly as well, which had an adverse effect on Kazakhstan's banking sector and the broader economy, as well as the exchange rate of the Tenge. These factors caused significant losses for Kazakhstan's banks and a general destabilisation of Kazakhstan's banking sector. As a result, there was a

material deterioration in the loan portfolio of banks, which, in some cases, continued through 2018. In some banks, the losses were so significant that it led to their insolvency and required the adoption of measures to resolve such insolvencies, including the revocation of their licence and liquidation, the recognition of losses by shareholders and some qualified creditors and Government support measures. For example, in 2017, the Republic of Kazakhstan contributed KZT 2,093 billion to the Fund for Problem Loans. In February 2019, in accordance with the measures approved by the NBK and the Government to improve the financial sustainability of Tsesnabank JSC, the Fund for Problem Loans acquired from Tsesnabank JSC a portfolio of agricultural loans in the amount of KZT 604 billion. This was the second purchase of impaired loans from Tsesnabank JSC by the Fund for Problem Loans in less than six months, following a similar, but smaller purchase in September 2018. The State also provided a liquidity injection to Tsesnabank JSC and supported a restructuring of its domestic bonds.

Low quality of banks' assets was caused not only by problems among borrowers, but also by negative credit practices (lending, weak collateral policy). There is also a risk that, because of loan restructurings, current non-performing loans ("NPLs") numbers, which increased for the whole Kazakhstan banking system from 7.4% as at 31 December 2018 to 9.4% as at 30 June 2019, do not fully reflect the actual quality of the banks' loan portfolios and that further financial assistance to the banking sector may be needed from the State, which it may not be willing and/or able to provide. The NBK has recently initiated an independent assets quality review of 14 largest banks in the country, which have approximately 87% of banking sector assets. The current plan is to complete the assessment by December 2019. There can be no assurance that this asset quality review will not reveal additional problems with the loan portfolio and/or other assets of the 14 largest banks of Kazakhstan.

At the same time, loans with low returns and low coverage of provisions remain on the balance sheet of banks, which put pressure on the banks' capital. Deficiencies in the Kazakhstan banking sector, combined with a deterioration in NPL portfolios held by banks in Kazakhstan, may result in the banking sector being more susceptible to future worldwide credit market downturns and/or economic slowdowns, which could have a material adverse effect on the trading price of the Notes.

#### ***High level of concentration in the banking sector elevates the level of systemic risk***

There is a high level of concentration in the Kazakhstan banking sector, with the five largest banks holding 67.2% of all customer deposits and accounting for 62.0% of the aggregate loan portfolio of all Kazakhstan banks as at 1 July 2019. In addition, the NPLs of the three largest Kazakhstan banks out of the five – Halyk Bank, JSC Forte Bank and JSC SB Sberbank – accounted for 28.4%, 3.8% and 8.1%, respectively, of the total NPLs of all Kazakhstan banks as at 30 June 2019. While measures have been taken to address and reduce systemic risk, such measures are ongoing and there remains a risk that further reforms may be required, the impact of which is not certain.

#### ***Sanctions imposed on Russia could have an indirect adverse impact on Kazakhstan's economy***

The U.S. and the EU (as well as other nations, such as Australia, Canada, Japan and Switzerland) imposed sanctions on certain Russian and Ukrainian persons and entities in connection with the ongoing conflict in Ukraine, including sanctions imposed by the U.S. and the EU on 12 September 2014. These sanctions have been expanded by the U.S. Countering America's Adversaries Through Sanctions Act of 2 August 2017 as well as a number of directives issued thereunder and under previous sanctions legislation in the third quarter of 2017 and the second half of 2018 which target specific individuals and legal entities. On 6 August 2018, under the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991 ("CBW Act"), the U.S. determined that the Russian government has used chemical or biological weapons in violation of international law and, following this determination, certain sanctions have been imposed which include denial of exports or reexports to Russia of goods or technology controlled for national security reasons. In August 2019, the U.S. imposed a second round of sanctions under the CBW Act, including a prohibition on U.S. banks participating in the primary market for non-Ruble denominated bonds issued by the Russian sovereign and lending non-Ruble denominated funds to the Russian sovereign. The second round of CBW Act sanctions also imposes a presumption of denial, subject to certain exceptions, on applications for licences to export dual-use goods that are controlled by the U.S. Department of Commerce for chemical and biological weapons proliferation reasons and requires the U.S. to oppose the extension of any loan or financial or technical assistance to Russia by international financial institutions, such as the World Bank or International Monetary Fund.

Russia is one of the main trade partners of Kazakhstan. In addition, there are great similarities in the structures of the economies of the two countries, in particular in their dependence on raw materials exports, and there exist

historical long-term relationships (political, economic, commercial and cultural). Accordingly, when making decisions in the field of monetary policy, the National Bank pays special attention to the Bank of Russia's actions in the area of interest and currency policy. Accordingly, the economic situation and policy measures in Russia, including monetary policy of the Bank of Russia, have a significant influence on the economic situation in Kazakhstan.

The sanctions imposed to date have had an adverse effect on the Russian economy, prompting downward revisions to the credit ratings of the Russian Federation and a number of major Russian companies that are ultimately controlled by the Russian Federation, causing extensive capital outflow from Russia and impairing the ability of Russian issuers to access the international capital markets. Given the further sanctions imposed by the U.S. in 2018 and 2019, it is unlikely that these adverse conditions will improve in the near future.

Since Russia is the main trading partner of Kazakhstan and the country is a member of the Eurasian Economic Union, the ongoing geopolitical developments involving Russia may impact the Kazakhstani economy. Therefore, the volatility in the Russian markets, which was observed as a result of the sanctions, also affected Kazakhstan. Factors which affect the Russian rouble tend to also impact the exchange rate of the Tenge. The significant depreciation of Tenge against the U.S. dollar in 2018 was, at least in part, due to the depreciation of the Russian rouble in the same year. Possible further actions by the U.S. or other countries towards Russia could adversely affect the Russian financial market, which could lead to short-term volatility in the Tenge. Nevertheless, the most important factor affecting the value of the Tenge are the oil market conditions. See “— *Any material reduction in the price of commodities, particularly oil and petroleum products, may materially adversely affect the revenues and financial condition of Kazakhstan*”. Also, any possible future expansion of US or EU sanctions which adversely affects the operations or finances of Russian financial institutions having a substantial presence in the Kazakhstan market may impact the ability of such financial institutions to provide certain financial and trade-related services to their customers in Kazakhstan.

While Kazakhstan maintains strong independent diplomatic relationships with both Russia and Ukraine and has confirmed its neutral position with respect to the tensions between Russia and Ukraine, Kazakhstan has significant economic and political relations with Russia. Russia and Kazakhstan, together with Belarus, are members of the Customs Union and Common Economic Space and established the Eurasian Economic Union (the “**EEU**”) on 1 January 2015. This was essentially a continuation of the Customs Union and Common Economic Space structures that have been in place since 1 January 2010 and 1 January 2012. In 2018, based on actual trade flows, Kazakhstan’s imports from Russia accounted for 39.3% of Kazakhstan’s total imports, and its exports to Russia accounted for 8.6% of its total exports compared to 39.6% and 9.6%, respectively, in 2017. In addition, a significant amount of the natural gas transported through Kazakhstan’s natural gas pipeline system is transported to Russia or from one part of Russia to another through Kazakhstan’s territory.

The Issuer will use the proceeds of the issue of Notes for general budgetary purposes, including financing budget deficits, and this may include providing funding to State-owned or State-affiliated entities. These entities may trade with Russian entities. While it is expected that State-owned and State-affiliated companies will comply with sanctions restrictions, the Issuer has no direct control over their day-to-day management.

Kazakhstan’s close economic links with Russia, the existing sanctions imposed on Russia or any future sanctions could have a material adverse effect on Kazakhstan’s economy, which in turn could have a material adverse effect on the trading price of the Notes.

#### ***The conflict in Ukraine could affect trade between Ukraine and Kazakhstan***

Following political unrest and the formation of a new government in Ukraine in early 2014, escalating military activities within the country and on its borders, which have included Crimea’s independence vote and subsequent absorption by Russia and ongoing conflict in Eastern Ukraine, have combined with Ukraine’s very weak economic conditions created significant uncertainty in Ukraine and the region.

At present, the conflict in Ukraine has had no noticeable impact on the economy of Kazakhstan. Nevertheless, there is a risk of restricting the transit of Ukraine's goods, which are not produced in Kazakhstan, through the territory of the Russian Federation. The main alternative supply route at the moment is the movement of goods through the territory of Azerbaijan with loading to ferries in the port of Alyat (the Republic of Azerbaijan) to the seaport of Aktau (Republic of Kazakhstan).

A road map has been approved to simplify the procedures for the passage of goods through the seaport Aktau in the Mangistau region. In addition, the Government of the Republic of Kazakhstan is taking measures to introduce an electronic monitoring system for customs transit in the territory of the Republic of Kazakhstan with the use of navigation technological devices. Despite these improvements, the transit of goods on these alternative supply routes is likely to be slower than on the routes through Russia, which could impact the economy of Kazakhstan.

### **Risks relating to Kazakhstan's financial condition from internal factors**

#### ***The Kazakhstan currency is subject to volatility and depreciation***

Since the beginning of 2019, the official exchange rate of the Kazakh Tenge reported by the NBK has moved from KZT 384.2 per U.S.\$1.00 as at 31 December 2018 to KZT 386.71 per U.S.\$1.00 as at 16 September 2019. Any depreciation of the Tenge against the U.S. dollar and any future devaluations in the currencies of Kazakhstan's main trading partners (specifically including Russia) may adversely affect the financial condition of Kazakhstan and its economy, as well as Kazakhstan's ability to repay its debt denominated in currencies other than the Tenge, including amounts due under the Notes. The value of the Tenge is impacted by a number of external factors which are outside of the State's control.

Since 20 August 2015, Kazakhstan has a free floating exchange rate regime, which implies exchange rate formation based on market factors. The free floating exchange rate of the Tenge allows market participants to react instantly to changes in the external environment, which prevents the accumulation of imbalances in the economy of the country.

In the floating exchange rate regime, daily fluctuations of the exchange rate occur in one direction or another depending on market factors. Currently, the intervention of the National Bank is minimal. The participation of the National Bank in the foreign exchange market is aimed exclusively at preventing sudden destabilising changes in the exchange rate, caused mainly by the influence of non-fundamental factors (such as speculative operations and panic moods of market participants). NBK did not intervene in the currency market from March 2019. The long-term trend will be determined by the effect of fundamental factors, mainly the price of oil and the exchange rates of the currencies of the main trading partners.

Any fluctuation in the value of the U.S. dollar relative to the Tenge may cause volatility in revenues of Kazakhstan from U.S. dollar-denominated oil exports. A significant devaluation of the Tenge will materially affect the ability of the Issuer to service non-Tenge denominated debt. Additionally, any depreciation or further devaluation of the Tenge could result in reduced revenues in the balance of payments or outflow of capital from Kazakhstan, and may also lead to increased inflation and domestic interest rates, any of which could have a material adverse effect on Kazakhstan's economy in general, and the asset quality of the Kazakhstani banking sector.

In addition, although the level of foreign currency deposits has decreased in recent years from a peak of approximately 70% in January 2016 after the free floating of the Tenge, it continues to be high. As at 30 June 2019, 17.9% of total loans granted and 41.6% of deposits in the banking system in Kazakhstan were denominated in a foreign currency. There is a risk that the depreciation or further devaluation of the Tenge could also have a material adverse effect on Kazakhstan's banking sector and economy.

#### ***Kazakhstan's Currency Control Law allows the Government to introduce currency control measures***

The Law of Kazakhstan "On Currency Regulation and Currency Control" empowers the Government, by special action and under circumstances when the economic stability of Kazakhstan is threatened, to introduce a special currency regime that would (i) require the compulsory sale of foreign currency received by Kazakhstani residents; (ii) require the placement of a certain portion of funds resulting from currency transactions into a non-interest bearing deposit in an authorised bank or the NBK; (iii) restrict the use of accounts in foreign banks; (iv) limit the volumes, amounts and currency of settlements under currency transactions; and (v) require a special permit from the NBK to conduct currency transactions. Moreover, the Government may impose other requirements and restrictions on currency transactions when the economic stability of Kazakhstan is threatened.

In order for Kazakhstan to remain in compliance with its membership obligations under the Charter of the IMF, the currency regime cannot restrict residents from repaying foreign currency-denominated obligations. As at the date of this Base Prospectus, the Government has not invoked the provisions of these amendments.

### ***Changes to the exchange rate policies could affect Kazakhstan's economy and public finances***

Although the Tenge is convertible for current account transactions, it is not a fully convertible currency for capital account transactions outside Kazakhstan. Since the NBK adopted a floating exchange rate policy for the Tenge in April 1999, the Tenge has fluctuated significantly and the NBK has adopted a number of exchange rate policies. The Tenge had generally appreciated in value against the U.S. dollar over the previous decade until its devaluation by the NBK in February 2009. In February 2009, the NBK established a trading band of KZT 150: U.S.\$1.00 +/- 3%. This trading band was widened in February 2010, and set at an asymmetric KZT 150/U.S.\$1.00 +10/-15%. In February 2011, the trading band was officially abolished, and the formal exchange rate arrangement was changed from a pegged exchange rate within horizontal bands to a managed floating exchange rate regime. On 11 February 2014, the NBK effectively devalued the Tenge against the U.S. dollar by 18.9% by announcing that it will set an exchange rate band of the Tenge versus the U.S. dollar with a new rate of KZT 185 per U.S.\$1.00 plus/minus 3 Tenge (the official exchange rate was KZT 155.56 per U.S.\$1.00 on 11 February 2014 prior to that announcement), stating that such devaluation was made in light of the situation in the global financial and commodity markets and the depreciation of the Russian Rouble in 2013 and 2014, as well as the overall situation in the global financial and commodity markets. In September 2014, the NBK re-established the trading band at KZT 170-188 to U.S.\$1.00. On 20 August 2015, the NBK announced the adoption of a free-floating exchange rate and medium-term inflation targeting policy, which resulted in a 35.6% depreciation of the Tenge against the U.S. dollar (from KZT 188.38 per U.S.\$1.00 on 20 August 2015 to KZT 255.26 per U.S.\$1.00 on 21 August 2015). As at 16 September 2019, the official KZT/U.S.\$ market exchange rate reported by the NBK was KZT 386.71 per U.S.\$1.00, as compared to KZT 384.2 per U.S.\$1.00 as at 31 December 2018, KZT 332.33 per U.S.\$1.00 as at 31 December 2017, KZT 333.29 per U.S.\$1.00 as at 31 December 2016, KZT 340.01 per U.S.\$1.00 as at 31 December 2015 and KZT 182.35 per U.S.\$1.00 as at 31 December 2014.

There can be no assurance that the NBK will maintain its free-floating exchange rate and medium-term inflation targeting policy. Any change in the NBK's exchange rate policy could have an adverse effect on Kazakhstan's public finances and economy.

### ***Kazakhstan's economy is under inflationary pressure***

The economy of Kazakhstan is significantly affected by inflationary pressure. Expenses of local businesses are mostly denominated in Tenge and, accordingly, may be affected by inflation. For example, employee wages, have been, and are likely to continue to be, particularly sensitive to monetary inflation in Kazakhstan. In particular, the dependency of imports creates a risk for the economy of Kazakhstan in case of an increased inflation rate.

In February 2014, the NBK effectively devalued the Tenge by 18.9%. See "*Changes to the exchange rate policies could affect Kazakhstan's economy and public finances*". The NBK stated that such devaluation was made in light of the situation in the global financial and commodity markets and the depreciation of the Russian Rouble over the course of 2013 and 2014. In August 2015, the NBK announced its adoption of a free-floating exchange rate. According to the Ministry of National Economy, annual consumer price inflation in 2018, 2017, 2016, 2015 and 2014 was 5.3%, 7.1%, 8.5%, 13.6% and 7.4%, respectively. Annualised consumer price inflation in July 2019 was 5.4%. The IMF forecasts inflation to be 5.5% in 2019.

### ***Official statistics may be unreliable***

Kazakhstan's system for gathering and publishing statistical information relating to its economy generally or specific economic sectors within it or corporate or financial information relating to companies and other economic enterprises may not be as complete or reliable as the systems of more developed countries. Official statistics and other data may also be produced on different bases from those used in more developed countries. In particular, information about Kazakhstan's hydrocarbon and mineral reserves is partially based on a system employed in the former Soviet Union and does not necessarily reflect economically recoverable reserves, and economic data may underestimate the contribution of the unofficial economy to Kazakhstan's overall economy.

### ***Underdeveloped Securities Market in Kazakhstan***

Kazakhstan has a less-developed securities market than the U.S. or the United Kingdom and other Western European countries, which may hinder the development of the Kazakhstan economy. An organised securities market was established in Kazakhstan only in the mid-to-late 1990s and procedures for settlement, clearing and registration of securities transactions may, therefore, be subject to legal uncertainties, technical difficulties and delays. Although significant developments have occurred in recent years, including an initiative to develop Nur Sultan as an international financial centre, the sophisticated legal and regulatory frameworks necessary for the efficient functioning of modern capital markets have yet to be fully developed in Kazakhstan. In particular, legal protections against market manipulation and insider trading are not as well developed or as strictly enforced in Kazakhstan as they are in the U.S. or the United Kingdom and other Western European countries, and existing laws and regulations may be applied inconsistently. In addition, less information relating to Kazakhstan-based entities may be publicly-available to investors in such entities than is available to investors in entities organised in the U.S. or the United Kingdom and other Western European countries. The above-mentioned factors may impair foreign investment in Kazakhstan and hinder the development of Kazakhstan's economy.

### ***Continuing need to fight corruption and improve business climate***

Kazakhstan is a member of the Extractive Industries Transparency Initiative in relation to a number of companies, and Kazakhstan continues to work towards improving accountability and governance standards in various extractive sectors. However, independent analysts, including Transparency International, have identified corruption as a problem in Kazakhstan. Of the 180 countries and territories included in the 2018 Corruption Perceptions Index published by Transparency International, Kazakhstan ranked number 124, indicating that a perception of public sector corruption occurring within the country remains widespread.

Kazakhstan's business climate and competitive indicators are also negatively affected by the need for reform in investor protection arrangements, the cost of establishing a business, the tax system, resolving insolvency and contract enforcement. In the World Bank's Doing Business Survey 2019, Kazakhstan ranked 28 out of 190 countries for ease of doing business, while Kazakhstan ranked 57th out of 137 countries in the World Economic Forum 2018-19 Global Competitiveness Index.

Any future allegations of corruption in Kazakhstan and the failure to address the need for reforms could have a negative effect on the ability of Kazakhstan to attract foreign investment, and thus have a negative effect on both the economy of Kazakhstan and the ability of Kazakhstan to repay principal and make payments of interest on the Notes.

### ***The implementation of further market-based reforms such as the Comprehensive Privatisation Plans***

In recent years, the Government has introduced a number of measures to encourage privatisation and competition among Kazakhstani companies. In 2012, the Government launched the programme of "People's IPOs" in order to, among other things, stimulate the domestic equities market. The "People's IPO" programme was terminated at the end of 2015.

In January 2014, President Nazarbayev instructed the Government to prepare a list of state-owned companies that should be privatised and approve a comprehensive privatisation programme for 2014-2016. On 31 March 2014, the Government of Kazakhstan adopted Decree No. 280, which set out its "Comprehensive Privatisation Plan" for that period (the "Comprehensive Privatisation Plan for 2014-2016"). In December 2015, the Government approved a further Comprehensive Privatisation Plan to be implemented between 2016 and 2020.

The Government's privatisation programme is driven by the need for substantial investment in many enterprises. The programme has, however, excluded certain enterprises deemed strategically significant by the Government and there remains a need for substantial investment in many sectors of the Kazakhstani economy, including business infrastructure.

### ***The shadow economy which results in a lack of revenue for the Kazakhstani Government***

The significant size of the shadow or informal economy in Kazakhstan may adversely affect the implementation of reforms and hamper the efficient collection of taxes. The size of the informal economy was estimated to constitute 28.1% of GDP in 2014, 27.5% in 2015, 25.8% in 2016 and 25.1% in 2017 (the data for 2018 is still unavailable and the data for 2017 is likely to change because the Ministry of National Economy and the Ministry of Finance adopted a new set of measures to combat the informal economy on 8 August 2019 and, as part of these measures, data on the size of the informal economy for 2017 and 2018 is being re-calculated). The Government has stated that it intends to address these problems by improving business infrastructure and tax administration and by continuing the privatisation process. There can be no assurance, however, that these measures will be effective or that any failure to implement them may not have a material adverse effect on the Issuer.

### ***Poor performance of state-owned enterprises, which still represent a significant portion of the Kazakhstani economy, can have an adverse impact on the revenues in State Budget***

State-owned enterprises still represent a significant portion of the Kazakhstani economy. For example, the assets held by state holding JSC Sovereign Welfare Fund “Samruk-Kazyna” (“**Samruk Kazyna**”), as at 31 December 2018, represented approximately 43% of Kazakhstan’s GDP in 2018. Poor economic performance of these businesses, independent of its cause, can have a direct and indirect negative impact on the revenues in Kazakhstan’s State Budget.

### ***Nursultan Nazarbayev, the first President of Kazakhstan who was in office from 1991, announced his retirement as President in March 2019; Kassym-Jomart Tokayev became the acting President at that time and was duly elected as President in June 2019; if this recent transfer of presidential power encounters difficulties in the near future, the socio-political and macroeconomic situation in Kazakhstan could become unstable***

The first President of Kazakhstan, Nursultan Nazarbayev, who is now 79 years old, was in office from 1991 when Kazakhstan became an independent sovereign state. Under President Nazarbayev’s leadership, the foundations of a market economy have taken hold, including the privatisation of state assets, the liberalisation of capital controls, tax reforms and pension system development.

In March 2019, President Nazarbayev announced his retirement as President (although he remains head of the ruling Nur Otan party and the Security Counsel). Kassym-Jomart Tokayev, who was at the time the chairperson of the Senate, was appointed as acting President. The latest presidential election took place on 9 June 2019 and Kassym-Jomart Tokayev, who competed with six other candidates, won the election with 71% of the vote.

Prior to this transfer of presidential power from Nursultan Nazarbayev to Kassym-Jomart Tokayev, Kazakhstan’s constitutional succession processes have never been tested. If this recent transfer of presidential power, for whatever reason, encounters difficulties in the near future or there is a reversal of reform policies, Kazakhstan’s socio-political situation and economy could become unstable and the investment climate could change, which could have a material adverse effect on the economy of Kazakhstan.

### **Legal and regulatory risks**

#### ***Enforcement of liabilities can be difficult in certain jurisdictions***

Kazakhstan is a sovereign state and has not submitted to the jurisdiction of any foreign courts in connection with the Notes. The Conditions provide that arbitration will be the exclusive remedy in relation to any dispute relating to the Notes and, accordingly, if a Noteholder is made a monetary award in any arbitration proceedings in relation to the Notes it may attempt to enforce that award or bring proceedings on the award as a debt owing to it and attempt to obtain a judgment thereon. Despite Kazakhstan’s waiver of sovereign immunity, there remains a risk that a claimant will not be able to enforce a judgment or award against assets of Kazakhstan in certain jurisdictions without Kazakhstan having specifically consented to such enforcement at the time when the enforcement is sought. This may include the inability of a claimant to enforce an arrest order or attachment or seizure of Kazakhstan’s assets and the subsequent sale of these assets. Furthermore, Kazakhstan reserves the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976 with respect to actions brought against it under any U.S. federal or state securities law.



Kazakhstan's courts will not enforce a judgment obtained in a court outside Kazakhstan unless there is a treaty in effect between the relevant 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 U.S. However, Kazakhstan, the United Kingdom and the U.S. are parties to the New York Convention and, accordingly, an arbitral award should generally be recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the New York Convention are met.

However, even if an applicable international treaty is in effect, or a foreign judgment might otherwise be recognised and enforced on the basis of reciprocity, the recognition and enforcement of a foreign judgment will remain subject to any exceptions and limitations provided for in Kazakhstani law. Therefore, there remains a risk that a claimant will not be able to have a foreign judgment recognised or enforced in the Kazakhstani courts. For example, a Kazakhstani court may refuse to recognise or enforce a foreign judgment if its recognition or enforcement would be contrary to Kazakhstani public policy. In addition, as per the provisions of the Civil Code of the Republic of Kazakhstan, judgments cannot be enforced against assets allocated to state owned entities.

As a result, there is a risk that claimants may find it difficult to obtain recognition or enforcement in Kazakhstan of a foreign judgment in respect of the Notes.

### ***The state of development of Kazakhstan's legislative, tax and regulatory framework***

Although a large volume of legislation has been enacted in Kazakhstan since early 1995 (including new tax codes in January 2002, January 2009 and December 2017 and new or amended 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, and state enterprise reform and privatisation throughout the period), the legal framework in Kazakhstan (although one of the most developed among the countries of the former Soviet Union) is still evolving compared to countries with established market economies.

The judicial system, judicial officials and other Government officials in Kazakhstan may not be fully independent of external social, economic and political forces. For example, there have been instances of improper payments being made to public officials. Therefore, court decisions can be difficult to predict and administrative decisions have on occasion been inconsistent. Kazakhstan is a civil law-based jurisdiction and, as such, judicial 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, including, in particular, the uncertainty surrounding judgments rendered under the previous tax code introduced with effect from 1 January 2009 and now replaced by the new tax code generally with effect as of 1 January 2018, as well as a lack of an established system of precedent or consistency in legal interpretation, the legal and tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed legal and tax system.

Kazakhstan's tax system is still in a transitional phase and it is expected that tax legislation in Kazakhstan will continue to evolve. On 1 January 2018, the new tax code generally came into force. It contains a number of novelties, such as a presumption of innocence concept, pursuant to which any ambiguities arising out of the application of law in the process of a tax audit must be interpreted in favour of the taxpayer. The new tax code further provides for a higher degree of predictability of tax regulation by setting forth that all amendments to the Tax Code in any given year must be adopted by no later than 1 December of a particular year and become effective no earlier than 1 January of the following year.

### ***Risks relating to the Stati Claimants***

There is a risk that Anatole Stati, his son Gabriel Stati and two companies owned by them (the "**Stati Claimants**") may attempt to attach, seize or otherwise assert rights with respect to the assets of Kazakhstan, alleging, contrary to the position of the Republic of Kazakhstan, that they are not subject to state immunity. It is possible, therefore, that the Stati Claimants may also seek to assert rights over the proceeds of Kazakhstan's capital markets transactions, including the proceeds of the Notes, the scheduled payments under the Notes or

other outstanding external debt, which may affect the settlement process in relation to any issue of Notes or have a material adverse impact on the price or trading of any issue of Notes in the secondary market.

### **Factors Which Are Material for the Purpose of Assessing the Risks Associated with the Notes**

#### **Risks Related to the Structure of a Particular Issue of Notes**

*A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:*

- **Variable Rate Notes**

The Issuer may issue Notes with variable interest rates which are volatile in nature. For instance, if they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

- **Inverse Floating Rate Notes**

The Issuer may issue inverse floating rate Notes with an interest rate equal to a fixed rate minus a rate based upon a reference rate, such as LIBOR. The market values of these Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Typically, an increase in the reference rate not only decreases the interest rate on such Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

- **Notes Issued at a Substantial Discount or Premium**

The Issuer may issue Notes at a substantial discount or premium from their principal amount. The market value of these Notes tends to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. In particular, the longer the remaining term of the Notes, the price volatility may be greater compared to conventional interest-bearing securities with comparable maturities.

- **Fixed Rate Notes**

The Issuer may issue fixed rate Notes which involves the risk that subsequent changes in market interest rates may adversely affect the value of the fixed rate Notes.

Investors should consider all of these matters when making their investment decision with respect to the relevant Notes.

#### ***The regulation and reform of benchmarks may adversely affect the value of Notes linked to or referencing benchmarks***

Reference rates and indices, including interest rates, which are deemed to be benchmarks (such as, in the case of floating rate Notes, a Reference Rate) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to or referencing such a benchmark. The Benchmarks Regulation was published in the Official Journal of the EU on 29 June 2016, the provisions of which became fully effective on 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Notes linked to or referencing a benchmark, in particular, if the methodology or other terms of the benchmark are changed in order to comply with the

requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the benchmark.

More broadly, any of the national or international reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. Such factors may have the following effects on certain benchmarks: (i) discourage market participants from continuing to administer or contribute to the benchmark; (ii) trigger changes in the rules or methodologies used in the benchmark or (iii) lead to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of national or international reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to or referencing a benchmark.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms in making any investment decision with respect to any Notes linked to or referencing a benchmark.

***Future discontinuance of certain benchmark rates (for example, LIBOR or EURIBOR) may adversely affect the value of floating rate Notes which are linked to or which reference any such benchmark rate***

With respect to any Series of Notes that has a floating rate of interest based upon a benchmark, such as LIBOR or EURIBOR, investors should be aware that these rates have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. On 27 July 2017, and in a subsequent speech by its Chief Executive on 12 July 2018, the FCA confirmed that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the “**FCA Announcements**”). The FCA Announcements indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going forward. This may cause LIBOR to perform differently than it did in the past and may have other consequences that cannot be predicted.

Separate workstreams are also underway in Europe to reform EURIBOR using a hybrid methodology and to provide a fallback by reference to a euro risk-free rate (based on a euro overnight risk-free rate as adjusted by a methodology to create a term rate). On 13 September 2018, the working group on euro risk-free rates recommended Euro Short-term Rate (“**€STR**”) as the new risk free rate. €STR is expected to be published by the ECB by October 2019. In addition, on 21 January 2019, the euro risk free-rate working group published a set of guiding principles for fallback provisions in new euro denominated cash products (including bonds). The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts may increase the risk to the euro area financial system.

Based upon the foregoing, investors should be aware that: (a) any of the reforms or pressures described above or any other changes to such applicable benchmarks could affect the interest rate on a Series of Notes, including to cause it to be lower and/or more volatile than it would otherwise be, and (b) any significant change to the setting or existence of LIBOR, EURIBOR or any other benchmark rate might have a material adverse effect on the value or liquidity of, and the amount payable under, the applicable Notes. No assurance may be provided that relevant changes will not be made to any such benchmark rate and/or that any such benchmark rate will continue to exist. Investors should consider these matters when making their investment decision with respect to any Notes that have a floating rate of interest based upon a benchmark rate.

Condition 8.9 provides for certain fallback arrangements in the event that a relevant benchmark is discontinued or no longer published. Such fallback arrangements include the possibility that the Rate of Interest (as defined in the Conditions of the Notes) on the applicable Notes could be set by reference to an Alternative Reference Rate (as defined in the Conditions of the Notes) and that amendments could also be made to, amongst other things, the Day Count Fraction, Business Day Convention and Interest Determination Date of the Notes (each, as defined in the Conditions of the Notes) to ensure the proper operation of the Alternative Reference Rate, as the case may be, all as determined by the Issuer following consultation with an Independent Adviser (as defined in the Conditions of the Notes) and acting in good faith and in a commercially reasonable manner. The Alternative Reference Rate that is applied may not be effective to reduce or eliminate economic prejudice to investors. The use of a Alternative Reference Rate will still result in any Notes linked to or referencing a benchmark performing differently (which may include payment of a lower Rate of Interest) than they would if the relevant benchmark were to continue to apply in its current form.

If, following the discontinuation of a relevant benchmark, no Alternative Reference Rate is determined, the ultimate fallback for the purposes of calculation of the Rate of Interest for a particular Interest Period may result

in the Rate of Interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page (as defined in the Conditions of the Notes). Due to the uncertainty concerning the availability of Alternative Reference Rates, the involvement of an Independent Adviser and the potential for further regulatory development, there is a risk that the relevant fallback provisions may not operate as intended at the relevant time.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmark Regulation or any of the international or national reforms and the possible application of the benchmark replacement provisions under Condition 8.9 in making any investment decision with respect to any Notes linked to or referencing a benchmark rate.

### **Risks related to all Notes issued under the Programme**

Set out below is a description of material risks relating to the Notes generally:

***The Notes contain collective action clauses under which the terms of any one Series of Notes and/or multiple Series of Notes may be amended, modified or waived without the consent of all the holders of the Notes of that Series or all the holders of any other Series of Notes being aggregated, as the case may be.***

The Terms and Conditions of the Notes contain provisions regarding amendments, modifications and waivers, commonly referred to as “collective action” clauses. Such clauses permit defined majorities to bind all Noteholders, including Noteholders who did not vote and Noteholders who voted in a manner contrary to the majority. The relevant provisions also permit, in relation to reserved matters, multiple Series of Notes to be aggregated for voting purposes (provided that each such Series also contains the collective action clauses in its Terms and Conditions).

The Issuer expects that all Series of Notes issued under the Programme will include such collective action clauses, thereby giving the Issuer the ability to request modifications or actions in respect of reserved matters across multiple Series of Notes. This means that a defined majority of the holders of such Series of Notes (when taken in the aggregate) would be able to bind all holders of Notes in all the relevant aggregated Series.

Any modification or actions relating to reserved matters, including in respect of payments and other important terms, may be made to a single Series of Notes with the consent of the holders of 75 per cent of the aggregate principal amount outstanding of such Notes, and to multiple Series of Notes with the consent of both (i) the holders of 66<sup>2/3</sup> per cent of the aggregate principal amount outstanding of all Series of Notes being aggregated and (ii) the holders of 50 per cent in aggregate principal amount outstanding of each Series of Notes being aggregated. In addition, under certain circumstances, including the satisfaction of the Uniformly Applicable condition in the Terms and Conditions of the Notes, any such modification or action relating to reserved matters may be made to multiple Series of Notes with the consent of 75 per cent of the aggregate principal amount outstanding of all Series of Notes being aggregated only, without requiring a particular percentage of the holders in any individual affected Series of Notes to vote in favour of any proposed modification or action. Any modification or action proposed by the Issuer may, at the option of the Issuer, be made in respect of some Series of Notes only and, for the avoidance of doubt, the provisions may be used for different groups of two or more Series of Notes simultaneously. At the time of any proposed modification or action, the Issuer will be obliged, *inter alia*, to specify which method or methods of aggregation will be used by the Issuer.

There is a risk therefore that the Terms and Conditions of a Series of Notes may be amended, modified or waived in circumstances whereby the Noteholders voting in favour of an amendment, modification or waiver may be Noteholders of a different Series of Notes and as such, less than 75 per cent. of the Noteholders of the relevant Series would have voted in favour of such amendment, modification or waiver. In addition, there is a risk that the provisions allowing for aggregation across multiple Series of Notes may make the Notes less attractive to purchasers in the secondary market on the occurrence of an Event of Default or in a distress situation. Further, any such amendment, modification or waiver in relation to any Notes may adversely affect their trading price.

In the future, the Issuer may issue debt securities which contain collective action clauses in the same form as the collective action clauses in the Terms and Conditions of the Notes. If this occurs, then this could mean that any Series of Notes issued under the Programme would be capable of aggregation with any such future debt securities. The Terms and Conditions of the Notes also include a provision in respect of the establishment of a

Noteholders' Committee, which may represent the holders of a single Series of Notes or multiple Series of Notes.

***The Terms and Conditions restrict the ability of an individual Noteholder to declare an event of default, and permit a majority of Noteholders to rescind a declaration of such a default***

The Terms and Conditions contain a provision which, if an Event of Default occurs, permits the holders of at least 25 per cent. in aggregate nominal amount of the outstanding Notes of the relevant Series to declare all the Notes of that Series to be immediately due and payable by providing notice in writing to the Issuer, whereupon the Notes of that Series shall become immediately due and payable, at their nominal amount with accrued interest, without further action or formality.

The Terms and Conditions also contain a provision permitting the holders of at least 50 per cent. in aggregate nominal amount of the outstanding Notes of the relevant Series to notify the Issuer to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn. The Issuer shall give notice thereof to the Noteholders, whereupon the relevant declaration shall be withdrawn and shall have no further effect.

***The Issuer is not required to effect equal or rateable payment(s) with respect to the Notes or any other External Indebtedness, and is not required to pay other External Indebtedness at the same time or as a condition of paying sums on the Notes and vice versa.***

Notes issued under the Programme will at all times rank at least *pari passu* in right of payment with all other unsecured External Indebtedness (as defined in the Terms and Conditions of the Notes) of the Issuer, from time to time outstanding. However, the Issuer will have no obligation to effect equal or rateable payment(s) at any time with respect to the Notes or any other External Indebtedness and, in particular, will have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa. See Condition 5 (*Status*) of the Terms and Conditions of the Notes.

***Investors who hold less than the minimum Specified Denomination may be unable to sell their Notes and may be adversely affected if Definitive Note Certificates are subsequently issued***

The Terms and Conditions do not permit the sale or transfer of Notes in such circumstances as would result in amounts being held by a Noteholder which are lower than the minimum Specified Denomination (as defined in the Terms and Conditions). However, in the event that a Noteholder holds a principal amount of less than the minimum Specified Denomination, such Noteholder would need to purchase an additional amount of Notes such that it holds an amount equal to at least the minimum Specified Denomination to be able to trade such Notes. Noteholders should be aware that Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

If a Noteholder holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time, such Noteholder may not receive a Definitive Note Certificate in respect of such holding (should Definitive Note Certificates be issued) and would need to purchase a principal amount of Notes such that its holding amounts to at least a Specified Denomination in order to be eligible to receive a Definitive Note Certificate.

If Definitive Note Certificates are issued, Noteholders should be aware that Definitive Note Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

***There can be no assurance that an issue of Notes will occur on the initially scheduled Issue Date or at all***

An issue of Notes may be conditional on a number of conditions precedent and subject to termination rights (which may be exercised by any of the relevant Dealers with respect to itself only without cause and without advance notice to investors) set out in any subscription agreement between the Issuer and one or more Dealers in respect of any Tranches of Notes. If any of these conditions precedent are not satisfied, or if the relevant subscription agreement is terminated with respect to any Dealer in accordance with its terms, then that issue of Notes may be delayed or may not occur at all. In the event of investors receiving Notes allocated to them only after the initially scheduled Issue Date or not receiving such Notes at all in circumstances contemplated by the provisions of the relevant subscription agreement, such investors will (in the case of an aborted issue of Notes)

receive the return of the subscription price paid by such investors for such Notes but will not be entitled to any compensation for such late or non-delivery of Notes.

***Holders of Notes held through DTC, Euroclear and Clearstream must rely on procedures of those clearing systems to effect transfers of Notes, receive payments in respect of Notes and vote at meetings of Noteholders***

Notes issued under the Programme will be represented on issue by one or more Global Notes that may be deposited with a common depository for Euroclear and Clearstream or may be deposited with a custodian for DTC (each as defined under “*Summary of Provisions Relating to Notes in Global Form*”). Except in the circumstances described in each Global Note, investors will not be entitled to receive Notes in definitive form. Each of DTC, Euroclear and Clearstream and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes, the Issuer will discharge its payment obligations under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

***Transferability of the Notes may be limited under applicable securities laws***

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state of the U.S. or any other jurisdiction. Notes issued under the Programme may not be offered, sold or otherwise transferred in the U.S. or to, or for the account or benefit of, a U.S. person other than to persons that are QIBs. Each purchaser of Notes will be deemed, by its acceptance of such Notes, to have made certain representations and agreements intended by the Issuer to restrict transfers of Notes as described under “*Subscription and Sale*” and “*Transfer Restrictions*”. It is the obligation of each purchaser of Notes to ensure that its offers and sales of Notes comply with all applicable securities laws.

In addition, if at any time the Issuer determines that any owner of Notes, or any account on behalf of which an owner of Notes purchased its Notes, is a person that is required to be a QIB, the Issuer may compel that such owner’s Notes be sold or transferred to a person designated by or acceptable to the Issuer.

***The Notes may not be suitable as an investment for all investors***

Potential investors must determine the suitability of an investment in the Notes in each Series in the light of their own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact that such Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor’s currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect such investor’s investment and ability to bear the applicable risks.

## **Risks related to the market generally**

Set out below is a brief description of material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

***There may not be an active trading market for the Notes, in which case an investor's ability to sell the Notes may be limited***

The trading market for the Notes will be influenced by economic and market conditions in the Republic of Kazakhstan and, to varying degrees, by interest rates, currency exchange rates and inflation rates in other countries, such as the U.S., the EU Member States and elsewhere. An application will be made for the listing of the Notes on the London Stock Exchange and for the Notes to be admitted to the Official List. There can be no assurance that any such listings will be obtained or, if such listings are obtained, that an active trading market for the Notes will develop or be sustained. If a market does develop, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. The Notes may trade at a discount to their offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the economic and political condition of the Republic of Kazakhstan. In addition, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. Accordingly, there can be no assurance as to the development or liquidity of any active trading market for the Notes, an investor's ability to sell its Notes or the prices at which an investor may be able to sell its Notes.

### ***The Astana International Exchange Ltd (AIX)***

The Programme and Notes issued under the Programme may be listed on the AIX in the new Astana International Financial Centre. The AIX was launched in July 2018, and therefore, has a very short history of operations. There can be no assurance that the AIX will attract a sufficient number of market participants and issuers to ensure acceptable trading volumes in the foreseeable future or at all. Also, the infrastructure for trading and settlement has been newly set up and no assurance can be given that trading on the AIX will immediately function as well as in more established exchanges. Accordingly, market participants, issuers and other involved parties may occasionally experience technical difficulties with various aspects of AIX's operations, such as quotation and trading information and settlement. These factors may negatively impact the liquidity and pricing of, and the ability to trade at all, the Notes on the AIX.

### ***Credit ratings may not reflect all risks***

The credit rating(s) assigned to the Notes at any time may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. Similarly, the credit ratings assigned to an issue of Notes do not necessarily mean that they are a suitable investment. Also, similar ratings on different types of notes do not necessarily mean the same thing. The significance of each rating should be analysed independently from any other rating.

Separately, in general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency being included in such list as there may be delays between certain supervisory measures being taken against a relevant rating agency and publication of an updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

***Legal investment considerations may restrict certain investments***

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



## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which, save for the wording in italics, as completed by the relevant Final Terms or as supplemented, amended or replaced by the relevant Drawdown Prospectus, will be endorsed on each Definitive Note Certificate. The relevant Final Terms (or relevant provisions thereof) will be endorsed upon or attached to each Global Note and Definitive Note Certificate. The Terms and Conditions of the Notes applicable to Global Notes will differ from those which would apply to Notes in definitive form to the extent described under “Summary of Provisions Relating to Notes in Global Form”.*

*In the case of Notes which will not be admitted to listing, trading on a regulated market situated or operating within Member State(s) and/or quotation by any competent authority, stock exchange and/or quotation system or will be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed between the Issuer and the relevant Dealer (“Non-PR Notes”), no base prospectus will be required to be produced in accordance with the Prospectus Regulation. For such Non-PR Notes, a pricing supplement (a “Pricing Supplement”) will be issued describing the final terms of such Non-PR Notes.*

### 1. INTRODUCTION

The Republic of Kazakhstan (the “**Issuer**”), represented by the Ministry of Finance of the Republic of Kazakhstan (“**Kazakhstan**”) acting upon authorisation of the Government of the Republic of Kazakhstan has established a Global Medium Term Note Programme (the “**Programme**”) for the issuance of up to U.S.\$10,000,000,000 in aggregate principal amount of notes (the “**Notes**”) outstanding. The Notes are constituted by, are subject to and have the benefit of a deed of covenant dated 26 October 2018 (as may be amended or supplemented from time to time, the “**Deed of Covenant**”) executed by the Issuer for the benefit of holders of the Notes (“**Noteholders**” or “**holders**”) and are the subject of an amended and restated fiscal agency agreement dated 26 October 2018 (as may be further amended or supplemented from time to time, the “**Fiscal Agency Agreement**”) and made between the Issuer, Citibank Global Markets Europe AG as registrar (the “**Registrar**”, which expression includes any successor registrar appointed from time to time in connection with the Notes), Citibank, N.A., London Branch as fiscal agent (the “**Fiscal Agent**”, which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and the transfer agents, paying agents and other agents named therein.

Notes issued under the Programme will be issued in series (each, a “**Series**”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may comprise one or more tranches of notes (each, a “**Tranche**”) issued on the same or different issue dates. The specific terms of each Tranche (which will, save in respect of the denominations, issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set forth in the applicable Final Terms (the “**Final Terms**”), which should be read in conjunction with these terms and conditions. The terms and conditions applicable to any particular Tranche of Note are these terms and conditions, as completed by the relevant Final Terms (together, the “**Terms and Conditions**”). In the event of any inconsistency between these terms and conditions and the relevant Final Terms, the relevant Final Terms shall prevail.

All subsequent references in these Terms and Conditions to “**Notes**” are to the Notes of the same Series. Copies of the relevant Final Terms are available for inspection by Noteholders during normal business hours at the Specified Office of the Fiscal Agent, the initial Specified Office of which is set out below.

Certain provisions of these Terms and Conditions are summaries of the Fiscal Agency Agreement and the Deed of Covenant and are subject to their detailed provisions. The Noteholders are bound by, and are deemed to have notice of, all the provisions of the Fiscal Agency Agreement and the Deed of Covenant applicable to them. Copies of the Fiscal Agency Agreement and the Deed of Covenant are available for inspection by Noteholders during normal business hours at the Specified Offices of the Fiscal Agent, the initial Specified Office of which are set out below.

## 2. DEFINITIONS AND INTERPRETATION

### 2.1 Definitions

Terms defined in the Fiscal Agency Agreement or the Deed of Covenant shall, unless otherwise defined herein or the context requires otherwise, bear the same meanings herein. In these Terms and Conditions the following expressions have the following meanings:

“**Accrual Yield**” has the meaning given in the relevant Final Terms;

“**Broken Amounts**” has the meaning given in the relevant Final Terms;

“**Business Centre(s)**” means the city or cities specified as such in the relevant Final Terms;

“**Business Day**” means:

- (a) in the case of Euros, a TARGET Settlement Day;
- (b) in the case of a Specified Currency other than Euros, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for that currency; or
- (c) in the case of a Specified Currency or one or more Business Centre(s) specified in the relevant Final Terms, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres so specified;

“**Business Day Convention**”, in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (a) “**Following Business Day Convention**” means that the relevant date shall be postponed to the first following day that is a Business Day;
- (b) “**Modified Following Business Day Convention**” or “**Modified Business Day Convention**” means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (c) “**Preceding Business Day Convention**” means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (d) “**FRN Convention**”, “**Floating Rate Convention**” or “**Eurodollar Convention**” means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:
  - (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
  - (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
  - (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (e) “**No Adjustment**” means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

**“Calculation Amount”** has the meaning given in the relevant Final Terms;

**“Calculation Agent”** means the Fiscal Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and such other amount(s) as may be specified in the relevant Final Terms;

**“Day Count Fraction”** means (subject as provided in Condition 7 (*Fixed Rate Note Provisions*)), in respect of the calculation of an amount of interest for any Interest Period:

- (a) if “Actual/365” or “Actual/Actual (ISDA)” is specified in the relevant Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of the Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (b) if “Actual/365 (Fixed)” is specified in the relevant Final Terms, the actual number of days in the Interest Period divided by 365;
- (c) if “Actual/360” is specified in the relevant Final Terms, the actual number of days in the Interest Period divided by 360;
- (d) if “30/360”, “360/360” or “Bond Basis” is specified in the relevant Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30 day months (unless (i) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30 day month, or (ii) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30 day month)); and
- (e) if “30E/360” or “Eurobond Basis” is specified in the relevant Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30 day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30 day month);

**“Euro Exchange Date”** means the date on which the Issuer gives notice (the **“Euro Exchange Notice”**) to the Noteholders that replacement Notes denominated in Euros are available for exchange;

**“External Indebtedness”** means all obligations, and Guarantees in respect of obligations, for money borrowed or raised (whether or not evidenced by bonds, debentures, notes or other similar instruments) denominated or payable, or which at the option of the relevant creditor or holder thereof may be payable, in a currency other than the lawful currency of the Issuer;

**“Financial Centre(s)”** means the city or cities specified as such in the relevant Final Terms;

**“Fixed Coupon Amount”** has the meaning given in the relevant Final Terms;

**“Guarantee”** means any guarantee of or indemnity in respect of Indebtedness or other like obligation;

**“Indebtedness”** means any indebtedness of any Person for money borrowed, whether incurred, assumed or guaranteed, other than trade credit in the ordinary course of business;

**“Independent Adviser”** means an independent financial institution of international repute or other independent financial adviser of recognised standing with relevant experience in the international capital markets, in each case appointed by the Issuer at its own expense.

**“Interest Amount”** means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

**“Interest Commencement Date”** means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

**“Interest Determination Date”** has the meaning given in the relevant Final Terms;

**“Interest Payment Date”** means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

- (a) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

**“Interest Period”** means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

**“International Monetary Assets”** means all the Issuer’s official holdings of gold and all the Issuer’s and the Issuer’s Monetary Authorities’ holdings of (i) Special Drawing Rights, (ii) Reserve Position in the Fund and (iii) Foreign Exchange, and the terms **“Special Drawing Rights”**, **“Reserve Position in the Fund”** and **“Foreign Exchange”** have, as to the types of assets included, the meanings given to them in the publication of the IMF entitled “International Financial Statistics” or such other meanings as shall be formally adopted by the IMF from time to time;

**“ISDA Definitions”** means the 2000 ISDA Definitions (as supplemented by the Annex to the 2000 ISDA Definitions and as further amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series) as published by the International Swaps and Derivatives Association, Inc. (formerly the International Swap Dealers Association, Inc.);

**“Issue Date”** has the meaning given in the relevant Final Terms;

the **“Issuer’s Monetary Authorities”** means the Issuer’s monetary authorities, including the National Bank of the Republic of Kazakhstan and, to the extent that they perform monetary authorities’ functions, currency boards, exchange stabilisation funds and treasuries of the Issuer;

**“Margin”** has the meaning given in the relevant Final Terms;

**“Maturity Date”** has the meaning given in the relevant Final Terms;

**“Participating Member State”** means a Member State of the European Communities which adopts the Euro as its lawful currency in accordance with the Treaty;

**“Payment Business Day”** means:

- (a) if the currency of payment is Euros, any day which is:
  - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
  - (ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Financial Centre; or
- (b) if the currency of payment is not Euros, any day which is:
  - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
  - (ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Financial Centre and which, if the currency of payment is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington,

respectively;

**“Permitted Security Interest”** means:

- (i) any Security Interest upon property to secure Public External Indebtedness incurred for the purpose of financing the acquisition of such property and any renewal and extension of such Security Interest which is limited to the original property covered thereby and which secures any renewal or extension of the original secured financing;
- (ii) any Security Interest existing on property at the time of its acquisition to secure Public External Indebtedness and any renewal or extension of any such Security Interest which is limited to the original property covered thereby and which secures any renewal or extension of the original secured financing;
- (iii) any Security Interest arising by operation of law which has not been foreclosed or otherwise enforced against the assets to which it applies; and
- (iv) any Security Interest securing Public External Indebtedness or any Guarantee of Public External Indebtedness incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project, provided that (a) the holders of such Public External Indebtedness or Guarantee expressly agree to limit their recourse to the assets and revenues of such project as the principal source of repayment of such Public External Indebtedness and (b) the property over which such Security Interest is granted consists solely of such assets and revenues;

**“Person”** means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity, including, without limitation, any state or agency of a state or other entity, whether or not having separate legal personality;

**“Principal Financial Centre”** means, in relation to any currency, the principal financial centre for that currency provided, however, that:

- (a) in relation to Euros, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (b) in relation to Australian dollars, it means either Sydney or Melbourne and, in relation to New Zealand dollars, it means either Wellington or Auckland, in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

**“Public External Indebtedness”** means External Indebtedness of the Issuer which is in the form of, or represented by, bonds, notes, or other securities and which is, or may be, quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system, over-the-counter securities market or other securities market;

**“Rate of Interest”** means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in relevant Final Terms or calculated or determined in accordance with the provisions of these Terms and Conditions and the relevant Final Terms;

**“Redemption Amount”** has the meaning given in the relevant Final Terms;

**“Reference Banks”** means the four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

**“Reference Price”** has the meaning given in the relevant Final Terms;

**“Reference Rate”** means one of the following benchmark rates (as specified in the relevant Final Terms);

- (a) London Interbank Offered Rate (LIBOR); or
- (b) Euro Interbank Offered Rate (EURIBOR);

**“Relevant Date”** means, in relation to any payment, whichever is the later of (a) the date on which the

payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

**“Relevant Screen Page”** means the page, section or other part of a particular information service (including, without limitation, the Reuters Markets 3000 Money Rates Service and Telerate) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

**“Reserved Matter”** means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

**“Security Interest”** means any mortgage, charge, pledge, lien, security interest or other encumbrance securing any obligation of any Person or any other type of preferential arrangement having similar effect over any assets or revenues of such Person;

**“Specified Currency”** has the meaning given in the relevant Final Terms;

**“Specified Denomination(s)”** has the meaning given in the relevant Final Terms;

**“Specified Interest Payment Date”** has the meaning given in the relevant Final Terms;

**“Specified Office”** has the meaning given in the Fiscal Agency Agreement;

**“Specified Period”** has the meaning given in the relevant Final Terms;

**“TARGET System”** means the Trans European Automated Real Time Gross Settlement Express Transfer (TARGET) System 2 or any successor thereto;

**“TARGET Settlement Day”** means any day on which the TARGET System is open;

**“Treaty”** means the Treaty establishing the European Communities, as amended; and

**“Zero Coupon Note”** means a Note specified as such in the relevant Final Terms.

## 2.2 Interpretation

In these Terms and Conditions:

- (a) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 12 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Terms and Conditions;
- (b) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 12 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Terms and Conditions;
- (c) references to Notes being “outstanding” shall be construed in accordance with the Fiscal Agency Agreement; and
- (d) if an expression is stated in Condition 2.1 (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is “not applicable” then such expression is not applicable to the Notes.

### 3. FORM, DENOMINATION AND TITLE

The Notes are issued in registered form in the Specified Denomination(s) shown in the relevant Final Terms, without interest coupons, provided that:

- (a) the Specified Denomination(s) shall not be less than €100,000 or its equivalent in another currency;
- (b) interests in the Restricted Notes shall be held in amounts of not less than U.S.\$200,000 or its equivalent in other currencies; and
- (c) Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA will have a minimum denomination of £100,000 (or its equivalent in another currency).

Title to the Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Fiscal Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Note shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it or its theft or loss and no person shall be liable for so treating the holder.

### 4. TRANSFERS OF NOTES

#### 4.1 Transfer

One or more Notes may be transferred, in whole or in part in the Specified Denominations set out in the applicable Final Terms and subject to the minimum transfer amounts specified therein, upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the relevant Note or Notes, together with the form of transfer endorsed on such Note or Notes (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or the relevant Transfer Agent (as applicable) may reasonably require, including for the purposes of establishing title to the relevant Note, and the identity of the person making the request. In the case of a transfer of part only of a holding of a Note, a new Note shall be issued to the transferee in respect of the part transferred and a further new Note in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Fiscal Agency Agreement. A copy of the current regulations will be made available by the Registrar or any Transfer Agent to any Noteholder upon request.

#### 4.2 Delivery

Each new Note to be issued pursuant to Condition 4.1 (*Transfer*) shall be available for delivery within five business days of receipt of the form of transfer and surrender of the Note for exchange. Delivery of the new Note(s) shall be made at the specified office of the Registrar or the relevant Transfer Agent (as the case may be) to whom delivery or surrender of such form of transfer or Note shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Note to such address as may be so specified, unless such holder requests otherwise and pays in advance to the Registrar or the relevant Transfer Agent the costs of such other method of delivery and such insurance as it may specify. In this Condition 4.2, “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar or the relevant Transfer Agent (as the case may be).

#### 4.3 No Charge

Transfers of Notes shall be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and security as the Registrar or the relevant Transfer Agent may require).

#### **4.4 Restrictions on Transfer**

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for redemption of, or payment of any interest amount in respect of, that Note.

#### **4.5 Forced Transfer**

As specified in the Fiscal Agency Agreement, if, at any time, the Issuer determines that any beneficial owner of Notes, or any account for which such owner purchased Notes, who is required to be a QIB is not a QIB, the Issuer may (a) compel such beneficial owner to sell its Notes to a person who is (i) a U.S. person who is a QIB and that is, in each case, otherwise qualified to purchase such Notes in a transaction exempt from registration under the Securities Act or (ii) not a U.S. person within the meaning of Regulation S or (b) compel the beneficial owner to sell such Notes to the Issuer or an affiliate thereof at a price equal to the lesser of (x) the purchase price paid by the beneficial owner for such Notes, (y) 100 per cent. of the principal amount thereof and (z) the fair market value thereof. The Issuer has the right to refuse to honour the transfer of interests in the Restricted Global Note or of Restricted Definitive Note Certificates to a U.S. person who is not a QIB.

### **5. STATUS**

The Notes constitute direct, general, unconditional and (subject to Condition 6 (*Negative Pledge*)) unsecured obligations of the Issuer and the full faith and credit of the Issuer is pledged for the due and punctual payment of principal and interest on the Notes and for the performance of all obligations of the Issuer in respect of the Notes and the Deed of Covenant. The Notes will at all times rank *pari passu* without preference among themselves and at least *pari passu* in right of payment with all other unsecured External Indebtedness of the Issuer from time to time outstanding, provided, further, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to the Notes or any other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and *vice versa*.

### **6. NEGATIVE PLEDGE**

So long as any Note remains outstanding the Issuer shall not create, incur, assume or permit to arise or subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its International Monetary Assets, present or future, to secure any Public External Indebtedness unless, at the same time or prior thereto, the Issuer's obligations under the Notes and the Deed of Covenant are secured equally and rateably therewith or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of Noteholders.

### **7. FIXED RATE NOTE PROVISIONS**

#### **7.1 Application to Fixed Rate Notes**

This Condition 7 is applicable to the Notes only if the relevant Final Terms specifies the Fixed Rate Note Provisions as being applicable.

#### **7.2 Rate of Interest for Fixed Rate Notes**

The Notes bear interest on the outstanding principal amount from the Interest Commencement Date at the rate(s) per annum equal to Rate(s) of Interest payable in arrears on each Interest Payment Date in each year and on the Maturity Date if the Maturity Date does not fall on an Interest Payment Date, subject as provided in Condition 11 (*Payments*). The amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the relevant Final Terms, amount to the Broken Amount(s) so specified.

#### **7.3 Calculation of Interest Amounts for Fixed Rate Notes**

If interest is required to be calculated for a period ending other than on an Interest Payment Date, such interest shall be calculated by applying the Rate of Interest to each Calculation Amount, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest subunit of the Specified Currency, half of any such sub unit being rounded upwards or otherwise in accordance with applicable market convention. In these Terms and Conditions “**sub unit**” means, with respect of



any currency other than the U.S. dollar, the lowest amount of such currency that is available as legal tender in the country of such currency, and with respect to U.S. dollars means one cent.

#### 7.4 Additional Definitions

For the purposes of these Terms and Conditions, “**Day Count Fraction**” means:

- (a) if “Actual/Actual (ICMA)” is specified in the relevant Final Terms:
  - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “**Accrual Period**”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Interest Determination Dates (as specified in the relevant Final Terms) that would occur in one calendar year; or  
  
For the purposes of Condition 7.4(a) “**Determination Period**” means each period from (and including) an Interest Determination Date to (but excluding) the next Interest Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not an Interest Determination Date, the period commencing on the first Interest Determination Date prior to, and ending on the first Interest Determination Date falling after, such date);
  - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (i) the number of days in such Determination Period and (ii) the number of Interest Determination Dates (as specified in the relevant Final Terms) that would occur in one calendar year; and
    - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (i) the number of days in such Determination Period and (ii) the number of Interest Determination Dates that would occur in one calendar year; and
- (b) if “30/360” is specified in the relevant Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30 day months) divided by 360.

### 8. FLOATING RATE NOTE PROVISIONS

#### 8.1 Application to Floating Rate Notes

This Condition 8 is applicable to the Notes only if the relevant Final Terms specifies the Floating Rate Note Provisions.

#### 8.2 Interest Payment Dates

The Notes bear interest on the outstanding principal amount from (and including) the Interest Commencement Date and such interest will be payable in arrears on either:

- (a) the Specified Interest Payment Date(s) (each, an “**Interest Payment Date**”) in each year specified in the relevant Final Terms; or
- (b) if no Specified Interest Payment Date(s) is/are specified in the relevant Final Terms, each date (each such date, together with each Specified Interest Payment Date, an “**Interest Payment Date**”) which falls in the number of months or other period specified as the Specified Period in the relevant Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or, as the case may be, the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

### 8.3 Rate of Interest for Floating Rate Notes

The Rate of Interest payable from time to time in respect of the Notes shall be determined in the manner specified in the relevant Final Terms.

- (a) Where Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will, subject as provided below, be either:

- (i) the offered quotation; or
- (ii) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) (the “**Relevant Time**”) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations, *provided, however* that:

- (x) if no Reference Rate appears on the Relevant Screen Page at the 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the relevant Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the Reference Rates that each of the Reference Banks is quoting to leading banks in the Principal Financial Centre at the Relevant Time on the relevant Interest Determination Date, as determined by the Calculation Agent; and
  - (y) if paragraph (x) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Reference Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Reference Rate) in respect of a Calculation Amount of the Specified Currency that at least two out of five leading banks selected by the Calculation Agent in the Principal Financial Centre are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the relevant Interest Determination Date relating to the next succeeding Interest Period for a period equivalent to the duration of the relevant Interest Period (I) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are so quoting to leading banks in Europe) (II) to leading banks carrying on business in the Principal Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Principal Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin or Maximum Rate of Interest or Minimum Rate of Interest applicable to the preceding Interest Period and to the relevant Interest Period).
- (b) Where ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where “**ISDA Rate**” in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest

rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
- (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and
- (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the LIBOR for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms.

#### **8.4 Minimum and Maximum Rate of Interest**

If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

#### **8.5 Calculation of Interest Amounts for Floating Rate Notes**

The Calculation Agent will, as soon as reasonably practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, determine the Rate of Interest for the relevant Interest Period and calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the principal amount of such Note during such Interest Period and multiplying the product by the relevant Day Count Fraction and rounding the resultant figure to the nearest sub unit of the relevant Specified Currency, half of any such sub unit being rounded upwards or otherwise in accordance with applicable market convention.

#### **8.6 Calculation Agent**

If the relevant Final Terms specify that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as reasonably practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Final Terms.

#### **8.7 Notice**

The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Fiscal Agent and each listing authority, stock exchange and quotation system (if any) by which the Notes have then been admitted to listing, trading and quotation as soon as reasonably practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders in accordance with Condition 21 (*Notices*). The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period.

#### **8.8 Notices Binding**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 8 by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer and the Noteholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

## 8.9 Benchmark Replacement

Notwithstanding the foregoing provisions of this Condition 8, if the Issuer (in consultation with the Calculation Agent determines that the relevant Reference Rate specified in the relevant Final Terms has ceased to be published on the Relevant Screen Page as a result of such benchmark ceasing to be calculated or administered, then the following provisions shall apply:

- (a) the Issuer shall use reasonable endeavours to appoint an Independent Adviser for the determination (with the Issuer's agreement) of an alternative rate (the "**Alternative Reference Rate**") and an alternative screen page or source (the "**Alternative Relevant Screen Page**") no later than three (3) Business Days prior to the relevant Interest Determination Date relating to the next succeeding Interest Period (the "**Determination Cut-off Date**") for purposes of determining the Rate of Interest applicable to the Notes for all future Interest Periods (as applicable) (subject to the subsequent operation of this Condition 8.9);
- (b) the Alternative Reference Rate shall be such rate as the Independent Adviser and the Issuer acting in good faith agree has replaced the relevant Reference Rate in customary market usage for the purposes of determining floating rates of interest in respect of eurobonds denominated in the relevant Specified Currency, or, if the Independent Adviser and the Issuer agree that there is no such rate, such other rate as the Independent Adviser and the Issuer acting in good faith agree is most comparable to the relevant Reference Rate, and the Alternative Relevant Screen Page shall be such page of an information service as displays the Alternative Reference Rate;
- (c) if the Issuer is unable to appoint an Independent Adviser, or if the Independent Adviser and the Issuer cannot agree upon, or cannot select, the Alternative Reference Rate and Alternative Relevant Screen Page prior to the Determination Cut-off Date in accordance with sub-paragraph (b) above, then the Issuer (in consultation with the Calculation Agent and acting in good faith and a commercially reasonable manner) may determine which (if any) rate has replaced the relevant Reference Rate in customary market usage for purposes of determining floating rates of interest in respect of eurobonds denominated in the relevant Specified Currency, or, if it determines that there is no such rate, which (if any) rate is most comparable to the relevant Reference Rate, and the Alternative Reference Rate shall be the rate so determined by the Issuer and the Alternative Relevant Screen Page shall be such page of an information service as displays the Alternative Reference Rate; *provided, however*, that if this sub-paragraph (c) applies and the Issuer is unable or unwilling to determine an Alternative Reference Rate and Alternative Relevant Screen Page prior to the Interest Determination Date relating to the next succeeding Interest Period in accordance with this sub-paragraph (c), the Rate of Interest applicable to such Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of a preceding Interest Period as applicable (which may be the initial Rate of Interest);
- (d) if an Alternative Reference Rate and Alternative Relevant Screen Page is determined in accordance with the preceding provisions, such Alternative Reference Rate and Alternative Relevant Screen Page shall be the Reference Rate and the Relevant Screen Page in relation to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 8.9);
- (e) if an Alternative Reference Rate is determined in accordance with the above provisions, the Independent Adviser (with the Issuer's agreement) or the Issuer (as the case may be), may also, following consultation with the Calculation Agent, specify changes to the Day Count Fraction, Business Day Convention, Business Days, Interest Determination Date and/or the definition of Reference Rate applicable to the Notes, and the method for determining the fallback rate in relation to the Notes, in order to follow market practice in relation to the Alternative Benchmark Rate, which changes shall apply to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 8.9); and
- (f) the Issuer shall promptly following the determination of any Alternative Reference Rate and Alternative Relevant Screen Page give notice thereof and of any changes pursuant to sub-paragraph (e) above to the Calculation Agent, the Fiscal Agent and the Noteholders.

## **9. ZERO COUPON NOTE PROVISIONS**

### **9.1 Application for Zero Coupon Notes**

This Condition 9 is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.

### **9.2 Redemption Amount Improperly Refused**

If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

- (a) the Reference Price; and
- (b) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

## **10. REDEMPTION AND PURCHASE**

### **10.1 Final Redemption**

Unless previously purchased and cancelled, the Notes will be redeemed at the Redemption Amount on the Maturity Date, subject as provided in Condition 11 (*Payments*).

### **10.2 No other Redemption**

The Issuer shall not be entitled to redeem the Notes otherwise than in accordance with Condition 10.1 (*Final Redemption*).

### **10.3 Purchase**

The Issuer may at any time purchase, or procure others to purchase for its account, Notes in the open market or otherwise and at any price. Notes so purchased may be held or resold (provided that such resale is outside the United States as defined in Regulation S under the United States Securities Act of 1933, as amended, or, in the case of any Notes resold pursuant to Rule 144A under that Act is only made in accordance with that Rule and otherwise in compliance with all applicable laws) or surrendered for cancellation, at the option of the Issuer. Any Notes so purchased, while held by or on behalf of the Issuer or any Person acting on behalf of the Issuer, shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Noteholders.

### **10.4 Cancellation**

All Notes which are submitted for cancellation pursuant to Condition 10.2 (*Purchase*) will be cancelled and may not be reissued or resold. For so long as the Notes are admitted to trading on the regulated market of the London Stock Exchange plc (the “**Stock Exchange**”) and the rules of such exchange so require, the Issuer shall promptly inform the Stock Exchange of the cancellation of any Notes under this Condition 10.4 (*Cancellation*).

## **11. PAYMENTS**

### **11.1 Payments**

Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Paying Agent by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is Euros, any other account to which Euros may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency.

## 11.2 **Record Date**

Payments of interest shall, subject to Condition 11.4 (*Payment Business Day*), be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Note shall be made in the relevant currency by cheque drawn on a bank and mailed by uninsured post to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. The holder of such Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of such Notes as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. Upon application by the holder to the specified office of any Paying Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank.

## 11.3 **Payments Subject to Applicable Laws**

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

## 11.4 **Payment Business Day**

If the due date for payment of any amount in respect of any Note is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

# 12. **TAXATION**

## 12.1 **Payments Free and Clear of Taxes**

All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within the Republic of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note presented for payment:

- (a) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with Kazakhstan other than the mere holding of such Note; or
- (b) more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had presented such Note on the last day of such period of 30 days;
- (c) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting such Note to another Paying Agent in a member state of the European Union; or
- (d) where (in the case of a payment of principal or interest on redemption) the relevant Note is surrendered for payment in the Republic of Kazakhstan.

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

## 12.2 FATCA

Notwithstanding anything to the contrary in this Condition 12, none of the Issuer, any Paying Agent or any other person shall be required to pay any additional amounts with respect to any withholding or deduction imposed on or in respect of any Note pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder (“**FATCA**”) or any laws of Kazakhstan, or any intergovernmental agreement between the United States of America and Kazakhstan or any other jurisdiction, implementing FATCA.

## 13. EVENTS OF DEFAULT

The Fiscal Agent shall upon receipt of written requests from the holders of not less than 25 per cent. in aggregate outstanding principal amount of the Notes or if so directed by an Extraordinary Resolution shall, give notice to the Issuer that the Notes are and they shall immediately become due and repayable at their principal amount together with accrued interest if any of the following events (each, an “**Event of Default**”) occurs and is continuing:

- (a) *Non-payment*: the Issuer is in default with respect to the payment of principal or interest or additional amounts on any of the Notes and such default continues for a period of 30 days; or
- (b) *Breach of other Obligations*: the Issuer is in default in the performance, or is otherwise in breach, of any covenant, obligation, undertaking or other agreement under the Notes (other than a default or breach elsewhere specifically dealt with in this Condition 13) and such default or breach is not remedied within 60 days after notice thereof has been given to the Issuer at the Specified Office of the Fiscal Agent by any holder of Notes; or
- (c) *Cross Default*: (a) any Public External Indebtedness of the Issuer (i) becomes due and payable prior to the due date for payment thereof by reason of default by the Issuer, or (ii) is not repaid at maturity as extended by the period of grace, if any, applicable thereto, or (b) any Guarantee given by the Issuer in respect of Public External Indebtedness of any other Person is not honoured when due and called upon; provided that the aggregate amount of the relevant Public External Indebtedness or liability under such Guarantee in respect of which one or more of the events mentioned in this Condition 13(c) shall have occurred equals or exceeds U.S.\$65,000,000 or its equivalent in other currencies; or
- (d) *Moratorium*: a general suspension of, or a moratorium on, the payment of principal of, or interest on, the Public External Indebtedness of the Issuer is declared by the Issuer, or the Issuer is, or admits that it is, unable to pay any Public External Indebtedness as it falls due, or the Issuer commences proceedings with a view to the general adjustment of its Indebtedness; or
- (e) *Invalidity or unenforceability*: the validity of the Notes is contested by the Issuer or the Issuer shall deny any of its obligations under the Notes (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or it is or becomes unlawful for the Issuer to perform or comply with all or any of its obligations set out in the Notes or all or any of its obligations set out in the Notes shall be or become unenforceable or invalid.

If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate outstanding principal amount of the Notes to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon the relevant declaration shall be withdrawn and shall have no further effect, but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

## 14. PRESCRIPTION

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

## **15. REPLACEMENT OF NOTES**

If any Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Replacement Agent (as defined in the Fiscal Agency Agreement), subject to all applicable laws and listing authority, stock exchange or quotation system requirements (if any), upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer and the Replacement Agent may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

## **16. AGENTS**

### **16.1 Agents of the Issuer**

In acting under the Fiscal Agency Agreement and in connection with the Notes, the Fiscal Agent acts solely as agent of the Issuer. The Fiscal Agent does not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

### **16.2 Requirements to Maintain Agents**

The initial Fiscal Agent, Paying Agent, Transfer Agent and Registrar and their respective initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Final Terms. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent and to appoint a successor Fiscal Agent, Paying Agent, Transfer Agent, Registrar or Calculation Agent and additional or successor agents; provided, however, that:

- (a) the Issuer shall at all times maintain a Fiscal Agent;
- (b) if a Calculation Agent is specified in the relevant Final Terms, the Issuer shall at all times maintain a Calculation Agent;
- (c) if and for so long as the Notes are admitted to listing, trading or quotation, by any listing authority, stock exchange or quotation system which requires the appointment of a Paying Agent in any particular place, the Issuer shall maintain a Paying Agent having its Specified Office in the place required by such listing authority, stock exchange or quotation system; and
- (d) the Issuer shall maintain a Registrar whose Specified Office shall be outside the United Kingdom.

Notice of any change in any of the Agents or their respective Specified Offices shall promptly be given to the Noteholders.

## **17. MEETINGS OF NOTEHOLDERS; WRITTEN RESOLUTIONS AND ELECTRONIC CONSENTS**

### **17.1 Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions**

- (a) The Issuer may convene a meeting of the Noteholders at any time in respect of the Notes in accordance with the provisions of the Fiscal Agency Agreement. The Issuer will determine the time and place of the meeting and will notify the Noteholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.
- (b) The Issuer or the Fiscal Agent will convene a meeting of Noteholders if the holders of at least 10 per cent. in principal amount of the outstanding Notes (as defined in the Fiscal Agency Agreement and described in Condition 17.9 (*Notes controlled by the Issuer*)) have delivered a written request to the Issuer or the Fiscal Agent (with a copy to the Fiscal Agent or the Issuer, as the case may be) setting out the purpose of the meeting. The Fiscal Agent will agree the time and place of the meeting with the Issuer promptly. The Issuer or the Fiscal Agent, as the case may be, will notify the Noteholders (with a copy to the Fiscal Agent or the Issuer, as the case may be) within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.
- (c) The Issuer (with the agreement of the Fiscal Agent) will set the procedures governing the conduct of any meeting in accordance with the Fiscal Agency Agreement. If the Fiscal



Agency Agreement does not include such procedures, or additional procedures are required, the Issuer and the Fiscal Agent will agree such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by it.

- (d) The notice convening any meeting will specify, *inter alia*;
  - (i) the date, time and location of the meeting;
  - (ii) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;
  - (iii) the record date for the meeting, which shall be no more than five business days before the date of the meeting;
  - (iv) the documentation required to be produced by a Noteholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Noteholder's behalf at the meeting;
  - (v) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;
  - (vi) whether Condition 17.2 (*Modification of this Series of Notes only*), Condition 17.3 (*Multiple Series Aggregation – Single limb voting*), or Condition 17.4 (*Multiple Series Aggregation – Two limb voting*) shall apply and, if relevant, in relation to which other series of debt securities it applies;
  - (vii) if the proposed modification or action relates to two or more series of debt securities issued by it and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;
  - (viii) such information that is required to be provided by the Issuer in accordance with Condition 17.6 (*Information*);
  - (ix) the identity of the Aggregation Agent (as defined below) and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 17.7 (*Claims Valuation*); and
  - (x) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.
- (e) In addition, the Fiscal Agency Agreement contains provisions relating to Written Resolutions and Electronic Consents. All information to be provided pursuant to this Condition 17.1 shall also be provided, *mutatis mutandis*, in respect of Written Resolutions and Electronic Consents.
- (f) A “**record date**” in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.
- (g) An “**Extraordinary Resolution**” means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.

- (h) A “**Written Resolution**” means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.
- (i) Any reference to “**debt securities**” means any notes (including the Notes), bonds, debentures or other debt securities (which for these purposes shall be deemed to include any sukuk representing the credit of the Republic of Kazakhstan or any other similar instrument) issued directly or indirectly by the Issuer in one or more series with an original stated maturity of more than one year.
- (j) “**Debt Securities Capable of Aggregation**” means those debt securities which include or incorporate by reference this Condition 17 and Condition 18 (*Aggregation Agent; Aggregation Procedures*) or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.

## 17.2 Modification of this Series of Notes only

- (a) Any modification of any provision of, or any action in respect of, these Terms and Conditions, the Fiscal Agency Agreement and/or the Deed of Covenant in respect of the Notes may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.
- (b) A “**Single Series Extraordinary Resolution**” means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 17.1 (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*) by a majority of:
  - (i) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes held by Noteholders present in person or represented by proxy; or
  - (ii) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate principal amount of the outstanding Notes held by Noteholders present in person or represented by proxy.
- (c) A “**Single Series Written Resolution**” means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:
  - (i) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or
  - (ii) in the case of a matter other than a Reserved Matter more than 50 per cent. of the aggregate principal amount of the outstanding Notes.
- (d) Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders.
- (e) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

## 17.3 Multiple Series Aggregation – Single limb voting

- (a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, provided that the Uniformly Applicable condition is satisfied.

- (b) A “**Multiple Series Single Limb Extraordinary Resolution**” means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 17.1 (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).
- (c) A “**Multiple Series Single Limb Written Resolution**” means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of debt securities.
- (d) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be.
- (e) The “**Uniformly Applicable**” condition will be satisfied if:
  - (i) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (A) the same new instrument or other consideration or (B) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or
  - (ii) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to the currency of issuance).
- (f) It is understood that a proposal under paragraph (a) above will not be considered to satisfy the Uniformly Applicable condition if each exchanging, converting, substituting or amending holder of each affected Series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and, the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation (or, where a menu of instruments or other consideration is offered, each exchanging, converting, substituting or amending holder of each affected Series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected Series of Debt Securities Capable of Aggregation electing the same option from such menu of instruments).
- (g) Any modification or action proposed under paragraph (a) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 17.3 may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

#### 17.4 Multiple Series Aggregation – Two limb voting

- (a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.
- (b) A “**Multiple Series Two Limb Extraordinary Resolution**” means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 17.1 (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of:
  - (i) at least 66  $\frac{2}{3}$  per cent. of the aggregate principal amount of the outstanding debt securities of affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
  - (ii) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).
- (c) A “**Multiple Series Two Limb Written Resolution**” means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:
  - (i) at least 66  $\frac{2}{3}$  per cent. of the aggregate principal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
  - (ii) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

- (d) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be.
- (e) Any modification or action proposed under paragraph (a) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 17.4 may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

#### 17.5 Reserved Matters

In these Conditions, “**Reserved Matter**” means any proposal:

- (a) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest (other than any variation arising from the discontinuation of any interest rate benchmark used to determine the amount of any payment in respect of the Notes) or any other amount payable in respect of the Notes on any date;

- (b) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;
- (c) to change the majority required to pass an Extraordinary Resolution, a Written Resolution, an Electronic Consent or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;
- (d) to change this definition, or the definition of “Extraordinary Resolution”, “Single Series Extraordinary Resolution”, “Multiple Series Single Limb Extraordinary Resolution”, “Multiple Series Two Limb Extraordinary Resolution”, “Written Resolution”, “Single Series Written Resolution”, “Multiple Series Single Limb Written Resolution”, “Electronic Consent” or “Multiple Series Two Limb Written Resolution”;
- (e) to change the definition of “debt securities” or “Debt Securities Capable of Aggregation”;
- (f) to change the definition of “Uniformly Applicable”;
- (g) to change the definition of “outstanding” or to modify the provisions of Condition 17.9 (*Notes controlled by the Issuer*);
- (h) to change the legal ranking of the Notes;
- (i) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, set out in Condition 13 (*Events of Default*);
- (j) to change the law governing the Notes, the courts to the jurisdiction of which the Issuer has submitted in the Notes, any of the arrangements specified in the Notes to enable proceedings to be taken or the Issuer’s waiver of immunity, in respect of actions or proceedings brought by any Noteholder, set out in Condition 25 (*Governing Law and Arbitration*);
- (k) to impose any condition on or otherwise change the Issuer’s obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;
- (l) to modify the provisions of this Condition 17.5;
- (m) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security;
- (n) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Terms and Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in the Terms and Conditions as so modified being less favourable to the Noteholders which are subject to the Terms and Conditions as so modified than:
  - (i) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or
  - (ii) if more than one series of other obligations or debt securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount; or
- (o) to approve the substitution of any person for the Issuer (or any previous substitute) as principal obligor under the Notes and the Deed of Covenant.

## 17.6 Information

Prior to or on the date that the Issuer proposes any Extraordinary Resolution, Written Resolution or Electronic Consent pursuant to Condition 17.2 (*Modification of this Series of Notes only*), Condition

17.3 (*Multiple Series Aggregation – Single limb voting*) or Condition 17.4 (*Multiple Series Aggregation – Two limb voting*), the Issuer shall publish in accordance with Condition 18.8 (*Manner of publication*) and provide the Fiscal Agent with the following information:

- (a) a description of the Issuer's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Issuer's existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;
- (b) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement and where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;
- (c) a description of the Issuer's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and
- (d) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Noteholders in Condition 17.1(d)(vii).

#### 17.7 **Claims Valuation**

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes in accordance with Condition 17.3 (*Multiple Series Aggregation – Single limb voting*) and Condition 17.4 (*Multiple Series Aggregation – Two limb voting*), the Issuer may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par value of the Notes and such affected series of debt securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

#### 17.8 **Manifest error, etc.**

The Notes, these Terms and Conditions and the provisions of the Fiscal Agency Agreement may be amended without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Noteholders.

#### 17.9 **Notes controlled by the Issuer**

For the purposes of (a) determining the right to attend and vote at any meeting of Noteholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution, (b) Condition 17.1 (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*) and (c) Condition 13 (*Events of Default*), any Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer shall be disregarded and be deemed not to remain outstanding, where:

- (i) **public sector instrumentality**” means the National Bank of Kazakhstan, any department, ministry or agency of the government of the Republic of Kazakhstan or any corporation, trust, financial institution or other entity owned or controlled by the government of the Republic of Kazakhstan or any of the foregoing; and
- (ii) **“control”** means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or

other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

In advance of any meeting of Noteholders, or in connection with any Written Resolution or Electronic Consent, the Issuer shall provide to the Fiscal Agent a copy of the certificate prepared pursuant to Condition 18.5 (*Certificate*) which includes information on the total number of Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Noteholders or the right to sign, or authorise the signature of, any Written Resolution or vote in respect of any Electronic Consent. The Fiscal Agent shall make any such certificate available for inspection during normal business hours at its Specified Office and, upon reasonable request, will allow copies of such certificate to be taken.

#### 17.10 **Publication**

The Issuer shall publish all Extraordinary Resolutions, Written Resolutions and Electronic Consents which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 18.8 (*Manner of publication*).

#### 17.11 **Exchange and Conversion**

Any Extraordinary Resolutions, Written Resolutions or Electronic Consents which have been duly passed and which modify any provision of, or action in respect of, the Terms and Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Notes and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders.

#### 17.12 **Written Resolutions and Electronic Consents**

A Written Resolution may be contained in one document or in several documents in like form, each signed by or on behalf of one or more of the Noteholders.

For so long as any Notes are in the form of a Global Note held on behalf of one or more of Euroclear, Clearstream, Luxembourg, DTC or any other clearing system (the “**relevant clearing system(s)**”), then the approval of a resolution proposed by the Issuer given by way of electronic consent communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures:

- (a) by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders; or
- (b) (where such holders have been given at least 21 days' notice of such resolution) by or on behalf of:
  - (i) in respect of a proposal pursuant to Condition 17.2 (*Modification of this Series of Notes only*), the persons holding at least 75 per cent. of the aggregate principal amount of the outstanding Notes in the case of a Reserved Matter or more than 50 per cent. of the aggregate principal amount of the outstanding Notes, in the case of a matter other than a Reserved Matter;
  - (ii) in respect of a proposal Condition 17.3 (*Multiple Series Aggregation—Single limb voting*), the persons holding at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate); or

- (iii) in respect of a proposal pursuant to Condition 17.4 (*Multiple Series Aggregation—Two limb voting*), (x) the persons holding at least 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate); and (y) the persons holding more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually),

(in the case of (i), (ii) and (iii), each an “**Electronic Consent**”) shall, for all purposes (including Reserved Matters) take effect as (A) a Single Series Extraordinary Resolution (in the case of (i) above), (B) a Multiple Series Single Limb Extraordinary Resolution (in the case of (ii) above) or (C) a Multiple Series Two Limb Extraordinary Resolution (in the case of (iii) above), as applicable.

The notice given to Noteholders shall specify, in sufficient detail to enable Noteholders (in the case of a proposal pursuant to Condition 17.2 (*Modification of this Series of Notes only*) or holders of each affected Series of Debt Securities capable of Aggregation (in the case of a proposal pursuant to Condition 17.3 (*Multiple Series Aggregation—Single Limb Voting*) or Condition 17.4 (*Multiple Series Aggregation—Two Limb Voting*)) to give their consents in relation to the proposed resolution, the method by which their consents may be given (including, where applicable, blocking of their accounts in the relevant clearing system(s)) and the time and date (the “**Relevant Consent Date**”) by which they must be received in order for such consents to be validly given, in each case subject to and in accordance with the operating rules and procedures of the relevant clearing system(s).

If, on the Relevant Consent Date on which the consents in respect of an Electronic Consent are first counted, such consents do not represent the required proportion for approval, the resolution shall, if the party proposing such resolution (the “**Proposer**”) so determines, be deemed to be defeated. Alternatively, the Proposer may give a further notice to Noteholders (in the case of a proposal pursuant to Condition 17.2 (*Modification of this Series of Notes only*) or holders of each affected Series of Debt Securities capable of Aggregation (in the case of a proposal pursuant to Condition 17.3 (*Multiple Series Aggregation—Single Limb Voting*) or Condition 17.4 (*Multiple Series Aggregation—Two Limb Voting*)) that the resolution will be proposed again on such date and for such period as shall be agreed with the Issuer (unless the Issuer is the Proposer). Such notice must inform Noteholders (in the case of a proposal pursuant to Condition 17.2 (*Modification of this Series of Notes only*) or holders of each affected Series of Debt Securities capable of Aggregation (in the case of a proposal pursuant to Condition 17.3 (*Multiple Series Aggregation—Single Limb Voting*) or Condition 17.4 (*Multiple Series Aggregation—Two Limb Voting*)) that insufficient consents were received in relation to the original resolution and the information specified in the previous paragraph. For the purpose of such further notice, references to Relevant Consent Date shall be construed accordingly.

An Electronic Consent may only be used in relation to a resolution proposed by the Issuer which is not then the subject of a meeting that has been validly convened above, unless that meeting is or shall be cancelled or dissolved.

Where Electronic Consent has not been sought, for the purposes of determining whether a Written Resolution has been validly passed, the Issuer shall be entitled to rely on consent or instructions given in writing directly to the Issuer (a) by accountholders in the relevant clearing system(s) with entitlements to any Global Note and/or (b) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, the relevant clearing system(s) and, in the case of (b) above, the relevant clearing system(s) and the accountholder identified by the relevant clearing system(s). Any such certificate or other document (i) shall be conclusive and binding for all purposes and (ii) may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream, Luxembourg’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. The Issuer shall not be liable to any person by reason of having accepted as valid or not having rejected



any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

All information to be provided pursuant to paragraph (d) of Condition 17.1 (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions and Electronic Consents.

A Written Resolution and/or Electronic Consent (i) shall take effect as an Extraordinary Resolution and (ii) will be binding on all Noteholders, whether or not they participated in such Written Resolution and/or Electronic Consent, even if the relevant consent or instruction proves to be defective.

## **18. AGGREGATION AGENT; AGGREGATION PROCEDURES**

### **18.1 Appointment**

The Issuer will appoint an aggregation agent (the “**Aggregation Agent**”) to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Notes and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Terms and Conditions or the Fiscal Agency Agreement in respect of the Notes and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

### **18.2 Extraordinary Resolutions**

If an Extraordinary Resolution has been proposed at a duly convened meeting of Noteholders to modify any provision of, or action in respect of, these Terms and Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

### **18.3 Written Resolutions**

If a Written Resolution has been proposed under the Terms and Conditions to modify any provision of, or action in respect of, these Terms and Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

### **18.4 Electronic Consents**

If approval of a resolution proposed under the terms of these Terms and Conditions to modify any provision of, or action in respect of, these Terms and Conditions and the terms and conditions of other affected series of debt securities, as the case may be, is proposed to be given by way of Electronic Consent, the Aggregation Agent will, as soon as reasonably practicable after the relevant Electronic Consent has been given, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have consented to the resolution by way of Electronic Consent such that the resolution is approved. If so, the Aggregation Agent will determine that the resolution has been duly approved.

### **18.5 Certificate**

For the purposes of Condition 18.2 (*Extraordinary Resolutions*), Condition 18.3 (*Written Resolutions*) and Condition 18.4 (*Electronic Consents*), the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 17.2 (*Modification of this Series of Notes only*), Condition 17.3 (*Multiple Series Aggregation – Single limb voting*) or Condition 17.4 (*Multiple Series Aggregation*

– *Two limb voting*), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution and, with respect to an Electronic Consent, the date arranged for voting on the Electronic Consent.

The certificate shall:

- (a) list the total principal amount of Notes and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the record date; and
- (b) clearly indicate the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 17.9 (*Notes controlled by the Issuer*) on the record date identifying the holders of the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

#### 18.6 **Notification**

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 18 to be notified to the Fiscal Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders.

#### 18.7 **Binding nature of determinations; no liability**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 18 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent and the Noteholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

#### 18.8 **Manner of publication**

The Issuer will publish all notices and other matters required to be published pursuant to the Fiscal Agency Agreement including any matters required to be published pursuant to Condition 17 (*Meetings of Noteholders; Written Resolutions and Electronic Consents*), this Condition 18, Condition 19 (*Noteholders' Committee*) and Condition 13 (*Events of Default*):

- (a) through Euroclear, Clearstream Luxembourg and DTC and/or any other clearing system in which the Notes are held;
- (b) in such other places and in such other manner as may be required by applicable law or regulation; and
- (c) in such other places and in such other manner as may be customary.

### 19. **NOTEHOLDERS' COMMITTEE**

#### 19.1 **Appointment**

- (a) Holders of at least 25 per cent. of the aggregate principal amount of the outstanding debt securities of all series of affected debt securities (taken in aggregate) may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), appoint any person or persons as a committee to represent the interests of such holders (as well as the interests of any holders of outstanding debt securities who wish to be represented by such a committee) if any of the following events has occurred:
  - (i) an Event of Default under Condition 13 (*Events of Default*);

- (ii) any event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 13 (*Events of Default*) become an Event of Default;
  - (iii) any public announcement by the Issuer, to the effect that the Issuer is seeking or intends to seek a rescheduling or restructuring of the Notes or any other affected series of debt securities (whether by amendment, exchange offer or otherwise); or
  - (iv) with the agreement of the Issuer, at a time when the Issuer has reasonably reached the conclusion that its debt may no longer be sustainable whilst the Notes or any other affected series of debt securities are outstanding.
- (b) Upon receipt of a written notice that a committee has been appointed in accordance with Condition 17.1(a) and a certificate delivered pursuant to Condition 18.5 (*Certificate*), the Issuer shall give notice of the appointment of such a committee to:
- (i) all Noteholders in accordance with Condition 21 (*Notices*); and
  - (ii) the holders of each affected series of debt securities in accordance with the terms and conditions of such affected series of debt securities,
- as soon as practicable after such written notice and such certificate are delivered to the Issuer.

## 19.2 Powers

Such committee in its discretion may, among other things:

- (a) engage legal advisers and financial advisers to assist it in representing the interests of the Noteholders;
- (b) adopt such rules as it considers appropriate regarding its proceedings;
- (c) enter into discussions with the Issuer and/or other creditors of the Issuer; and
- (d) designate one or more members of the committee to act as the main point(s) of contact with the Issuer and provide all relevant contact details to the Issuer.

Except to the extent provided in this Condition 19.2, such committee shall not have the ability to exercise any powers or discretions which the Noteholders could themselves exercise.

## 19.3 Engagement with the committee and provision of information

- (a) The Issuer shall:
  - (i) subject to paragraph (b) immediately below, engage with the committee in good faith;
  - (ii) provide the committee with information equivalent to that required under Condition 17.6 (*Information*) and related proposals, if any, in each case as the same become available, subject to any applicable information disclosure policies, rules and regulations; and
  - (iii) pay any reasonable fees and expenses of any such committee (including without limitation, the reasonable and documented fees and expenses of the committee's legal and financial advisers, if any) following receipt of reasonably detailed invoices and supporting documentation.
- (b) If more than one committee has been appointed by holders of affected series of debt securities in accordance with the provisions of this Condition 19 and/or equivalent provisions set out in the terms and conditions of any affected series of debt securities, the Issuer shall not be obliged to engage with such committees separately. Such committees may appoint a single steering group (to be comprised of representatives from such committees), whereupon the Issuer shall engage with such steering group.

#### 19.4 **Certification**

Upon the appointment of a committee, the person or persons constituting such a committee (the “**Members**”) will provide a certificate to the Issuer and to the Fiscal Agent signed by the authorised representatives of the Members, and the Issuer and the Fiscal Agent may rely upon the terms of such certificate.

The certificate shall certify:

- (a) that the committee has been appointed;
- (b) the identity of the Members; and
- (c) that such appointment complies with the terms and conditions of the relevant bond documentation.

Promptly after any change in the identity of the Members, a new certificate which each of the Issuer and the Fiscal Agent may rely on conclusively, will be delivered to the Issuer and the Fiscal Agent identifying the new Members. Each of the Issuer and the Fiscal Agent will assume that the membership of the committee has not changed unless and until it has received a new certificate.

The provisions of this Condition 19.4 shall apply, *mutatis mutandis*, to any steering group appointed in accordance with Condition 19.3 (*Engagement with the committee and provision of information*).

In appointing a person or persons as a committee to represent the interests of the Noteholders, the Noteholders may instruct a representative or representatives of the committee to form a separate committee or to join a steering group with any person or persons appointed for similar purposes by other affected series of debt securities.

#### 20. **FURTHER ISSUES AND CONSOLIDATION**

The Issuer may from time to time, without notice to or the consent of the Noteholders and in accordance with the Fiscal Agency Agreement, create and issue further notes having the same terms and conditions as the Notes of a particular Series in all respects (or in all respects except for the issue price, issue date and first payment of interest) so as to form a single series with the Notes of the particular Series, provided that, unless such further notes are issued pursuant to a qualified reopening for U.S. federal income tax purposes, such further notes will be issued with a separate CUSIP and ISIN.

The Issuer may, with the prior approval of the Fiscal Agent (which shall not be unreasonably withheld), from time to time on any Interest Payment Date occurring on or after the Redenomination Date (as defined in Condition 24 (*Redenomination*)) on giving not less than 30 days’ prior notice to the Noteholders in accordance with Condition 21 (*Notices*), without the consent of the Noteholders, consolidate the Notes of one Series with the Notes of one or more other Series issued by it, whether or not originally issued in the same currency provided such other Notes have been redenominated into the Specified Currency (if not originally so denominated) and which otherwise have, in respect of all periods subsequent to such consolidation, the same terms and conditions as the Notes.

#### 21. **NOTICES**

Notices to Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. Notices to Noteholders will be valid if published, for so long as the Notes are admitted to trading on the Stock Exchange and the rules of such exchange so require, in a leading newspaper having general circulation in London (which is expected to be the Financial Times) or if, in the opinion of the Fiscal Agent, such publication is not practicable, in a leading English language daily newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

## **22. CURRENCY INDEMNITY**

If any Noteholder receives or recovers any amount in a currency other than that in which the relevant payment is expressed to be due (the “**Contractual Currency**”) (whether as a result of, or of the enforcement of, an award, judgment or order of any court or other tribunal) in respect of any sum expressed to be due to it from the Issuer that amount will only discharge the Issuer to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the relevant Noteholder under the Notes, the Issuer will indemnify such Noteholder against any loss sustained by it as a result on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent or any Paying Agent. In any event, the Issuer will indemnify the relevant Noteholder against the cost of making any such purchase.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

## **23. ROUNDING**

For the purposes of any calculations referred to in these Terms and Conditions (unless otherwise specified in these Terms and Conditions), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point (with 0.000005 per cent., being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up) and (c) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

## **24. REDENOMINATION**

### **24.1 Redenomination**

This Condition 24 is applicable to the Notes only if it is specified in the relevant Final Terms as being applicable.

### **24.2 Redenomination Date**

If the country of the Specified Currency becomes or, announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders, on giving at least 30 days’ prior notice to the Fiscal Agent and the Noteholders, designate a date (the “**Redenomination Date**”), being an Interest Payment Date under the Notes falling on or after the date on which such country becomes a Participating Member State.

### **24.3 Calculation of Redenominated Notes**

Notwithstanding the other provisions of these Terms and Conditions, with effect from the Redenomination Date:

- (a) the Notes shall be deemed to be redenominated into Euros in the denomination of Euros 0.01 with a principal amount for each Note equal to the principal amount of that Note in the Specified Currency, converted into Euros at the rate for conversion of such currency into Euros established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); provided, however, that, if the Issuer determines, with the agreement of the Fiscal Agent that the then market practice in respect of the redenomination into Euros 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, each listing authority, stock exchange or quotation system (if any) by which the Notes have then been admitted to listing, trading or quotation and the Fiscal Agent of such deemed amendments;
- (b) if Notes have been issued in definitive form:

- (i) the payment obligations contained in all Notes denominated in the Specified Currency will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 24) shall remain in full force and effect; and
- (ii) new Notes denominated in Euros will be issued in exchange for Notes denominated in the Specified Currency in such manner as the Fiscal Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and
- (c) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as the Specified Currency ceases to be a sub division of the Euros, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in Euros by cheque drawn on, or by credit or transfer to a Euros account (or any other account to which Euros may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Member State of the European Communities.

#### **24.4 Calculation of Interest on redenominated Definitive Note Certificates**

Following redenomination of the Notes pursuant to this Condition 24, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes held by the relevant holder.

#### **24.5 Change of Interest Determination Date**

If the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable and Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, with effect from the Redenomination Date the Interest Determination Date shall be deemed to be the second TARGET Settlement Day before the first day of the relevant Interest Period.

### **25. GOVERNING LAW AND ARBITRATION**

#### **25.1 Governing Law**

The Notes and the arbitration agreement in Condition 25.2 (*Arbitration*) (including any non-contractual obligations arising out of or in connection with the Notes) are governed by, and shall be construed in accordance with, English law.

#### **25.2 Arbitration**

Any claim, dispute or difference of whatever nature arising under, out of or in connection with the Notes (including a claim, dispute or difference regarding its existence, termination or validity or any non-contractual obligations arising out of or in connection with the Notes) (a "Dispute"), shall be referred to and finally settled by arbitration in accordance with the LCIA (the "Rules") as in force at the date of the Fiscal Agency Agreement and as modified by this Condition, which Rules shall be deemed to be incorporated into this Condition. The number of arbitrators shall be three, one of whom shall be nominated by the claimant(s), one by the respondent(s) and the third of whom, who shall act as Chairman, shall be nominated by the two party nominated arbitrators, provided that if the third arbitrator has not been nominated within 30 days of the nomination of the second party nominated arbitrator, such third arbitrator shall be appointed by the LCIA Court. The parties may nominate and the LCIA Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The seat of arbitration shall be London, England and the language of arbitration shall be English. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

#### **25.3 Service of Process**

The Issuer agrees that the process by which any proceedings are commenced in the English courts in support of, or in connection with, an arbitration commenced pursuant to Condition 25.2 (*Arbitration*) may be served on it by being delivered to the Ambassador of the Republic of Kazakhstan to the Court of St. James's from time to time, at the Embassy of the Republic of Kazakhstan, currently located at 125 Pall Mall, London SW1Y 5EA or, in his absence, his designate as its authorised agent for service of process in England. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of a Noteholder appoint a

further person in England to accept service of process on its behalf and, failing such appointment within 14 days, such Noteholder shall be entitled to appoint such a person by written notice to the Issuer. Nothing in this paragraph shall affect the right of the Noteholder to serve process in any other manner permitted by law.

#### 25.4 **Enforcement of Awards; Waiver of Immunity**

Any award made pursuant to Condition 25.2 (*Arbitration*) in relation to a Dispute may be enforced in any tribunal or court of competent jurisdiction. To the extent that the Issuer may in any jurisdiction claim for itself or its assets, property or revenues (irrespective of their use or intended use) immunity from jurisdiction, suit, enforcement, execution, attachment (whether in aid of execution, before the making of a judgment or award or otherwise) or other legal process, including in relation to the enforcement of any arbitration award, and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets, property or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction subject to the provisions of Condition 25.5 (*Waiver of Immunity – Exclusions*). The Issuer reserves the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976 with respect to actions brought against it in any court of, or in, the United States of America under any United States federal or state securities law.

#### 25.5 **Waiver of Immunity – Exclusions**

Notwithstanding any of the provisions of Condition 25.4 (*Enforcement of Awards; Waiver of Immunity*), the Issuer does not waive any immunity in respect of any of property which is real property or buildings or the contents belonging to diplomatic missions, consular posts, special missions to international organisations or delegations or organs of international organisations or conferences, in each case situated outside the Republic of Kazakhstan.

#### 25.6 **Consolidation of Disputes**

In this Condition 25.6:

“**Joinder Order**” means an order by a Tribunal that a Primary Dispute and a Linked Dispute be resolved in the same arbitral proceedings;

“**Linked Dispute**” means any Dispute and/or any dispute, claim, difference or controversy arising out of, relating to or having any connection with these Terms and Conditions and/or the Deed of Covenant, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them, in which a Request for Arbitration (as defined in the Rules) is served after a Request for Arbitration has been served in respect of a Primary Dispute;

“**Primary Dispute**” means any Dispute and/or any dispute, claim, difference or controversy arising out of, relating to or having any connection with these Terms and Conditions and/or the Deed of Covenant, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them, in which a Request for Arbitration has been served before a Request for Arbitration has been served in relation to any Linked Dispute; and

“**Tribunal**” means any arbitral tribunal appointed under these Terms and Conditions.

- (i) Any party to both a Primary Dispute and a Linked Dispute may apply to the Tribunal appointed in relation to the Primary Dispute for a Joinder Order in relation to any Linked Dispute.
- (ii) The applicant for a Joinder Order must promptly notify all parties to the Primary Dispute and the Linked Dispute of any application under (i) above.
- (iii) The Tribunal appointed in relation to the Primary Dispute may, if it considers it just, make a Joinder Order on hearing an application brought under (i) above. In determining whether to make a Joinder Order, the Tribunal must take account of:

- (A) the likelihood and consequences of inconsistent decisions if joinder is not ordered;
  - (B) any failure on the part of the party seeking joinder to make a timely application; and
  - (C) the likely consequences of joinder in terms of cost and time.
- (iv) If the Tribunal makes a Joinder Order:
- (A) it will immediately, to the exclusion of any other Tribunal, have jurisdiction to resolve finally the Linked Dispute in addition to its jurisdiction in relation to the Primary Dispute;
  - (B) it must order that notice of the Joinder Order and its effect be given immediately to any arbitrators already appointed in relation to the Linked Dispute and to all parties to the Linked Dispute and to all parties to the Primary Dispute;
  - (C) any appointment of an arbitrator in relation to the Linked Dispute before the date of the Joinder Order will terminate immediately and that arbitrator will be deemed to be *functus officio* with effect from the date of the Joinder Order. Such termination is without prejudice to:
    - (1) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;
    - (2) his entitlement to be paid his proper fees and disbursements; and
    - (3) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.
  - (D) it may also give any other directions it considers appropriate to:
    - (1) give effect to the Joinder Order and make provisions for any costs which may result from it (including costs in any arbitration terminated as a result of the Joinder Order); and
    - (2) ensure the proper organisation of the arbitration proceedings and the proper formulation and resolution of the issues between the parties.
- (v) If a Tribunal appointed in respect of a Primary Dispute under these Terms and Conditions makes a Joinder Order which confers on that Tribunal jurisdiction to resolve a Linked Dispute arising under these Conditions, that Joinder Order and the award of that Tribunal will bind the parties to the Primary Dispute and the Linked Dispute being heard by that Tribunal.
- (vi) For the avoidance of doubt, where a Tribunal is appointed under these Conditions, the whole of its award (including any part relating to a Linked Dispute) is deemed for the purposes of the New York Convention on the Recognition and Enforcement of Arbitral Awards 1958 to be contemplated by these Conditions.
- (vii) Each of the Issuer and the Noteholders waives any objection, on the basis of a Joinder Order, to the validity and/or enforcement of any arbitral award made by a Tribunal following any Joinder Order.

## 26. RIGHTS OF THIRD PARTIES

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



## FORM OF FINAL TERMS

*Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.*

**[MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET]** – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a distributor) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

**[Singapore SFA Product Classification]** - In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “**SFA**”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes [are]/[are not] [prescribed capital market products]/[capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) and [are] [Excluded]/[Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products.)<sup>1</sup>

### **THE REPUBLIC OF KAZAKHSTAN, REPRESENTED BY THE MINISTRY OF FINANCE OF THE REPUBLIC OF KAZAKHSTAN ACTING UPON AUTHORISATION OF THE GOVERNMENT OF THE REPUBLIC OF KAZAKHSTAN**

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] under the U.S.\$10,000,000,000 Global  
Medium Term Note Issuance Programme

## **PART A—CONTRACTUAL TERMS**

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “**Conditions**”) set forth in the Base Prospectus dated 19 September 2019 [and the Base Prospectus Supplement dated [●]] which [together] constitute[s] a base prospectus for the purposes of Regulation (EU) 2017/1129 of the European Parliament and of the Council dated 14 June 2017 (as amended, the “**Prospectus Regulation**”). This document constitutes the Final Terms of the Notes described herein for the purposes of the Prospectus Regulation and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplemental base prospectus] [is] [are] available for viewing during normal business hours at [●], [has] [have] been published on the website[s] of the [London Stock Exchange at [www.londonstockexchange.com/exchange/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html)] [and the Astana International Exchange at [●]] and copies may be obtained from [●].]

*[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.]*

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “**Conditions**”) set forth in the Base Prospectus dated [●] [and the Base Prospectus Supplement dated [●]] which are incorporated by reference in the Base Prospectus dated 19 September 2019. This document constitutes the Final Terms of the Notes described herein for the purposes of Regulation (EU) 2017/1129 of the European Parliament and of the Council dated 14 June 2017 (as amended, the “**Prospectus Regulation**”) and must be read in conjunction with the Base Prospectus dated 19 September 2019 [and the Base Prospectus Supplement dated [●]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Regulation (the “**Base Prospectus**”), including the Conditions incorporated by reference in the Base Prospectus.

<sup>1</sup> For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer. Notice to be added if the Notes are not ‘prescribed capital market products’ pursuant to Section 309B of the SFA.

Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplemental base prospectus] [is] [are] available for viewing during normal business hours at [●], [has] [have] been published on the website of the [London Stock Exchange at [www.londonstockexchange.com/exchange/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html)] and the Astana International Exchange at [●]] and copies may be obtained from [●].]

1. Issuer: The Republic of Kazakhstan, represented by the Ministry of Finance of the Republic of Kazakhstan acting upon authorisation of the Government of the Republic of Kazakhstan
2. [(i)] Series Number: [●]  
[(ii)] Tranche Number: [●]
3. Specified Currency or Currencies: [●]
4. Aggregate Nominal Amount of Notes:  
[(i)] Series: [●]  
[(ii)] Tranche: [●]
5. Issue Price: [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
6. (i) Specified Denomination(s): [●]  
(ii) Calculation Amount: [●]
7. [(i)] Issue Date: [●]  
[(ii)] Interest Commencement Date: [●]
8. Maturity Date: [[●]/Interest Payment Date falling on or nearest to [●]]
9. Interest Basis: [[●] per cent. Fixed Rate]  
[[LIBOR / EURIBOR] +/- [●]per cent. Floating Rate]  
[Zero Coupon]
10. Redemption/Payment Basis: [Redemption at par/[●] per Calculation Amount]
11. Date approval for issuance of Notes obtained: [●]

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

12. Fixed Rate Note Provisions: [Applicable/Not Applicable]
  - Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/ semi-annually/quarterly/monthly] in arrear]
  - Interest Payment Date(s): [●] in each year [adjusted in accordance with [●]/not adjusted]
  - Fixed Coupon Amount[(s)]: [●] per Calculation Amount
  - Broken Amount(s): [[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●] / Not Applicable]
  - Day Count Fraction: [Actual/365 / Actual/Actual(ISDA) / Actual/365(Fixed) / Actual/360 / 360/360 / Bond Basis / 30E/360 / Eurobond Basis / Actual/Actual(ICMA)/ 30/360]

- Interest Determination Date(s): ☐ in each year / Not Applicable]
13. Floating Rate Note Provisions: ☐ Applicable/Not Applicable]
- Specified Interest Period(s): ☐
- Specified Interest Payment Dates: ☐
- First Interest Payment Date: ☐
- Business Day Convention: ☐ FRN Convention/Floating Rate Convention/ Eurodollar Convention/Following Business Day Convention/Modified Following Business Day Convention/Modified Business Day Convention/ Preceding Business Day Convention/No Adjustment]
- Business Centre(s): ☐
- Manner in which the Rate(s) of Interest is/ are to be determined: ☐ Screen Rate Determination/ISDA Determination]
- Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent): ☐
- Screen Rate Determination:
- Reference Rate: ☐ month LIBOR/EURIBOR]
- Interest Determination Date(s): ☐
- Relevant Screen Page: ☐
- Reference Banks: ☐
- ISDA Determination:
- Floating Rate Option: ☐
- Designated Maturity: ☐
- Reset Date: ☐
- Margin(s): ☐ +/-☐ per cent. per annum
- Minimum Rate of Interest: ☐ per cent. per annum
- Maximum Rate of Interest: ☐ per cent. per annum
- Day Count Fraction: ☐ Actual/365 / Actual/Actual(ISDA) / Actual/365(Fixed) / Actual/360 / 360/360 / Bond Basis / 30E/360 / Eurobond Basis / Actual/Actual(ICMA)]
14. Zero Coupon Note Provisions: ☐ Applicable/Not Applicable]
- [Amortisation Yield /Accrual Yield]: ☐ per cent. per annum
- Reference Price: ☐

#### **GENERAL PROVISIONS APPLICABLE TO THE NOTES**

15. Financial Centre(s): ☐ Not Applicable/☐

16. Redenomination: [Applicable/Not Applicable]
17. Calculation Agent: [●]

**[THIRD PARTY INFORMATION]**

[●] has been extracted from [●]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]  
Signed on behalf of the Issuer:

By:

Duly authorised

## **PART B—OTHER INFORMATION**

### **1. LISTING**

- (i) Listing and admission to trading: Application has been made by the Issuer (or on its behalf) for the Notes to be listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's Regulated Market with effect from [●].

[Application has also been made by the Issuer (or on its behalf) for the Notes to be listed and admitted to trading on the Astana International Exchange with effect from [●].]

- (ii) Estimate of total expenses related to admission to trading: [●]

### **2. RATINGS**

Ratings: The Notes to be issued [have been/are expected to be] rated:

S & P: [●]

Moody's: [●]

Fitch: [●]

[Other: [●]]

[Not Applicable]

### **3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]**

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. *(Amend as appropriate if there are other interests)*]

### **[4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

- (i) Reasons for the offer: [●]

- (ii) Estimated net proceeds: [●] after deduction of management and underwriting commissions and fees and expenses of the Managers' and the Issuer's legal advisers.

- (iii) Estimated total expenses: [●] including fees and expenses of the Managers' and the Issuer's legal advisers (but excluding the management and underwriting commissions).]

### **[5. Fixed Rate Notes only—YIELD**

Indication of yield: [●]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield. ]

### **6. OPERATIONAL INFORMATION**

ISIN (Reg S Notes): [●]

ISIN (Rule 144A Notes): [●]

Common Code (Reg S Notes): [●]

Common Code (Rule 144A Notes): [●]

CUSIP (Rule 144A Notes): [●]

Any clearing system(s) other than [DTC,] [●]  
Euroclear Bank SA/NV and Clearstream  
Banking S.A., and the relevant identification  
number(s):

Names and addresses of additional Paying [●]  
Agent(s) (if any):

## **7. DISTRIBUTION**

Method of distribution: [Syndicated]/[Non-syndicated]

If syndicated, names of Managers: [●]

Stabilising Manager(s): [●]

If non-syndicated, name of Dealer: [●]

## **USE OF PROCEEDS**

The net proceeds of each offering of Notes will be used by the Issuer for general budgetary purposes, including financing of the State Budget deficit.

## THE REPUBLIC OF KAZAKHSTAN

### **Territory, Population and Natural Resources**

The Republic of Kazakhstan, which is the second largest former Soviet Union republic after Russia based on land mass, became an independent state in 1991.

Kazakhstan 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. In the Caspian Sea, Kazakhstan shares maritime boundaries with Russia, Iran, Turkmenistan and Azerbaijan. It is the ninth largest country in the world based on land mass, covering 2.7 million square kilometres, approximately the same size as Western Europe, and spans two time zones. In December 1997, the capital moved from Almaty to Astana (formerly known as Akmola), which is located in northern Kazakhstan, and the President, the Parliament and all ministries have since relocated to Astana. In 2019, Astana was renamed as Nur Sultan to honour the first President of the Republic of Kazakhstan, Nursultan Nazarbayev, who resigned in March 2019. Almaty remains, however, the financial, cultural and scientific capital of the country and is the largest city in Kazakhstan.

As at 1 July 2019, the population of Kazakhstan was approximately 18.5 million. Kazakhstan is one of the most sparsely populated countries in the world with an average population density of approximately 6.8 people per square kilometre. The population of Kazakhstan is ethnically diverse. Kazakhs are the largest among the country's approximately 130 different ethnic groups, accounting for 67.98% of the population at the beginning of 2019, followed by Russians (19.32%), Uzbeks (3.21%), Ukrainians (1.47%), Uigurs (1.47%), Tatars (1.10%), Germans (0.97%) and others (4.49%). The relative size of the Kazakh ethnic group has increased since the country's independence, mainly because of the emigration of non-Kazakh ethnic groups and because of the return of many ethnic Kazakhs to the country.

Historically, Kazakhstan belongs to the Turkic-speaking world. Kazakh, the state language, is spoken by approximately 74% of the population. Russian is spoken by more than 94.4% of the population and is permitted under Kazakhstan's constitution to be used officially on equal grounds with the Kazakh language in State institutions and local self-administrative bodies.

Primary school education is provided by the State free of charge, is compulsory from the age of six or seven and children typically attend school for at least nine years. The majority of the population has a primary, junior and secondary school education. All secondary school graduates are required to pass the Unified National Test, which serves as the entrance examination to universities and colleges. Kazakhstan's adult literacy rate exceeds 99%. With respect to the economically active population (labour force) in Kazakhstan, which amounted to 9,151.6 thousand people in the fourth quarter of 2018, 4,229 thousand people, or 46.2% of all economically active population, received technical or vocational training, while 3,481.1 thousand people, or 38% of all economically active population, had degrees from university-level institutions.

The secular status of the country is enshrined in Kazakhstan's constitution, which also provides for the right to religious freedom. Various religious and ethnic groups live in peaceful co-existence. The principal religions are Islam and Orthodox Christianity. The country is also home to Jews, Buddhists, Catholics and Protestants, particularly in the German communities.

Kazakhstan is rich in natural resources. According to the BP Statistical Review of World Energy 2019, Kazakhstan was the thirteenth largest oil producer in the world in 2018 and the second largest oil producer in the CIS after Russia. The country is also a significant exporter of wool, wheat, meat, machinery and various chemicals. Kazakhstan has enjoyed relatively high levels of foreign direct investment, particularly in the oil and gas sector, with the net inflow of foreign direct investment amounting to U.S.\$2.4 billion in the three months ended 31 March 2019; U.S.\$3.8 billion in 2018; U.S.\$4.7 billion in 2017; U.S.\$8.5 billion in 2016; U.S.\$4.1 billion in 2015 and U.S.\$8.5 billion in 2014.



## History

Almaty, Kazakhstan's largest city, is located on the site of a Silk Road oasis. Trade began along the Silk Road, a web of caravan tracks connecting the east (China) and west (Persia or present day Iran), in the second century. Gold, silver, ivory, jade, wool, Mediterranean coloured glass, grapes, wine and spices flowed east, while silk, porcelain, spices, gems and perfumes moved west. In the middle lay Central Asia, including what is now southern Kazakhstan, which provided horses and camels to keep goods flowing along the route. The historical significance of the Silk Road for Kazakhstan is derived not only from the trade that flowed from it, but also from the exchange of ideas, technologies and religions among the different cultures that used it.

Before Genghis Khan led the Mongols into what is modern day Kazakhstan in the 13th century, the region had been inhabited by various, mostly nomadic, peoples, including the Persian horsemen, the Kushanads, the Persian dynasty of the Sassanids, the Turks, the Abbasids and the Seljuk Turks. Over time, the Mongols mixed with the nomadic peoples of Kazakhstan. After the fall of the Mongol empire in the 17th century, the Kazakh nomads joined in establishing a political federation which, although it later split, left an important legacy of cultural ties and influences.

Russian influence in the region began in the 17th century, when the Cossacks settled along the Ural River in the west of the country. In the 18th century some khans (the hereditary title held by Turkic rulers) in Kazakhstan began to accept the protection offered by the Russian Tsars. Russian influence spread gradually and, despite a number of uprisings against Russia between 1820 and 1847, the khans were gradually overthrown and Russia secured political control. By 1854, the year of the founding of the garrison town of Verny (now Almaty), all of present day Kazakhstan was under Russian administration. The fall of the Tsarist Empire in 1917 liberated the country from Russian rule for a short period and, during this time, the Alash Orda government was formed by the Kazakhs. However, Russian rule was reasserted in 1920 when the Bolsheviks consolidated power.

Under the Soviet regime, large Soviet forced labour camps were located in Kazakhstan and more than five million people were deported to these camps during these years of repression. Approximately 110,000 citizens of the Kazakh Soviet Socialist Republic (the “**KSSR**”) were imprisoned for political reasons between 1920 and 1953 and approximately 25,000 of these were executed.

Approximately two million Kazakhs died as a result of a famine in the early 1930s, which was caused by the regime's policies of “liquidation of the kulaks (relatively affluent farmers) as a class”, collectivisation and confiscation of livestock by the central authorities. During this period, approximately 48% of the indigenous population died or left Kazakhstan, including Kazakhs that were forced to move to Mongolia, China, Afghanistan and other countries.

Kazakhstan played a vital industrial and agricultural role within the Soviet system. Many European Soviet citizens and much of Russia's industry were relocated to Kazakhstan during the Second World War. In the years 1953-1965, large tracts of Kazakhstan's territory were used for the cultivation of wheat and other cereal grains during the so-called “Virgin Lands Campaign”. In the late 1960s and in the 1970s, there was a programme to relocate Soviet industry close to the extensive coal, gas and oil deposits of Kazakhstan and elsewhere in Central Asia.

Under the Soviet regime, senior positions in industry, the judiciary and politics were generally held by Russians until the 1950s. Thereafter, ethnic Kazakhs increasingly began to assume power in the KSSR. However, during this period, ethnic Kazakhs accounted for only approximately 30% of the population, primarily as a result of a significant number of deportations under Stalin's orders of ethnic Koreans, Germans, Greeks and Tatars from Russia during the Second World War.

The increasing political power of ethnic Kazakhs is demonstrated by the fact that Dinmukhamed Kunaev, a Kazakh, became First Secretary of the Kazakh Communist Party in 1960. Except for a two year period during which he was removed as First Secretary for opposing the policies of Nikita Khrushchev, Kunaev remained in office until 1986, when he was succeeded by a Russian, Gennady Kolbin, prompting violent demonstrations from Kazakhs. In 1989, Kolbin was replaced by Nursultan Nazarbayev.

Kazakhstan adopted the Constitutional Law on State Independence on 16 December 1991. Kazakhstan is also a signatory to the agreement putting a formal end to the former Soviet Union and creating the Commonwealth of Independent States. Nursultan Nazarbayev, then First Secretary of the Kazakh Communist Party, became President of Kazakhstan with the formation of the newly independent state and held the position of head of state

since that time and until March 2019 when he announced his retirement as President. See “*The President*” for more information on President Nazarbayev’s announcement of his retirement as President, the appointment of Kassym-Jomart Tokayev as President until the next presidential election and the most recent presidential election, which Kassym-Jomart Tokayev won on 9 June 2019 with 70.96% of the vote.

## **Constitution, Government and Political Parties**

### ***Constitution***

Kazakhstan’s current constitution (the “**Constitution**”) was adopted in August 1995 by a general referendum and came in to force on 5 September 1995. The Constitution has since been amended in 2007, 2011 and 2017. The Constitution provides for a separation of powers between the executive, legislative and judicial functions. It establishes and sets out the powers and functions of the President, the Parliament, the Government, the Constitutional Council and local governments and administrations and establishes an independent judicial system.

The Constitution protects certain fundamental rights and personal freedoms of the citizens of Kazakhstan, including protection from discrimination based on ethnicity, social status, occupation, gender, race, nationality or beliefs. The Constitution also provides for the right to a private life, the right to own property and the right to defend oneself in a court of law. Foreign individuals and stateless persons benefit from the fundamental rights under the Constitution (although this is subject to statutory derogations).

Amendments to the Constitution can be proposed by the President, Parliament or the Government. Such proposals are then required to be submitted to a general referendum. More than 50% of Kazakhstan citizens who have a right to vote must participate in any general referendum regarding a proposed amendment to the Constitution in order for it to be valid. The proposed amendments are then adopted if more than 50% of Kazakhstan citizens, in not less than two-thirds of the country’s 14 regions (“**oblasts**”), major cities and Nur Sultan, vote in favour of the amendments. However, as an alternative to a referendum, the President may decide to submit a proposal for an amendment to the Constitution directly to Parliament, which can approve such an amendment with not less than 75% of the votes of each chamber. The President also has the power to refuse to submit a Parliamentary proposal for an amendment to the Constitution to a general referendum. Following such a refusal by the President, Parliament can, with not less than 80% of the votes of each chamber, adopt the law on amendments to the Constitution, after which the President must then sign this law or submit it for a general referendum.

The Constitution was amended in 2007 to allow the first President of Kazakhstan to be re-elected to the presidency for an unlimited number of terms. See “*The President*” below. The Constitution was most recently amended in March 2017.

### ***The President***

Under the Constitution, the President is the head of State and Kazakhstan’s highest ranking official. The President ensures the responsibility and accountability of Kazakhstan’s authorities to the citizens of Kazakhstan, is commander-in-chief of the armed forces and has the power to issue decrees and orders that are binding on the entire State. The President can initiate constitutional amendments and call referenda. The President also appoints administrative heads of oblasts and the heads of the capital, Nur Sultan, the city of Shymkent and the city of Almaty with consent from the local representative body (the “**maslikhat**”) of the relevant oblast, the capital, Nur Sultan, the city of Shymkent and the city of Almaty. The President has the power to dissolve Parliament as a whole or solely the lower chamber of the Parliament (the “**Majilis**”) following consultation with the chairpersons of both chambers of Parliament and the Prime Minister.

The President has other significant powers of appointment and dismissal, including the power to appoint and dismiss the Prime Minister (in consultation with and following the approval of the Majilis), members of the Government (in consultation with the Prime Minister) and the Governor of the NBK (following approval from the upper chamber of Parliament (the “**Senate**”)).

The Constitution provides that the President is elected to office by popular vote for a term of five years. A 2007 amendment to the Constitution allows the first President of Kazakhstan to be re-elected to the presidential office for an unlimited number of terms. In December 1991, Nursultan Nazarbayev, who had been the First Secretary of the Kazakh Communist Party, was elected as the first President of Kazakhstan. A referendum in April 1995

extended the term of his presidency until 2000, and he was re-elected in January 1999, December 2005, April 2011 and April 2015. In March 2019, President Nazarbayev announced his retirement as President (although he retains the title of First President, remains the leader of the ruling Nur Otan political party and continues to serve as the life-long chairperson of the Security Counsel). Kassym-Jomart Tokayev, who was at the time the Chairman of the Senate, was appointed as President until the next presidential election. The latest presidential election took place on 9 June 2019 and Kassym-Jomart Tokayev, who competed with six other candidates, won the election with 70.96% of the vote.

If the President is unable to perform his duties for a sustained period of time due to illness, Parliament must form a commission consisting of an equal number of members of Parliament from both chambers of Parliament and a number of medical experts. If the commission opines that the President is unable to perform his duties due to illness and the Constitutional Council opines that the established constitutional procedures have been complied with, the President can be removed if, at a meeting of both chambers of Parliament, at least 75% of each chamber of Parliament votes in favour of such removal. The President may also be dismissed from office if found guilty of high treason. An investigation into accusations of high treason may be conducted with the approval of a majority of the members of the Majilis at the initiative of at least 25% of its members. Following an investigation arranged for by the Senate, the President may, at a meeting of both chambers of Parliament, be dismissed by a final vote of at least 75% of each chamber of Parliament, provided that the Supreme Court confirms that the accusations are valid and the Constitutional Council confirms that the established constitutional procedures have been complied with. Should the resolution dismissing the President not be voted within two months from the charges of high treason being brought, the charges against the President shall be discharged. Upon discharge of such charges, the members of the Majilis who had initiated the investigation shall be dismissed from their office.

In the case of premature release or dismissal of the President from office (including in the case of death), the presidential powers and duties are assumed by the chairperson of the Senate for the remainder of the presidential term, and if the chairperson of the Senate is unable to assume the presidential powers and duties then they are assumed by the chairperson of the Majilis. If the chairperson of the Majilis is unable to assume the presidential powers they are passed on to the Prime Minister.

An early presidential election was held in Kazakhstan on 9 June 2019. On 19 March 2019, the President of Kazakhstan Nursultan Nazarbayev resigned from his post. The President's powers were transferred to Kassym-Jomart Tokayev, who was at the time the Chairman of the Senate and who became the President until the next presidential election, which was at the time scheduled to be held in April 2020. On 9 April 2019, Kassym-Jomart Tokayev announced that the early presidential election will take place on 9 June 2019. Tokayev said that he called for the early election because it was "absolutely necessary" to ensure "continuity, predictability and stability" at the time of political transition and "to remove any uncertainty". Before the announcement, on 8 April 2019, consultations were held with the participation of the Chairman of the Senate, Prime Minister, Chairman of the Constitutional Court and Deputy Chairman of the Majilis. On 9 June 2019, President Tokayev won the election receiving 70.96% of the votes.

Following the election, the President issued a decree On Measures to Reduce the Debt Burden of Citizens of the Republic of Kazakhstan on 26 June 2019. It is estimated that the consumer loan debt relief under this decree will benefit over 500,000 citizens whose loans meet certain criteria. The Government agreed to settle the unpaid balance of such loans (principal and interest) as of 1 June 2019 up to KZT 300,000 per borrower. The cost to the Government is expected to be approximately KZT 105 billion.

### ***Executive Branch***

The executive branch of Government is responsible for the development and implementation of social and economic policies of the State, its defence, security and ensuring public order; implementation of legislation and international treaties; preparation and implementation of the Republic Budget, as well as the conduct of the foreign policy of the Republic of Kazakhstan.

The Government is a collegial body, which exercises the executive power of the State, heads the countrywide system of various executive bodies and manages their activities.

The Government is formed by the President of the Republic in the manner prescribed by the Constitution of Kazakhstan. The Government consists of members of the Government - the Prime Minister of the Republic, his deputies, ministers and other officials.

The Government structure consists of 17 ministries, which include 48 committees. The latest numerous legislative amendments to the public administration system are aimed at creating a more effective management system and at facilitating the country's social and economic development. They are aimed at increasing the effectiveness of the executive branch, based on the principles of meritocracy, in accordance with which each civil servant, not only gets adequate remuneration, but also is personally responsible for his or her decisions.

### ***Legislative Branch***

The current parliamentary structure of Kazakhstan includes a bicameral Parliament, which consists of the Senate and the Majilis. The Senate consists of 47 deputies, 15 of whom are appointed by the President and the remainder of whom are appointed by the representative body of each oblast, the capital city, Nur Sultan, Almaty and Shymkent. The Majilis consists of 107 members: 98 members are elected from political parties in accordance with party lists for the united national election district, and nine members are elected by the Assembly of the People of Kazakhstan. The term of office for members is six years in the Senate and five years in the Majilis.

Senate elections were last held on 28 June 2017 and will be next held in 2020. Every three years, half of the seats in the Senate are up for re-election. The Majilis' most recent (extraordinary) elections took place on 20 March 2016, in which six political parties participated. The "Nur Otan" party (of which Nursultan Nazarbayev is the head) received 82.10% of the votes and the "Ak Zhol" Democratic party of Kazakhstan and the Communist People's Party of Kazakhstan received 7.18% and 7.14% of the vote, respectively. As at 30 June 2019, the Majilis was comprised of 84 members from the "Nur Otan" party, seven members from the "Ak Zhol" Democratic party and seven members from the Communist People's Party, and nine members elected by the Assembly of the People of Kazakhstan. The next Majilis election will take place in 2021.

The process of introducing new legislation is initiated by Government agencies, which prepare draft legislation in the form of bills. These bills are sent to the Department of Legislation in the Ministry of Justice, which drafts an overall legislative plan containing all bills that have been proposed. This legislative plan is then forwarded to the Office of the Prime Minister, for its review and to ensure that the bills adhere to certain requirements, including, that they have been drafted in accordance with the Constitution. The legislative plan is then sent to the Presidential administration, which comments on, and proposes amendments to, each draft bill. The bills are then returned to the relevant Government agencies. The Government then forwards the relevant bills to Parliament, where following approval by the Majilis, they are sent to the Senate. The Senate can then either approve the bills, or suggest amendments and submit the amended bills back to the Majilis for its consideration. Once both chambers of Parliament have approved the bills, they are sent to the President to be signed, after which they become law.

### ***Judicial Branch***

Judicial authority is vested in the Supreme Court, local courts and other courts created by legislation. The Supreme Court is the highest judicial body of last resort for all civil, criminal and other matters tried in local and other courts. The chairperson and the judges of the Supreme Court are elected by the Senate from candidates nominated by the President based on recommendations of the Supreme Judicial Council. The President approves the number of judges on the Supreme Court based on the recommendation of the chairperson of the Supreme Court. The chairperson of the Supreme Court is elected for a term of five years. The Supreme Judicial Council is comprised of the chairperson of the Supreme Judicial Council, the Secretary and other members appointed by the President. Chairpersons and judges of all local and other courts, other than the Supreme Court are appointed by the President on a permanent basis upon the recommendation of the Supreme Judicial Council and may be removed if a panel of 11 judges (consisting of judges from district and regional courts and the Supreme Court) determines that the judge is professionally incompetent, commits a disciplinary offence or fails to meet certain prescribed standards.

### ***The Constitutional Council***

The seven-member Constitutional Council is vested with responsibility for providing official interpretations of the provisions of the Constitution, ensuring the constitutionality of legislation and international treaties and resolving disputes over presidential and parliamentary elections and public referenda. Each of the Senate and the Majilis appoints two members of the Constitutional Council and the President appoints three members, including the Council's Chairman.

## **Local Government**

The structure of local government was established in December 1993 and is comprised of maslikhats for each of the country's 14 oblasts and the cities which have the status of 'cities of republican status' (Nur Sultan, Almaty and, since 19 June 2018, Shymkent). Approximately 163 rural districts and a further 87 cities together make up the second tier of territorial administration. The maslikhats are responsible for, among other things, approval of economic and social development plans and the local budget and are also required to report on the execution of such budget. See *"Public Finance—State Budgetary Process"*.

The heads of local government ("**Akims**") are appointed as follows: (i) Akims of Nur Sultan, Almaty, Shymkent and oblasts are appointed by the President following approval by the maslikhats of Nur Sultan, Almaty, Shymkent or the oblast, respectively; (ii) Akims of districts and important cities within oblasts are appointed by the Akim of that oblast following approval by the maslikhat of that district or city; (iii) Akims of districts within cities, other than Nur Sultan, Almaty and Shymkent, are appointed by the Akim of that city following approval by the maslikhat of that city; (iv) Akims of districts within Nur Sultan, Almaty and Shymkent are appointed by the Akims of Nur Sultan, Almaty and Shymkent following approval by the maslikhats of Nur Sultan, Almaty and Shymkent, respectively; and (v) Akims of towns, rural districts and villages are elected by the deputies of the relevant maslikhats by secret ballot.

## **Political Parties**

The principle of political plurality is enshrined in the Constitution. There are seven registered political parties, the main ones being the "Nur Otan" party, the "Ak Zhol" Democratic party of Kazakhstan, the Communist People's party of Kazakhstan, the National Social Democratic party and the Democratic party of Kazakhstan "Azat". The First President Nursultan Nazarbayev is the head of the "Nur Otan" party.

In order to formally establish a political party, a party must consist of at least 1,000 citizens representing at least two-thirds of the oblasts, and the cities of Almaty, Nur Sultan and Shymkent. A political party must obtain at least 7% of the total number of votes in a general election to hold one of the 98 elected seats in the Majilis. Elected seats in the Majilis are allocated on the basis of proportional representation. If only one party receives at least 7% of the total number of votes, the party that receives the second highest number of votes will automatically be allocated at least two seats in the Majilis.

Seven political parties participated in the last elections to the Majilis. Three parties received at least 7% of the total number of votes and are represented in the Majilis. These are the "Nur Otan" party (82.10% of votes), the "Ak Zhol" Democratic party of Kazakhstan (7.18% of votes) and the Communist People's party of Kazakhstan (7.14% of votes). Currently, the Majilis consists of 84 members from the "Nur Otan" party, seven members from the "Ak Zhol" Democratic party and seven members from the Communist People's party of Kazakhstan. Nine members are elected by the Assembly of the People of Kazakhstan.

## **International Relations**

Kazakhstan has established diplomatic relations with over 186 countries and is a member of 73 international organisations. Kazakhstan is a full member of the United Nations ("**UN**"), the International Monetary Fund ("**IMF**"), the World Bank (including the International Bank for Reconstruction and Development, the International Development Association and the International Finance Corporation), the OSCE, the United Nations Educational, Scientific and Cultural Organisation (UNESCO), the International Atomic Energy Agency, the European Bank for Reconstruction and Development (the "**EBRD**"), the Asian Development Bank (the "**ADB**"), the Multilateral Investment Guarantee Agency, the International Organisation of Securities Commissions, Japan International Cooperation Agency and the Islamic Development Bank (the "**IDB**"). Kazakhstan was elected a member of the UN Human Rights Council for the first time in November 2012.

Kazakhstan maintains peaceful relations with countries of the global community and has no outstanding disputes relating to state borders. On 8 February 2019, Kazakhstan ratified the Convention on the Legal Status of the Caspian Sea, which was signed on 12 August 2018 by the leaders of Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan. Under this convention, the waters of the Caspian Sea are divided into three zones: territorial waters, fishery zones and the "common maritime space". The territorial waters extend from the coastline up to 15 nautical miles. They are subject to the sovereignty of the coastal state. The signatories' respective fishery zones extend to a belt of a further 10 nautical miles adjacent to the territorial waters, in which each signatory state has exclusive rights over the aquatic biological resources. The waters located beyond the signatories'

respective fishery zones (*i.e.*, beyond a maximum of 25 nautical miles from the coasts) are part of the “common maritime space”. It is open for use by all signatory states. Thus far, Azerbaijan, Kazakhstan and Turkmenistan ratified this convention. Russia and Iran are expected to ratify it by the end of 2019. The convention will enter into force once all signatories have ratified it.

### ***International Organisations***

#### *World Trade Organisation*

On 30 November 2015, Kazakhstan became a full member of the World Trade Organisation (the “**WTO**”), having initially applied for WTO membership in 1996. In the process of acceding to the WTO, Kazakhstan made various commitments, including in relation to access to the commodity market, access to the services market, technical regulation, sanitary and phytosanitary measures, agriculture, investment policy and intellectual property rights.

Due, in part, to the benefits of Kazakhstan’s membership in the WTO, imports have been increasing in recent periods. For instance, imports of the Republic of Kazakhstan in the six months ended 30 June 2019 from non-CIS countries based on actual trade flows increased by 19.5% (from U.S.\$8.2 billion to U.S.\$9.7 billion) as compared to the same period in 2018.

The Republic of Kazakhstan participated in the 10th WTO Ministerial Conference held in December 2015 in Nairobi. Kazakhstan urged WTO members to follow its example and abolish subsidies for the export of agricultural products. A number of key WTO members supported this initiative and actively expressed their support for the ban. The WTO passed a Ministerial Decision on 19 December 2015, pursuant to which developed members of the WTO undertook to eliminate export subsidy entitlements immediately, and developing country members of the WTO agreed to do so by the end of 2023. Certain exceptions apply.

In October 2018, WTO members agreed to hold the next Ministerial Conference of the WTO in Nur Sultan in June 2020.

#### *Commonwealth of Independent States*

Kazakhstan is one of the founding members of the Commonwealth of Independent States (the “**CIS**”), which was established in December 1991 to promote the resolution of key issues for the development of its members, including economic, security, political and human cooperation issues, as well as migration and development of contacts between citizens of the member states. Currently, the CIS consists of 11 states, including nine full member states. An agreement of the CIS free trade zone was signed in October 2011. A series of programme documents aimed at trade and economic cooperation is currently being implemented. Development of cooperation in other fields including security, culture, education, sport and so on is in progress.

#### *Collective Security Treaty Organisation*

Kazakhstan is a member of the Collective Security Treaty Organisation (the “**CSTO**”) established in 2002 on the basis of the CIS Member States Collective Security Treaty dated 15 May 1992. The charter goals of the CSTO are strengthening of peace, international and regional security and stability, prevention of security threats and collective protection of independence, territorial integrity and sovereignty of CSTO member states, with a priority of achieving these goals through political means.

#### *Eurasian Economic Union*

In 1994, President Nazarbayev proposed the establishment of a Eurasian economic union. On 10 October 2000, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan signed the Agreement on the Establishment of the Eurasian Economic Union, an international economic organisation established for the purpose of deepening economic and human integration among the member states, with the goal of establishing a customs union and a free trade area.

On 1 January 2015, the EEU came into effect. The EEU gives significant opportunities for further economic development by providing Kazakhstan with access to 184.0 million people (as at 31 December 2018) across the member states with a combined economy of more than U.S.\$1.9 trillion (in 2018). The objective of the EEU is to form a legal framework for a united economic zone, establish a common energy market and provide for the

free movement of people within the EEU. The main drivers behind Kazakhstan's membership in the EEU are that it is a landlocked country and thus the maintenance of good relations with its neighbours is imperative, its internal market's ability to invest in the manufacturing sector is limited and a stable local export zone mitigates against global economic downturns.

As part of the process leading to the establishment of the EEU, the Customs Union of Belarus, Kazakhstan and Russia (the “**Customs Union**”) was established and came into effect on 1 January 2010. On 1 January 2012, the Common Economic Space (the “**CES**”) between Belarus, Kazakhstan and Russia and a new supranational body, the Eurasian Economic Commission (“**EEC**”), which replaced the commission of the Customs Union, was established. The Customs Union provides for tariff-free trade among the member countries and a uniform customs tariff applicable to trade by member states with other countries. The goal of the EEC is to establish and maintain conditions in which the Customs Union and CES can function and to develop proposals for further economic integration between the member countries. In connection with the establishment of the CES, in November 2011 and December 2012, the three member countries entered into a number of agreements which provide for the free movement of goods, services, capital and labour among the member countries and set out common principles in respect of competition, industry subsidies and currency policy. On 29 May 2014, the presidents of Kazakhstan, Belarus and Russia signed a Eurasian Economic Union Agreement (the “**Eurasian Economic Union Agreement**”). The EEU came into effect on 1 January 2015. Most of the existing CES agreements are codified in the Eurasian Economic Union Agreement. The EEU represents a form of deep and comprehensive cooperation among the member states with deadlines for integration in various areas and expansion of the areas of responsibility of its supra-national bodies. Following the establishment of the EEU, Armenia and Kyrgyzstan have acceded to the EEU and Moldova was granted observer status to the EEU. The EEU and Vietnam have entered into a free trade agreement, which came into force on 5 October 2016. In 2018, the EEU concluded an interim agreement leading to the formation of a free trade area with Iran, as well as a non-preferential agreement on economic and trade cooperation with China. As at the date of this Base Prospectus, there are ongoing discussions with Singapore, Egypt, Israel, India and Serbia with respect to entry into free trade agreements. See “*Balance of Payments and Foreign Trade - Foreign Trade Regime*”.

#### *European Union*

The European Union (the “**EU**”) is the main trade and investment partner of Kazakhstan as 33.9% of Kazakhstan's external trade turnover in the six months ended 30 June 2019 and 45% of foreign capital invested into Kazakhstan's economy in the three months ended 31 March 2019 originated from the EU. The New Strategy of the EU on Central Asia approved on 17 June 2019 establishes the basis for cooperation of the EU with Central Asian countries for the next 10-15 years.

In January 1995, Kazakhstan signed a Partnership and Co-operation Agreement with the EU, which came into force on 1 July 1999. Due to Kazakhstan's progression from the status of an assistance recipient to a partner country of the EU, on 21 December 2015, the EU and Kazakhstan signed a new, Enhanced Partnership and Cooperation Agreement (the “**Enhanced Partnership and Cooperation Agreement**”), which entered into provisional application on 1 May 2016. The Enhanced Partnership and Cooperation Agreement covers 29 areas of cooperation, including the issues of international and regional security, trade, investment, and infrastructure development, as well as innovation, culture, sport and tourism. Kazakhstan became the first country in Central Asia to sign a second generation agreement that is supposed to stimulate the cooperation between the EU and Kazakhstan and forms the legal basis for the whole spectrum of Kazakhstan-EU relations. Second generation agreements have a broader scope and increased level of regulatory and other cooperation at state level than standard “first generation” bilateral trade agreements. The Partnership and Cooperation Agreement was drafted in a way to take into account Kazakhstan's obligations within the WTO and the EEU. It also envisages the possibility of liberalising the visa regime with the EU for Kazakhstan citizens.

#### *North Atlantic Treaty Organisation (“NATO”)*

Kazakhstan, while not a member of NATO, is an active participant in the NATO Partnership for Peace programme, which it joined in 1994. Kazakhstan has participated in various peacekeeping exercises in cooperation with NATO. In 2006, 2007, 2009 and 2013 Kazakhstan, in cooperation with NATO countries, participated in the “Steppe Eagle” counterterrorism exercise. Kazakhstan also participates in the Partnership Action Plan Against Terrorism, which involves the exchange of intelligence and analytical developments with NATO, improving national capacity for counter-terrorism activities, and strengthening border security. In May 2010, scientists and engineers from Kazakhstan and other CIS countries took part in a NATO science

programme designed to teach participants skills to protect IT networks. In 2010, Kazakhstan signed an agreement with NATO regarding the railway transportation of non-lethal cargo to Afghanistan.

### *OSCE*

Kazakhstan has been a member of the Organisation for Security and Cooperation in Europe since 1992. In 2010, Kazakhstan assumed the chairmanship of the OSCE, which demonstrates the recognition of the country's increasing role in the region and within the OSCE. Kazakhstan is the first post-Soviet Union state to have chaired the OSCE. In December 2010, the OSCE Summit was held in Astana. At the summit, the Astana Declaration was adopted, in which participants reaffirmed their commitment to the principles and values of the OSCE.

### *Organisation of Islamic Cooperation*

In December 1995, Kazakhstan became a member of the Organisation of Islamic Cooperation (formerly known as the Organisation for the Islamic Conference) (the “**OIC**”), which is the second largest inter-governmental organisation after the United Nations and which has membership of 57 states spread over four continents. Since joining the OIC, Kazakhstan has taken an active part in most significant events of the OIC including summits, conferences of foreign ministers and annual coordination meetings of foreign ministers as part of the UN General Assembly.

In June 2011, Astana hosted the 38th session of the Council of Foreign Ministers of the OIC, where Kazakhstan was elected chairman of the Council. Kazakhstan was selected as the Vice Chairman of the Standing Committee for Economic and Commercial Cooperation of the OIC for 2011-2013. Kazakhstan participates in the Conference of the Parliament Union of the OIC. At the 38th session of the Council of Foreign Ministers of the OIC, Kazakhstan's President proposed the establishment of a system of food cooperation within the OIC. On 19 February 2018, the Islamic Organization for Food Security with its headquarters in Astana (now Nur Sultan), was officially launched. On 10-11 September 2017, in Astana, the first OIC Summit for Science and Technologies was held and presided over by the President of Kazakhstan, where the Astana Declaration and the OIC Programme for the Development of Science, Technologies and Innovation until 2026 were adopted. At the 45th Session of the OIC Ministers of Foreign Affairs, held on 2-6 May 2018 in Bangladesh, a Kazakhstani diplomat, Askar Musinov, was elected Vice-General Secretary of the OIC for Science and Technology.

Kazakhstan places importance on cooperation with the economic bodies of the OIC including the IDB, one of the largest development institutions. One of the four regional offices of the IDB is located in Almaty.

### *Other Regional Organisations*

In 1992, at the initiative of Kazakhstan's President, the Conference on Interaction and Confidence-Building Measures in Asia (the “**CICA**”) was established with its secretariat located in Kazakhstan. The CICA currently comprises 27 member states and aims to enhance cooperation by multilateral approaches towards peace, security and stability in Asia.

In 1993, an Agreement on the Establishment of an Economic Union was signed by the CIS countries, and the Interstate Bank was established by the CIS member governments and central banks. The main goals of the Interstate Bank include facilitating multilateral settlements among CIS national central banks and providing financing for interstate projects.

In July 1994, Kazakhstan, Kyrgyzstan and Uzbekistan signed an agreement to establish the Central Asian Bank.

In June 2001, Russia, China, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan signed a declaration on the creation of the Shanghai Co-operation Organisation (the “**SCO**”). Since the establishment of its predecessor group the “Shanghai Five” in 1996, Kazakhstan has taken an active part in the SCO's activities. Kazakhstan considers the SCO to be one of the key means of ensuring security and stability and expanding of trade-and-economic and cultural-and-human cooperation among the SCO countries. See “—*Foreign States—China*”.

In June 2017, Astana hosted a meeting of the heads of SCO member states, at which a decision to approve India's and Pakistan's accession to the SCO was adopted. The Interbank Association and the Business Council have been established within the SCO framework to facilitate efficient interbank and business cooperation within the SCO and to facilitate the achievement of economic goals.



In January 2006, Kazakhstan and Russia established the Eurasian Development Bank, a regional development bank focussed on promoting economic development and facilitating integration in Eurasia. The bank currently has six member states, including Armenia, Belarus, Kyrgyzstan and Tajikistan.

In November 2012, Astana was selected as the host city of the International EXPO-2017 (“**EXPO-2017**”), which was the first EXPO to be hosted in the CIS region. The key theme was “Energy of the Future”, focusing on alternative sources of energy. See “*The Economy of Kazakhstan—Foreign Direct Investment*”.

## ***Foreign States***

### *Russia*

Kazakhstan has maintained significant political and economic relations with Russia since the dissolution of the Soviet Union. After the dissolution of the Soviet Union, Kazakhstan concluded a so-called zero option agreement with Russia, which provided for Russia’s acceptance of responsibility for virtually all external debt liabilities of the former Soviet Union, in return for Kazakhstan waiving all claims on former Soviet Union assets located outside the territory of Kazakhstan.

Space exploration began for the first time in 1957 when the first satellite was launched by the former Soviet Union from the Baikonur Space Centre located in Kazakhstan from which, in 1961, the first man was launched into space. In 1994, Kazakhstan concluded a series of agreements with Russia (the “**Baikonur Agreements**”) on the future use of the Baikonur Space Centre. Under the Baikonur Agreements, the Government leased the facilities to Russia for 20 years in return for the payment of annual rent of U.S.\$115 million. An agreement to extend the lease until 2050 was signed between Russia and Kazakhstan in January 2004 and was ratified in April 2010. Russia currently leases approximately 6,000 square kilometres of territory enclosing the Baikonur Space Centre.

In May 1997, Kazakhstan and Russia (together with other parties) signed documents conforming their legal status as the shareholders of the Caspian Pipeline Consortium (the “**CPC**”) in relation to a pipeline (the “**CPC Pipeline**”) linking the Tengiz oil field in the western part of Kazakhstan with the Black Sea port of Novorossiysk in Russia. See “*The Economy of Kazakhstan—Principal Sectors of the Economy—Transportation—Pipelines*”.

Russia is one of Kazakhstan’s largest trading partners and, together with Belarus, is a member of the Customs Union and the EEU with Kazakhstan. See “*—International Organisations—Eurasian Economic Union*”. In 2018, based on actual trade flows, Kazakhstan’s imports from Russia accounted for 39.3% of Kazakhstan’s total imports, as compared to 39.6% in 2017, and Kazakhstan’s exports to Russia accounted for 8.6% of Kazakhstan’s total exports, as compared to 9.6% in 2017. In the six months ended 30 June 2019, based on actual trade flows, Kazakhstan’s imports from Russia accounted for 36.6% of Kazakhstan’s total imports and Kazakhstan’s exports to Russia accounted for 9.1% of Kazakhstan’s total exports. Based on actual trade flows, Kazakhstan’s trade turnover with Russia increased in 2018 by 13.1% (in respect of both imports and exports) as compared to 2017, but decreased by 2.0% in the six months ended 30 June 2019 as compared to the six months ended 30 June 2018. If the current sanctions against Russia are continued or even tightened, this could have a negative impact on both imports from, and exports to, Russia. See “*Risk Factors—Risks Relating to Kazakhstan —Sanctions imposed on Russia could have an indirect adverse impact on Kazakhstan’s economy*”, and “*Balance of Payments and Foreign Trade—Foreign Trade—Direction of Trade*”.

Kazakhstan is not a party to the current conflict in Ukraine or the dispute over the alleged role of Russia in events in Eastern Ukraine and Crimea. The conflict has had no material impact on Kazakhstan’s relations with Russia or Ukraine. Kazakhstan has been taking an active role in trying to help achieve a peaceful resolution of the conflict. This has included the participation at the meeting between, among others, the presidents of Belarus, Kazakhstan, Russia and Ukraine held in Minsk on 26 August 2014 at which President Nazarbayev called for all parties involved to refrain from using force and instead address the challenges through diplomatic channels. Several citizens of Kazakhstan have been put on trial for joining Russia-backed separatists in the conflict.

## China

Political relations with China, Kazakhstan's other significant neighbour, have been developing steadily since Kazakhstan's independence. Kazakhstan first established diplomatic relations with China in 1992. In 1994, the Chinese Premier, Li Peng, signed an accord in Almaty defining the China-Kazakhstan border, over which China had a 30-year dispute with the Soviet Union. This position was reaffirmed in the signing of a further accord on the China-Kazakhstan border in mid-1996. Further agreements defining the border were entered into in 1997, 1998 and 1999. In 2001, Kazakhstan and China signed an agreement on cooperation on cross boundary river use and protection. China has also made public its intention to cease testing nuclear weapons at the Lop Nur test site, which is located near the Kazakhstan border in the Xinjiang province and has been a source of dispute between the two countries. The last official nuclear test of China was conducted in Lop Nur in 1996. China subsequently announced a moratorium on nuclear testing and, in 2012, published plans to clean up the test site. Kazakhstan and China continue to cooperate, including within such international and regional frameworks as the UN and the SCO.

China entered the Kazakhstan energy market after signing an Intergovernmental Agreement on Cooperation in the Field of Oil and Gas in September 1997. At that time, a general agreement between the Ministry for Energy and Mineral Resources of Kazakhstan and China's National Petroleum Corporation (the "CNPC") was also signed, under which the development of oil projects in Kazakhstan and the construction of an oil pipeline from Kazakhstan to China was agreed. The agreement has also allowed for the implementation of a number of additional joint projects beneficial to the two countries. In July 2013, ConocoPhillips sold its 8.4% stake in Kazakhstan's Kashagan oil field to the CNPC. This has become the first equity holding by a Chinese company in a major offshore Caspian energy field.

The two countries also cooperate in the security and military fields. In August 2006, the National Security Committee of Kazakhstan and the Public Security Ministry of China carried out an anti-terrorist exercise at the border area. Law enforcement agencies of the two countries continue to work together combating drug trafficking, weapon and explosive materials smuggling and organised trans-national crimes.

Economic relations between Kazakhstan and China continue to develop. According to the NBK's statistics, gross inflow of Chinese direct investment into Kazakhstan since 2005 amounted to U.S.\$17.1 billion, of which U.S.\$1.5 billion was invested in 2018.

During 2014, Kazakhstan and China signed a number of memorandums of understanding, cooperation and mutual development, including between the NBK and the China Banking Regulatory Commission, and between the Development Bank of Kazakhstan and the State Development Bank of China. In addition, the KASE has opened currency tenders for Kazakhstan Tenge and Chinese Yuan. In December 2014, the NBK and the People's Bank of China signed an agreement on mutual settlements in national currencies and an agreement on a currency swap between Kazakhstan Tenge and Chinese Yuan.

Cooperation between Kazakhstan and China in the energy sector and other sectors of the economy has developed within the framework of the SCO. Initially, the main purpose of the SCO was to find a civilised solution to the border disputes that arose following the collapse of the Soviet Union, as well as to security issues. However, in recent years the scope of the SCO has been extended beyond that of political and security issues, to include combating extremism, terrorism and separatism. It is also intended to strengthen economic cooperation in the energy, transport, industrial and agricultural sectors, including cooperation in cross-border areas. The Energy Club was established within the SCO to provide resolutions to energy issues between member countries, through facilitating energy dialogues and the signing of bilateral agreements.

In December 2005, China and Kazakhstan completed the 965.1 km Atasu-Alashankou pipeline, which forms part of the Kazakhstan-China Oil Pipeline. As at 31 December 2018, the capacity of the Atasu-Alashankou pipeline was 20 million tonnes per year. In October 2009, China and Kazakhstan completed the 794.1 km Kenkiyak-Kumkol pipeline, which was the first stage of the operation of the Kazakhstan-China Gas Pipeline, which consists of two stages: a gas pipeline from the other Central Asian republics to southern Kazakhstan and to China and the Beineu-Bozoi-Shymkent Gas Pipeline. See *"The Economy of Kazakhstan—Principal Sectors of the Economy—Transportation—Pipelines"*.

In June 2011, China and Kazakhstan issued a joint declaration on the development of a comprehensive strategic partnership. Chinese President Xi Jinping made an official visit to Kazakhstan on 6-8 September 2013, during which China and Kazakhstan signed 23 bilateral documents, including, among others, a Joint Declaration of

Further Deepening of the Comprehensive Strategic Partnership, six inter-governmental documents and 16 commercial documents representing a total value of over U.S.\$35 billion.

On 27 March 2015, during an official visit to China, the Prime Minister and his Chinese counterpart, Li Keqiang, oversaw the signing of 39 commercial agreements worth U.S.\$23.6 billion in total. The agreements cover operations in relation to steel, uranium, non-ferrous metals, sheet glass, oil refining, hydropower and automobile production.

In May 2015, Chinese President Xi Jinping and President Nazarbayev agreed to collaborate to align the China-proposed Silk Road Economic Belt initiative with Kazakhstan's new Bright Road economic policy, so as to achieve common development and prosperity on the basis of equality and reciprocity. Kazakhstan will work with China to link the Bright Road strategy to the building of the Silk Road Economic Belt and will cooperate with the Chinese side on trade, industrial capacity, energy and technology. In connection with the Silk Road Economic Belt initiative, significant investment in transportation infrastructure has been made, in particular in railways. The railway linking China with Western Europe runs through Kazakhstan. It allows for a transport time between China and Western Europe of approximately 15 days, compared to approximately 45 days by sea. During the President Nazarbayev's visit to China in May 2015, the development banks of both countries signed a general agreement on the provision of a credit line for U.S.\$500 million, as well as a memorandum on financing and modernisation of the Shymkent oil refinery. In addition, JSC National Management Holding "Baiterek" ("**Baiterek**") and the Chinese Fund of Economic Cooperation signed a memorandum envisaging the creation of a Kazakhstan-China investment fund with a capitalisation of U.S.\$500 million.

China remains one of the largest external trade partners of Kazakhstan, with a 12.3% share in the total external trade turnover in 2018. In that year, the trade volume totalled U.S.\$11.7 billion. In the first six months of 2019, the external trade turnover totalled U.S.\$6.8 billion.

On 17 May 2018, an agreement on trade and economic cooperation between the EEU and China was signed. The agreement aims to create conditions for improving mutual trade between the member states of EEU and China, but does not provide for the abolition of duties or the automatic reduction of non-tariff barriers. The agreement will enter into force after completion of the ratification procedures by the parties.

#### *United States*

Following the dissolution of the Soviet Union, the U.S. was one of the first countries to recognise Kazakhstan's independence. The U.S. opened its Embassy in Almaty in September 1992 and then relocated to Astana in 2006 and opened a Consulate General in Almaty in 2009. In the years since Kazakhstan's independence, the two countries have developed a strong and wide-ranging bilateral relationship. U.S.-Kazakhstan cooperation in security and nuclear non-proliferation is a cornerstone of the relationship, as evidenced by Kazakhstan's participation in the Nuclear Security Summit in Washington, D.C. in 2010 and by negotiations between President Nazarbayev and President Obama during the Nuclear Security Summit in Seoul in 2012, the G20 Summit in Saint-Petersburg in 2013 and the Nuclear Security Summit in The Hague in 2014. In connection with Kazakhstan renouncing its nuclear weapons programme in 1993 and closing its Semipalatinsk Test Site, the U.S. assisted Kazakhstan in the removal of nuclear warheads, weapons-grade materials and their supporting infrastructure.

During the visit of President Nazarbayev to the U.S. in 1997, two commercial agreements relating to the exploitation of the Karachaganak and Caspian Sea oil and gas fields were signed, in addition to a number of other significant documents. The two agreements provide for substantial capital investments from an international consortium of oil and gas companies. In 2006, during the visit of President Nazarbayev to Washington, D.C., a Joint Statement was adopted, which defined further prospects for Kazakhstan-American relations, including strengthening the strategic partnership through the intensification of strategic dialogues on energy, military cooperation, trade, investment and democratisation. During the visit of President Nazarbayev to the U.S. in January 2018, the leaders of the two countries decided to establish an enhanced strategic partnership between the two countries that envisages cooperation in the areas of international and regional security, defence, trade, economic and investment cooperation and human capital.

Trade with the U.S. is mainly driven by imports from the U.S. which were U.S.\$1,268.2 million in 2018 and U.S.\$703.6 million in the first six months of 2019. Exports to the U.S. amounted to U.S.\$955.2 in 2018 and U.S.\$439.1 in the first six months of 2019.

According to the NBK, the gross inflow of foreign direct investment in 2018 from the U.S. into Kazakhstan's economy amounted to U.S.\$5.3 billion, which shows 44.7% increase compared to 2017 (U.S.\$3.7 billion). The gross inflow of foreign direct investment from the U.S. into Kazakhstan's economy since 2005 amounted to U.S.\$36.3 billion.

The U.S. Agency for International Development ("USAID") has been active in Kazakhstan in a wide range of programmes supporting development and reforms. These include agricultural, environmental, economic and democratisation programmes. Most notably, the U.S. has supported programmes for banking reform, pension reform, accounting reform and securities market development. In addition, USAID supports some private sector investment through the support of institutions such as the Central Asian-American Enterprise Fund, which makes loans to, and equity investments in, Kazakhstani businesses and other institutions that offer incentives to foreign investors in specific areas such as agriculture.

### *Iran*

Kazakhstan and Iran share an undisputed maritime boundary in the Caspian Sea and have a long-established relationship that began during the Silk Road period. The respective countries' leaders have been meeting regularly to discuss development of bilateral ties. In April 2016, President Nazarbayev paid an official visit to Iran. During the visit, more than 60 bilateral documents were signed, among which 51 were commercial agreements for the total amount of U.S.\$1.1 billion, with a particular focus on cooperation in industrial production, petrochemicals, the mining industry, agriculture, transportation and logistics, science and nanotechnologies, the space industry, tourism and the pharmaceutical industry. In December 2016, Iran's President Hassan Rouhani visited Kazakhstan to further discuss bilateral cooperation.

Kazakhstan, as a former nuclear power, has participated in the negotiation process with respect to Iran's nuclear programme. In particular, it arranged two rounds of negotiations in February and April 2013 between Iran and a group of international negotiators.

Business and economic relations between Kazakhstan and Iran grew steadily in anticipation of the resolution of the Iranian nuclear issue and lifting of sanctions against Iran between 2016 and 2017. The volume of trade between the countries in 2018 amounted to U.S.\$519.1 million (with exports of U.S.\$429.4 million and imports of U.S.\$89.7 million).

Kazakhstan's main exports to Iran are barley, amounting to U.S.\$272.4 million in 2018 as compared to U.S.\$127.2 million in 2017 and flat products from cold-rolled iron or non-alloyed cold-rolled steel, amounting to U.S.\$45.9 million in 2018 as compared to U.S.\$145.2 million in 2017. Kazakhstan's main imports from Iran are dates, figs and pineapples, amounting to U.S.\$12.9 million in 2018 as compared to U.S.\$7.7 million in 2017, various types of cement, amounting to U.S.\$11.2 million in 2018 as compared to U.S.\$8.9 million in 2017 and various types of nuts amounting to U.S.\$10.8 million in 2018 as compared to U.S.\$12.6 million in 2017.

The withdrawal by the U.S. from the Joint Comprehensive Plan of Action, is likely to have a negative impact on Kazakhstan's relations with Iran. As at the date of this Base Prospectus, the previously concluded Kazakhstan-Iran arrangements are being revised with a view to protecting Kazakhstani companies from the impact of U.S. secondary sanctions.

On 17 May 2018, the EEU-Iran Interim Agreement was signed leading to the formation of a free trade zone between the EEU and Iran. The interim agreement is aimed at establishing a preferential trade regime between the EEU member states and Iran. The agreement will enter into force on 27 October 2019.

## **Legal System**

### *Civil Code*

Kazakhstan has a civil law legal system. The central legal act is the Civil Code of the Republic of Kazakhstan, which consists of a general part and a special part. The general part was adopted on 27 December 1994, and became effective on 1 March 1995. The special part entered into force on 1 July 1999. The general part of the Civil Code regulates such issues as the legal status of private and legal entities, transactions, general provisions of obligations, ownership rights and general provisions of contracts. The special part of the Civil Code regulates specific types of obligations (such as sale and purchase, leases and the provision of services), intellectual property rights, inheritance rights and international private law. Although certain aspects of general commercial

law are contained in the Civil Code, there are also separate legal acts relating to specific forms of legal entities. The most commonly used forms of legal entities are joint-stock companies, which are established under the Law “On Joint Stock Companies”, adopted on 13 May 2003 and partnerships, which are established under the Law “On Partnerships with Limited and Additional Liability”, adopted on 22 April 1998. Incorporated legal entities are required to register with the Ministry of Justice. Certain restrictions are placed on foreign persons having shareholdings in companies in Kazakhstan that engage in certain types of activities, including telecommunications, mass media and aviation.

#### *Entrepreneurship Code and Investment Regime*

The current investment regime is principally governed by the Entrepreneurship Code of the Republic of Kazakhstan, dated 29 October 2015 (the “**Entrepreneurship Code**”). The Entrepreneurship Code sets out the rights of market participants and consumers and protects against anti-monopoly activity, anti-competitive actions of state authorities and unfair competition. The aim of the Entrepreneurship Code is to protect competition, create conditions for the efficient functioning of commodity markets and ensure unity of economic space and the free movement of goods and free economic activity in Kazakhstan. Among other things, the Entrepreneurship Code provides that certain transactions that increase market concentration are subject to prior approval by the MNE. Market participants are also restricted from entering into anti-competitive agreements or undertaking any action that leads to the restraint of competition.

Domestic and foreign investors generally fall under the same investment regime, with certain exceptions. In addition, Kazakhstan is a party to bilateral investment protection treaties, which, as at the date of this Base Prospectus, were entered into and are currently in force with 43 nations, under which protections are available to investors from the relevant nation that is a party to the treaty. Kazakhstan is also a party to the 1997 Moscow Convention for the Protection of the Investor’s Rights, under which protections are available to foreign investors irrespective of their nationality. The guarantees provided for by the above instruments include (depending on the instrument) guarantees of fair and equitable treatment, of full protection of security, of certainty of contracts with the Kazakhstan State and Kazakhstan’s obligation to pay compensation to the investor in the event of (direct or indirect) expropriation of the investment. The Entrepreneurship Code and the bilateral investment protection treaties include rights for an investor to submit a dispute arising out of, or in connection with, its investment to international arbitration (as an alternative to submitting the dispute to the local courts).

#### *Subsoil Code*

With effect from 29 June 2018, a new Subsoil and Subsoil Use Code (the “**Subsoil Code**”) replaced the Law “On Subsoil and Subsoil Use” from 2010. The Subsoil Code’s main aims include the attraction of investment into the mining sector and expansion of exploration activities. The Subsoil Code has for the first time introduced the rule under which licences for exploration of solid subsoil resources can be granted to the first applicant (provided no one else has applied for the same deposit), while retaining the pre-existing procedure under which licences are granted on the basis of a tender. The Subsoil Code has also significantly simplified the licence application process. Taken together with the changes in tax laws (including beneficial tax treatment of exploration activities and the decrease in the administrative and tax burdens on taxpayers), the introduction of the new Subsoil Code is expected to foster foreign and local direct investments in the subsoil sector. In addition to the Subsoil Code, subsoil use is also regulated by certain other civil, environmental, corporate, currency and property legislation. Government decrees and other secondary legislation are used to regulate subsoil use. Under the Subsoil Code, subsoil contracts and licences may be granted to local or foreign legal entities or individuals. Transfers of subsoil use rights are only permitted after consent of the competent authority has been obtained. The transfer of a subsoil use right (a share in the subsoil use right) is prohibited (i) under a licence for the exploration of solid minerals in the first year of its operation; (ii) under a licence for geological study of subsurface resources; and (iii) under the licence for gold mining. Subsoil users are also required to use equipment, materials and finished products that are manufactured in Kazakhstan, and to use and train local staff when conducting subsoil use operations.

#### *Other Legislation*

The registration of land and title to land is set out in the Land Code of the Republic of Kazakhstan adopted on 20 June 2003 (the “**Land Code**”). Under the Land Code, private companies are permitted to own property that will be used for agriculture, forestry or construction, industrial and residential purposes, and land that must be used for a particular purpose, as designated by the relevant State authority. Foreign persons are permitted to own only property designated for construction purposes, or industrial and residential property, including

property that requires development. Foreign persons are not permitted to own land located around Kazakhstan's border zones.

Currency legislation, including the Law "On Currency Regulation and Currency Control" dated 13 June 2005 (the "**Currency Control Law**"), stipulates that payments and money transfers between residents may be made only in Tenge (except for certain statutory exceptions), while there are no restrictions on payments and money transfers between residents and non-residents. Non-residents may, without limitation, receive and transfer dividends, interest and other income received on deposits, securities, loans and other currency transactions with residents, in accordance with the procedures established in currency legislation.

The NBK establishes thresholds and conditions, under which certain currency contracts fall within a registration or notification regime. Under the registration and notification regime, information and documentation regarding currency contracts is required to be submitted to the NBK. The establishment of branches or representative offices by the foreign parent companies does not fall under the notification regime.

Certain natural monopolies are permitted in Kazakhstan including those whose activities are related to: transportation of crude oil and crude oil products; natural gas; electricity and heat; railways, air transport, port and airport services; and telecommunications, postal services and water supply services. Such entities are subject to specific restrictions and additional obligations, including the obligation to provide services and products in accordance with specified tariffs and prices as approved by the authorised agency.

All transactions with securities in Kazakhstan are subject to mandatory state registration. As at 1 January 2013, the JSC Integrated Securities Registrar is responsible for maintaining the system of securities holders' registers in Kazakhstan. Kazakhstan issuers may offer their securities in the other jurisdictions and on stock exchanges located in other jurisdictions (subject to statutory restrictions, including the requirement to offer a portion of such securities on the domestic stock market). At the moment, the main securities trading platform is the KASE, whose members include Kazakhstan's leading banks, investment companies and brokers.

Kazakhstan has also ratified the following international conventions and treaties related to investment protection: the New York Convention; Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID) (Washington, DC, 18 March 1965); Convention Establishing the Multilateral Investment Guarantee Agency (Seoul, 11 October 1985); and Convention for the Protection of Investors' Rights (Moscow, 28 March 1997).

Recently enacted laws and agreements relating to the economy of Kazakhstan include the following:

- On 28 November 2014, the Law "On introducing amendments and additions to certain legislative acts of the Republic of Kazakhstan regarding taxation matters" was adopted. This law, among other things, provides for a so called 'tax amnesty' by releasing certain categories of taxpayers from their liability to pay tax fines and default interest on any unpaid taxes if such fines were imposed and penalties were accrued (registered) as at 1 January 2014 and were not paid as at 1 October 2014.
- On 29 December 2014, the Law "On introducing amendments and additions to certain legislative acts of the Republic of Kazakhstan on issues of fundamental improvement of the conditions for entrepreneurial activity in the Republic of Kazakhstan" was adopted. This law provided for amendments to more than 100 existing laws with the aim of creating more favourable conditions for business activities in Kazakhstan, including optimisation of certain procedures related to state inspection, approvals and permits.
- On 7 April 2015, the Law "On introducing amendments and additions to certain legislative acts of the Republic of Kazakhstan on issues relating to legal regulation in the area of intellectual property" was adopted. This law is aimed at simplifying certain state procedures applicable to intellectual property rights' owners and licensees.
- On 22 April 2015, the Law "On introducing amendments and additions to certain legislative acts of the Republic of Kazakhstan on issues of limitation on state's participation in entrepreneurial activities" was adopted. This law provides some further limitations on the ability of the State to participate in entrepreneurial activities.

- To date, the legislative framework has been established and the basis for supervision and regulation of the Islamic financial services market has been laid down (a regulatory legal framework for the supervision and regulation of Islamic banks and non-banking organisations has been approved). On 27 April 2015, the Law of the Republic of Kazakhstan "On Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on Insurance and Islamic Finance" was adopted, which includes issues of Islamic insurance, banking and leasing. This Law addresses issues of Islamic insurance, including the introduction of the concepts of "Islamic insurance (reinsurance) organisation", "Islamic insurance fund", the definition of the basic principles of Islamic insurance, the establishment of requirements for the activities of the Islamic insurance (reinsurance) organisation, the formation, accounting and the use of an Islamic insurance fund, the establishment of requirements for the content of an Islamic insurance contract and the procedure for paying compensation to an Islamic insurance (reinsurance) authority.
- On 24 November 2015, the President of Kazakhstan signed the Law of the Republic of Kazakhstan "On Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on Issues of Non-performing Loans and Assets of Second-tier Banks, Financial Services and the Activity of Financial Organisations and the National Bank of the Republic of Kazakhstan.", aimed at implementing the Plan of The Nation - 100 concrete steps to implement the five institutional reforms and to strengthen the protection of borrowers' rights, ensure the stability of the financial system and further the development of capital markets and Islamic financing in Kazakhstan. The law provides for improving the existing structure of issuing state Islamic securities and creating conditions for the conversion of traditional banks into Islamic banks. It is envisaged that traditional banks can be reorganised in the form of conversion to an Islamic bank. The procedure for issuing and denying permission to issue a permit by an authorised body for the voluntary reorganisation of a bank in the form of conversion to an Islamic bank was set out in a resolution of the Board of the National Bank of the Republic of Kazakhstan of 28 January 2016 No. 15. The law provides for the introduction of changes in the eight Codes of the Republic of Kazakhstan and 35 laws of the Republic of Kazakhstan
- On 5 May 2015, the Law "On introducing amendments and additions to certain legislative acts of the Republic of Kazakhstan on issues relating to natural monopolies and regulated markets" was adopted. This law provides for further development of the regulatory framework for natural monopolies and protection of competition.
- In December 2017, Kazakhstan adopted a new Subsoil Code which came into force from 29 June 2018. See "*Subsoil Code*".

### **Anti-Corruption, Anti-Money Laundering and Anti-Terrorist Financing**

As in many other countries of the world, fight against corruption is still one of the high-priority items on the State's agenda. On 13 June 2019, a new Anti-Corruption Agency was established, with responsibilities for detecting, fighting, uncovering and investigating criminal offenses involving corruption.

Since independence, Kazakhstan has been gradually creating effective anti-corruption institutions and mechanisms that meet international standards. Kazakhstan was one of the first in the post-Soviet space to create a legal framework for combating corruption. Since 2001, a number of anti-corruption programmes have been implemented and specific measures have been taken within the framework provided by these programmes to eliminate the causes of, and conditions conducive to, corruption.

In recent years, Kazakhstan has taken a number of measures to improve domestic anti-corruption legislation. The country's Criminal Code provides an extensive list of corruption-related crimes. A life-long ban has been introduced on holding public office in Government bodies for persons who have committed corruption offenses, as well as the mechanisms for seizing property or income derived from property obtained in violation of criminal law.

When the Kazakhstan – 2050 Strategy was adopted in December 2012, the anti-corruption policies were further refined. They are now implemented taking into account the goals specified in the Anti-corruption Strategy approved for a ten-year period. The main focus of this strategy is on preventive measures designed to eliminate conditions conducive to the spread of corruption, and not on fighting against its consequences once it becomes deeply rooted. Systematic monitoring of corruption-related offences was introduced and, based on the results of

such monitoring, analysis of corruption-related risks was regularly performed and measures were taken to create and strengthen the anti-corruption culture among the population of Kazakhstan.

When the Plan of the Nation – 100 Concrete Steps was adopted in 2015, large-scale reforms were carried out to implement it, including with respect to anti-corruption legislation. A new Law on Prevention of Corruption was adopted in November 2015. A number of other measures followed, including the adoption of the Law on Public Councils, the Law on Access to Information, the Code of Ethics for Civil Servants and the introduction of the institution of an ethics ombudsman.

Public involvement in the fight against corruption increased significantly. One example of this involvement is the activities of special monitoring groups. Today, they provide an example of successful cooperation with the State's efforts to combat corruption. Among the new initiatives of special monitoring groups is public assessment of opinion leaders and prominent entrepreneurs with respect to payment of taxes. Enhancing the role of the public in monitoring of Government procurement processes and procurement processes by state-owned companies is currently under consideration.

Recently, the principles of project management have been introduced into the anti-corruption campaign. A number of anti-corruption project offices have been opened recently, such as “Adaldyk Alany” (aimed at eradication of petty corruption in governmental institutions), “Protecting business and investments”, “Adal Zhol – The Honest Way”, “Sanaly Orpak” (aimed at eradication of corruption in the educational system and helping to form and strengthen anti-corruption culture through the educational system) and “Adal bilim” (aimed at eradication of petty corruption and increasing the trust of citizens to the educational system).

The Anti-Corruption Agency actively supports businesses through its involvement in the the “Protecting business and investments” project. Project offices are now open in all regions of the country and more than 140 officials have been assigned to work on this project. All project offices are providing practical anti-corruption support to participating businesses, with such businesses able to request assistance on a 7 days a week, 24 hours a day basis. As of 1 August 2019, foreign investors from Europe and Asia were involved in 267 business projects covered by “Protecting business and investment” (or covering approximately 30% of all business projects involved in “Protecting business and investment” initiative), with the total value that exceeds KZT 10 trillion. All problems identified by businesses participating in the “Protecting business and investment” project are addressed in close cooperation with the National Chamber of Entrepreneurs of the Republic of Kazakhstan “Atameken.”

Kazakhstani state-owned companies have adopted and implemented anti-corruption guidelines. They regularly review and analyse corruption-related risks and also seek to increase transparency in hiring and promoting their employees.

The adoption of anti-corruption measures is positively evaluated by the international community. In 2008, the country became a full member of the UN Convention against Corruption. Kazakhstan also takes part in the sub-regional programme of the Istanbul Anti-Corruption Action Plan, within the framework of which, the anti-corruption policy of Kazakhstan is subject to periodic expert assessment.

To date, four rounds of monitoring have taken place. The latest interim report of the Istanbul Plan noted certain positive dynamics in Kazakhstan's implementation of the OECD recommendations in the fight against corruption. Based on the results of the 20th meeting of the monitoring expert group, which was held on 20-22 March 2019, an assessment of Kazakhstan's interim report was prepared. Summarising the expert report, out of 29 current recommendations, significant progress has been observed on five of them, in particular in the fields of higher education, public procurement, integrity of the civil service, corruption assessment and monitoring of the implementation of strategic programme documents. With respect to 15 current recommendations, there has been partial progress in addressing 6 of these recommendations. With respect to the remaining nine recommendations, no progress has been achieved. In particular, deficiencies were reported in the existing legislation regulating the liability of legal entities, exemption from criminal liability and bribery of foreign officials.

Kazakhstan maintains constructive relations with Transparency International, with regular visits to the head offices of anti-corruption rating organisations and substantive discussions with experts conducting country analysis for the Corruption Perceptions Index. Currently, Kazakhstan ranks in 124th place among 180 countries rated (with 31 points), which indicates progress in fighting corruption as compared to the situation five years ago (Kazakhstan was ranked 140th among 175 countries at the end of 2013), although there was a deterioration



in Kazakhstan's ranking among other countries in the most recent year (Kazakhstan was ranked 122nd among 180 countries at the end of 2017).

In order to develop international cooperation in this area, the issue of Kazakhstan joining the Group of States Against Corruption of the Council of Europe is being actively studied. Membership in this organisation will allow Kazakhstan to adopt the best international practices in this area as well as to "export" its own successful initiatives.

Kazakhstan currently has 25 bilateral anti-corruption agreements in place with various countries, including France, Italy, Spain, China and the CIS countries.

Kazakhstan, represented by the Anti-Corruption Agency, is a member of the International Association of Anti-Corruption Agencies (IACCA, with headquarters in Beijing), the OECD Anti-Corruption Network for Eastern Europe and Central Asia (ACN OECD), the Asian Development Bank and OECD Anti-Corruption Initiative for Asia and the Pacific (with headquarters in Manila), International Anti-Corruption Academy (IACA, with headquarters in Luxemburg) and the CIS Interstate Anti-Corruption Council (MFCIIK, with headquarters in Minsk).

### **Development Strategy**

In October 1997, President Nazarbayev presented a strategy for the development of Kazakhstan through to 2030 (the "**Kazakhstan-2030 Strategy**") and then, in December 2012, replaced it with the Kazakhstan-2050 Strategy (the "**Kazakhstan-2050 Strategy**"), which is a long-term development strategy with seven main focus areas that aims for Kazakhstan to become one of the 30 most developed countries in the world by 2050. The focus areas cover economic development, encouragement of entrepreneurship, social policy, knowledge and skills development, public service delivery, corporate governance, foreign policy and ethnic and religious diversity. The Kazakhstan-2050 Strategy includes Kazakhstan's objective of becoming a member of the WTO, which Kazakhstan achieved on 30 November 2015. See *"The Economy of Kazakhstan—Recent Trends in the Economy"*.

The implementation of the Kazakhstan-2030 Strategy was, and the Kazakhstan-2050 Strategy is being, carried out through a series of 10-year plans developed by the Government. The first 10-year plan was approved by the President in December 2001 and included goals of achieving a 100% increase in GDP between 2001 and 2010, the establishment of an effective state social support system, improving living standards and improving the effectiveness and efficiency of public administration. In February 2010, the President approved the second 10-year plan setting out specific development goals to be met by the year 2020 (the "**Strategic Plan 2020**") to be implemented in two stages. In order to meet a number of the primary goals under the Strategic Plan 2020 during the first stage (2010-2014), a state programme of forced industrial and innovative development for 2010 to 2014 was introduced in March 2010. For the second stage (2015-2019) of the Strategic Plan 2020, a state programme for industrial and innovative development for 2015 to 2019 was introduced in August 2014 (the "**Development Programme 2015-2019**").

The main goal of the Development Programme 2015-2019 is to stimulate the diversification and improve the competitiveness of the processing industries (such as ferrous metallurgy, non-ferrous metallurgy, oil refining, petrochemical and agricultural and other chemicals) and certain specific manufacturing sectors (such as production of automobiles, electrical equipment, agricultural machinery and rail related products) with a focus on particular products, activities and projects specified in the Development Programme 2015-2019. The measures to be implemented in order to achieve the main goal of the Development Programme 2015-2019 include improving the environment for private investment, standardisation, supporting exports, providing grants to finance the acquisition of technology, supporting and developing research and development facilities, improving professional education and the development of engineers and specialists, developing infrastructure, creating a venture capital and infrastructure fund and involving the existing development institutions (such as DBK, Baiterek and others). There were four key performance criteria of the Development Programme 2015-2019 for 2018. The first one was to increase export of products of manufacturing industries by 7% as compared to 2015. In 2018, export of products of manufacturing industries increased by 11.9% as compared to 2015. The second one was to increase investments into fixed assets of manufacturing industries by KZT 1,032 billion in 2018. In 2018, investments into fixed assets of manufacturing industries amounted to KZT 1,247.2 billion. The third one was to reduce energy consumption of manufacturing industries, so that in 2018 it amounts to 95% of energy consumption in 2014. Data on energy consumption for 2018 is unavailable until October 2019, but, in 2017, energy consumption of manufacturing industries amounted to 87.3% of energy consumption in 2014. The

fourth one, and the only one that has not been achieved, relates to real growth in labour productivity, which was targeted to increase in 2018 as compared to 2015 by 11.9%. Real growth in labour productivity in January to September 2018 as compared to January to September 2015 was only 0.7%.

By his decree dated 15 February 2018, the President approved the Strategic Development Plan through 2025 (the “**Strategic Plan 2025**”) (which constitutes part of the Kazakhstan-2050 Strategy). Among other things, the Strategic Plan 2025 envisages achieving a qualitative and sustainable recovery of the economy, leading to an increase in the living standards to the level of the OECD countries. The Strategic Plan 2025 is based on seven major systemic reforms that include development of human capital, technology and business, the rule of law, development of regions, the society and the public sector.

The Government hopes to further Kazakhstan’s integration into the regional economy and attract investment into sectors other than natural resources. A policy paper adopted by President Nazarbayev in May 2013 outlines plans for developing a “green economy”, proposing that 1% of GDP be invested in the “green economy” each year until 2050, of which 75% will come from the private sector. In furtherance of the policy paper on the “green economy”, the Government adopted Decree No. 750 dated 31 July 2013 setting out measures for the implementation of such policy paper relating to water, agriculture, energy efficiency, electricity and air pollution. This policy paper has also received support by the State Programme on Infrastructure “Nurly Zhol”, which provides for structural reforms in the economy and, in particular, the sustainable ecological development of the oblasts.

In May 2015, following the presidential election, President Nazarbayev announced a “Plan of the Nation” that outlined 100 specific steps to implement five institutional reforms. The aim is to provide a clear sense of direction for Kazakhstan’s development and to allow the international community to track Kazakhstan’s progress. The “100 Steps” programme is also a response to global and local challenges and its ultimate goal is for Kazakhstan to be one of the 30 most-developed countries in the world.

## THE ECONOMY OF KAZAKHSTAN

### Background

Kazakhstan has experienced extensive economic transformation since it gained independence in 1991. By mid-1999, the Government's structural reforms had achieved significant results in the key areas of financial stabilisation, privatisation and price liberalisation. Real GDP, which decreased by 38.6% between 1990 and 1995, started increasing in 1996 and 1997, but decreased in 1998 in the aftermath of the 1998 Russian financial crisis, which exacerbated the effect of significantly decreased commodity prices. The flotation of the Tenge in April 1999, coupled with the improvement in the global economic environment and strong agricultural growth, enhanced the international competitiveness of Kazakhstan's exports and enabled the economy to revive. In 1999, real GDP resumed growth. Economic reforms and Government-sponsored privatisation in the mid-1990s helped transfer assets to the private sector, which contributed to economic growth in the early 2000s. In 2002, the U.S. Department of Commerce granted market economy status to Kazakhstan under U.S. trade law in recognition of the country's substantive market economy reforms in the areas of currency convertibility, wage rate determination, openness to foreign investment and Government control over the means of production and allocation of resources. Real GDP more than doubled between 1998 and 2008, due to the Tenge's subsequent devaluation, improvements in the global economic environment and rising commodity prices over the period.

Kazakhstan's economy was adversely affected by the global financial crisis, with the real GDP growth rate sharply declining from 8.9% in 2007 to 1.2% in 2009. The global financial crisis resulted in, among other things, lower liquidity levels across the banking sector, tighter credit conditions for Kazakhstan companies generally and, through mid-2009, weakened global demand for, and an overall decline in prices of, crude oil and other commodities. Weaknesses in the global financial markets also put downward pressure on the Tenge. A lack of availability of wholesale debt financing, volatility of deposits and significant losses caused a destabilisation of Kazakhstan's banking sector in 2008 and 2009, which led to a Government bail-out programme in 2009. See *"Risk Factors—Risks Relating to Kazakhstan—Kazakhstan's economy is vulnerable to fluctuations in the global economy, and its banking sector continues to have weaknesses"* and *"Monetary and Financial System—Kazakhstan's Banking Industry"*.

Following the most acute stage of the global financial crisis, the Kazakhstani economy returned to higher levels of growth in the last quarter of 2009, driven primarily by rising commodity prices, which resulted in a growth of extractive industries and related manufacturing, a good grain harvest and a continued fiscal stimulus. Following real GDP growth of 8.9%, 3.3% and 1.2% in 2007, 2008 and 2009, respectively, Kazakhstan had real GDP growth of 7.3% in 2010, 7.4% in 2011 and 4.8% in 2012. Growth rates in 2010, 2011 and 2012 were driven by rising commodity prices and fiscal measures. The decrease in real GDP growth in 2012 was a consequence of a decrease in external demand and decreased oil production, which, including gas condensate, was 79.2 million tonnes in 2012, as compared to 80.1 million tonnes, 79.7 million tonnes and 76.5 million tonnes in 2011, 2010 and 2009, respectively.

In the years following the global financial crisis, Kazakhstan's economy has been primarily driven by increasing exports of oil and gas. However, other sectors have also been growing at a moderate rate. Sectors closely associated with exports of oil and gas, such as construction and oil extraction and oil transportation services have grown the fastest, and there has also been growth in the real estate, financial services and trade sectors. While the oil and gas sector continues to represent the biggest portion of Kazakhstan's industrial output (by sector), and is a key source of revenue for Kazakhstan and an important area of foreign direct investment, the non-oil sector has gained in importance for the economy of Kazakhstan overall in recent years.

### Recent Trends in the Economy

GDP growth between 2015 and 2018 was largely driven by the expansion of the volume of production in the mining sector and processing sector. The share of the mining sector in GDP in 2015 was 12.7%. In 2018, it increased to 15.2% based on the preliminary GDP data for 2018 and, in the first six months of 2019, it further increased to 17.0% of GDP based on the preliminary GDP data for the six months ended 30 June 2019. The share of the processing sector in GDP increased from 10.1% in 2015 to 11.8% in 2018 based on the preliminary GDP data for 2018 and to 11.9% in the first six months of 2019 based on the preliminary GDP data for the six months ended 30 June 2019. The production of goods accounted for 38.7% in 2018 based on the preliminary GDP data for 2018, as compared to 35.5% in 2015.

Kazakhstan's real GDP growth decreased from 4.2% in 2014 to 1.2% in 2015, remaining stable at 1.1% in 2016 and increasing to 4.1% in 2017 and 2018. Real GDP growth year-on-year in the six months ended 30 June 2019 was 4.1%, as compared to 4.2% in the six months ended 30 June 2018, according to preliminary data.

Since 2014, Kazakhstan's production of natural gas has increased year on year. In 2018, Kazakhstan's production of natural gas was 55.5 billion cubic metres, representing an increase of 4.8% as compared to 2017. In the six months ended 30 June 2019, Kazakhstan's production of natural gas was 28.1 billion cubic metres, representing a decrease of 0.6% as compared to the six months ended 30 June 2018.

Exports decreased in 2014, 2015 and 2016 by 6.2%, 42.2% and 20.1%, respectively. In 2017 and 2018, exports grew by 32.0% and 26.0%, respectively, and amounted to U.S.\$48.5 billion and U.S.\$61.1 billion, respectively. In the first six months of 2019, Kazakhstan's production of oil (including gas condensate) was 44.3 million tonnes of oil, representing a decrease of 2.1% as compared to the first six months of 2018. This decrease in production of oil (including gas condensate) was principally due to the first shutdown for maintenance purposes of the Kashagan field operations that was in effect from 14 April 2019 to 19 May 2019.

In the first six months of 2019, exports amounted to U.S.\$28.6 billion, a decrease of 1.6% over the first six months of 2018. The key drivers of this decrease were decreases in the crude oil and oil products (6.6%) and ferroalloys (8.8%). The share of mineral products decreased in the structure of exports, from 73.8% in the six months ended 30 June 2018 to 72.5% in the six months ended 30 June 2019.

In 2014, 2015, 2016, 2017 and 2018, Kazakhstan's unemployment rate was 5.0%, 5.1%, 5.0%, 4.9% and 4.9% respectively. It was 4.8% throughout the first six months of 2019.

The inflation rate for 2014, 2015, 2016, 2017 and 2018 was 7.4%, 13.6%, 8.5%, 7.1% and 5.3%, respectively. The inflation rate for the first seven months of 2019 (on an annualised basis) was 5.4%.

The exchange rate regime came under increased pressure in the second half of 2013 following further deterioration in the external current account, depreciation of the Russian rouble and uncertainties related to the U.S. Federal Reserve monetary policy. The NBK reacted to these developments by devaluing the Tenge by approximately 18.9% against the U.S. dollar (from 155.56 to 185 Tenge per U.S. dollar) in February 2014 and set the exchange rate band at KZT 185 plus/minus KZT 3 to U.S.\$1. In September 2014, the NBK expanded the exchange rate band of the Tenge to the U.S. dollar and established an asymmetric band of KZT 185 +3/-15 to U.S.\$1. In July 2015, the band was expanded from KZT 185 +3/-15 to KZT 185 +13/-15. On August 20, 2015, the NBK announced a transition to the freely floating exchange rate regime of Tenge, which applies to date. The average exchange rate has since moved from KZT 221.7 per U.S.\$1 in 2015, to KZT 342.2 per U.S.\$1 in 2016, KZT 326.0 per U.S.\$1 in 2017 and KZT 344.7 per U.S.\$1 in 2018. In the seven months ended 31 July 2019, the average exchange rate was KZT 379.96 per U.S.\$1.

In 2014, 2015, 2016, 2017 and 2018, Kazakhstan had positive trade balances (based on actual trade flows (excluding unregistered trade adjustments)) of U.S.\$38.2 billion, U.S.\$15.4 billion, U.S.\$11.4 billion, U.S.\$18.9 billion and U.S.\$27.5 billion, respectively. According to preliminary data, in the first six months of 2019 the trade surplus (based on actual trade flows (excluding unregistered trade adjustments)) amounted to U.S.\$11.5 billion.

In 2015 and 2016, due to the reduction in exports of goods, the positive trade balance (based on actual trade flows (excluding unregistered trade adjustments)) fell by 59.7% and 26.2%, respectively. In 2017, against the background of a far higher growth of exports (32.0%) than of imports (16.6%), the positive trade balance (based on actual trade flows (excluding unregistered trade adjustments)) grew by 66.4% to U.S.\$18.9 billion. The same trend continued in 2018, with the growth of exports (26.0%) significantly exceeding the growth in imports (13.7%), resulting in the growth of positive trade balance (based on actual trade flows (excluding unregistered trade adjustments)) by 45.2% to U.S.\$27.5 billion. In the first six months of 2019, the trade balance (based on actual trade flows (excluding unregistered trade adjustments)) decreased by 12.9% as compared to the same period in the previous year, amounting to U.S.\$11.5 billion due to a decrease in exports (by 1.6%) and an increase in imports (by 7.9%)

At the end of June 2019, international reserves amounted to U.S.\$88.1 billion, of which U.S.\$28.2 billion were total official international reserves, which consisted of monetary gold, special drawing rights holdings ("SDRs"), reserve position in the IMF and other assets in foreign currency that meet the criteria for reserve

assets, and U.S.\$59.9 billion were the assets of the National Fund in foreign currency. See “*Public Finance—National Fund*”.

This represents a U.S.\$3.2 billion decrease compared to 31 December 2015, when international reserves were U.S.\$91.3 billion. While foreign currency assets of the National Fund decreased by U.S.\$3.5 billion between 31 December 2015 and 30 June 2019 due to their use to support the country's economy, total official international reserves (including gold) increased by U.S.\$0.3 billion between 31 December 2015 and 30 June 2019. Within total official international reserves, official gold reserves increased by U.S.\$9.5 billion between 31 December 2015 and 30 June 2019 amounting to U.S.\$17.1 billion, which is largely due to gold purchases in the domestic market as part of the state's priority right to purchase refined gold from domestic producers.

### **Ongoing Economic Reforms**

Kazakhstan is continuing to pursue economic reforms and to take measures aimed at providing liquidity and supporting the refinancing of foreign debt of Kazakhstan's banks and companies. See “*Monetary and Financial System—Instruments of Monetary Policy*”. Examples of such reforms and measures include the following.

- In December 2012, President Nazarbayev presented a new economic policy as part of the Kazakhstan-2050 Strategy, which sets a target for Kazakhstan to become one of the 30 most developed countries in the world by 2050. Kazakhstan was ranked the 59th most competitive country out of 140 countries ranked in the World Economic Forum's Global Competitiveness Report 2018, as compared to its ranking of 59th out of 135 countries in the previous year. Kazakhstan ranked 61st on institutions, 69th on infrastructure, 44th on ICT adoption, 62nd on macroeconomic stability, 97th on health, 57th on skills, 57th on product market, 30th on labour market, 100th on financial system, 45th on market size, 37th on business dynamism and 87th on innovation capability. The four key aims of the economic policy are to focus all economic and management decisions on the perspective of economic viability and long-term interest; to define new markets with which Kazakhstan can form productive partnerships and create new sources of economic growth; to create a favourable investment climate; and to develop effective private and public-private partnerships. See “*The Republic of Kazakhstan—Development Strategy*”.
- In September 2014, a law came into effect with the aim of reducing the size of the informal economy and increasing tax revenues by granting an amnesty in relation to property (including property outside of Kazakhstan) that had not been declared for tax purposes acquired with undeclared income and/or not registered in accordance with Kazakhstan law or improperly registered. See “*Public Finance—Sources of State Budget Revenues—State Budget Revenue Performance*”.

### *State Programme for Infrastructure Development “Nurly Zhol”*

In November 2014, during his annual message, President Nazarbayev declared the principles of a new economic policy known as “Nurly Zhol”. This policy was further elaborated in the State Programme on Infrastructure Development approved by President Nazarbayev in April 2015 (the “**Nurly Zhol Programme**”). The Nurly Zhol Programme's goal is a united market to be achieved through territorial development and creation of hub-cities. Hub-cities are expected to be the centres of economic activity of their respective regions, and have a concentration of capital, resources, advanced technologies and services.

The Nurly Zhol Programme is divided into two sets of measures. The first set of measures provided for the development of specific infrastructure projects in seven main sectors (including projects related to transportation, industry, tourism, energy, housing and public utilities, education and small and medium-sized enterprises). The second set of measures, deriving from the Nurly Zhol Programme, provided new anti-crisis measures for 2015, which included supporting local automobile manufacturing and the agricultural sector, the creation of affordable housing and encouraging subsoil exploration.

The financing required for implementation of the Nurly Zhol Programme is expected to be around KZT 4.6 trillion, with KZT 1.4 trillion expected to come from the Republic Budget and KZT 1.3 trillion from the National Fund.

The goal of the Nurly Zhol Programme was that its implementation would lead to an increase in GDP of 6.4% by 2019 as compared to 2014, the creation of approximately 423.7 thousand new jobs, an increase in the volume

of transit shipments to 18.1 million tonnes and an increase of revenue from transit shipments to U.S.\$4 billion by 2020. There can be no assurance that such objectives in fact will be achieved.

The specific goals of the Nurly Zhol Programme for 2018 were as follows: (i) to reach GDP growth of 2.2% (actual GDP growth in 2018 was 4.1%); (ii) to increase GDP growth due to the impact from the implementation of the Nurly Zhol Programme by 0.35% (actual impact on GDP growth in 2018 was 0.7%); (iii) to create 54.9 thousand new jobs (actual number of jobs created in 2018 was 82,601, of which 3,576 were permanent jobs); (iv) increase the volume of transit shipments to 17.5 million tonnes (actual volume of transit shipments in 2018 was 19.2 million tonnes); and (v) to increase revenue from transit shipments to U.S.\$2.1 billion (actual revenue from transit shipments in 2018 was U.S.\$1.3 billion).

### *100 Steps*

In May 2015, President Nazarbayev announced 100 concrete steps to implement five institutional reforms in the following areas: (1) the formation of a professional civil service, (2) upholding the rule of law, (3) industrialisation and economic growth, (4) promotion of ethnic cohesion and (5) building an accountable government.

These steps were based on certain political, economic and ideological reforms. The political reforms include strengthening measures against corruption through the principle of “Open Government”, which consists of granting greater access to the information held by state authorities to the public and providing for greater inclusion of the public in the decision-making processes. This will be aided by the development of local self-regulation.

The ideological dimension provides for strengthening of identity of Kazakhstan citizens.

The economic reform dimension, among other things, includes the engagement of at least ten transnational corporations into the manufacturing industry for producing goods for export, the establishment in priority sectors of the economy of joint ventures with “anchor” investors or international strategic partners, the establishment of an international aviation hub in Almaty, the simplification of procedures on granting subsoil use rights, certain measures to modernise the construction industry and the optimisation of tax and customs policies and procedures.

In furtherance of these reforms, on 30 April 2015, the President announced the creation of the National Commission on Modernisation (the “**Commission**”) which is chaired by the Prime Minister and is responsible for coordinating the management and implementation of these institutional reforms. These reforms aim to re-balance the power between the President, the Parliament and the Government, develop Astana (now Nur-Sultan) as an international financial centre and promote ethnic cohesion in Kazakhstan. The recommendations of the Commission, which will be subject to the President’s approval, will be implemented through the Parliament and the Government and are expected to be incorporated into laws and regulations to be adopted by the Parliament and the Government in a timely manner.

### *Housing Construction Programme “Nurly Zher”*

Housing Construction Programme “Nurly Zher” (“Nurly Zher Programme”) was approved by the Government in December 2016. In June 2018, it was re-approved as a State programme. The goal of the Programme is to increase the availability of housing for people of Kazakhstan. Nurly Zher Programme focuses on providing housing for 1.5 million families in the next 15 years. In two years of the programme's implementation, approximately 200 thousand families got the opportunity to get new housing or improve their housing conditions.

## Gross Domestic Product

The following table below sets forth data regarding Kazakhstan's GDP and population for the years or periods indicated:

	Years ended 31 December					Six months ended 30 June	
	2014	2015	2016	2017	2018 <sup>(1)</sup>	2018 <sup>(1)</sup>	2019 <sup>(1)</sup>
Nominal GDP							
(KZT billions).....	39,675.8	40,884.1	46,971.2	53,101.3	59,613.7	24,857.1	27,696.9
Real GDP index (%)							
(2005 = 100%).....	168.2	170.2	172.1	179.2	186.5	183.6	191.2
Real GDP growth rate							
(% year-on-year).....	4.2	1.2	1.1	4.1	4.1	4.2	4.1
Nominal GDP per capita							
(KZT) .....	2,294,830.2	2,330,360.2	2,639,710.3	2,943,893.0	3,261,768.4	1,364,659.8	1,501,046.9
Nominal GDP per capita							
(U.S.\$) .....	12,806.7	10,509.9	7,714.8	9,030.3	9,462.4	4,179.8	3,959.1
Real GDP per capita index							
(%)							
(2005 = 100%).....	149.3	148.9	148.5	152.5	156.6	—	—
Real GDP per capita growth							
(% year-on-year).....	2.7	(0.3)	(0.3)	2.7	2.7	—	—
GDP deflator							
(% year-on-year).....	5.8	1.9	13.6	8.6	7.7	10.7	10.7
Total population (thousands)							
(end of period).....	17,416	17,670	17,918	18,157	18,396	18,272	18,508

Source: MNE

Note:

(1) Preliminary data

The informal economy constituted a significant portion of Kazakhstan's economy and the MNE makes adjustments to its GDP data in accordance with practices approved by the IMF in order to adjust for the existence of such an informal economy. The size of the informal economy was estimated to constitute 25.1% in 2017, 25.8% in 2016, 27.5% in 2015 and 28.1% of GDP in 2014 (the data for 2018 is still unavailable and the data for 2017 is likely to change because the Ministry of National Economy and the Ministry of Finance adopted a new set of measures to combat the informal economy on 8 August 2019 and, as part of these measures, data on the size of the informal economy for 2017 and 2018 is being re-calculated).

Between 2000 and 2007, Kazakhstan experienced significant economic growth, with real GDP growing by 97.4% over this period. Kazakhstan's economy was affected adversely by the impact of the global financial crisis. In 2008, as a result of the global financial crisis, real GDP growth decreased sharply to 3.3%, and, in 2009, real GDP growth further decreased to 1.2%, which was the slowest rate of growth recorded since 1998.

In 2010, the Kazakhstan economy began to recover and strong growth continued in subsequent years, with real GDP growing by 7.3% in 2010, 7.4% in 2011, 4.8% in 2012 and 6.0% in 2013.

Real GDP growth in 2014 was 4.2%. The slowing of the growth rate as compared to 2013 was mainly attributable to a decline in oil production, relatively stable oil prices and the indirect effects of the slowdown in the Russian economy in connection with the recently imposed sanctions.

Real GDP growth in 2015 was 1.2%. The rapid slowdown was mainly attributable to a decline in oil production, a fall in demand for oil and gas and a fall in oil prices.

Real GDP growth in 2016 was 1.1%. The continuing slowdown was mainly attributable to a reduction in the production of services, in particular a decrease in wholesale and retail trade.

Real GDP growth in 2017 was 4.1%. The increase in growth as compared to 2016 was mainly attributable to an increase in the demand for oil, gas and other raw materials, an increase in production in the mining industry as well as an increase in wholesale and retail trade.

Real GDP growth in 2018 was 4.1%. This growth in real GDP was mainly attributable to an increase in production in mining, an increase in production in manufacturing as well as an increase in wholesale and retail trade.

According to the World Bank, in 2018, based on purchasing power parity, Kazakhstan's economy was the 41st largest economy in the world. Nominal GDP per capita was, according to the official exchange rate, U.S.\$12,807, U.S.\$10,510, U.S.\$7,715, U.S.\$9,030 and, according to preliminary data, U.S.\$9,462 in 2014, 2015, 2016, 2017 and 2018, respectively. Real GDP per capita growth was 2.7%, 2.7% and, according to preliminary data, 2.7% in 2014, 2017 and 2018, and real GDP declined by 0.3% in each of 2015 and 2016. These figures reflect 4.9% growth in real GDP per capita between 2014 and 2018.

### GDP by Source

The following table sets forth the composition of Kazakhstan's nominal GDP by source for the years or the periods indicated.

	Years ended 31 December					Six months ended June 30	
	2014	2015	2016	2017	2018 <sup>(3)</sup>	2018 <sup>(3)</sup>	2019 <sup>(3)</sup>
	(KZT millions)						
<b>Production of goods .....</b>	<b>14,893,902.3</b>	<b>14,540,579.0</b>	<b>17,161,282.9</b>	<b>19,425,273.9</b>	<b>23,003,541.7</b>	<b>9,483,735.1</b>	<b>10,493,985.7</b>
<i>of which:</i>							
Agriculture, forestry and fishing .....	1,717,786.0	1,25,866.5	2,140,007.6	2,315,182.2	2,529,208.7	606,063.8	675,645.3
Industry .....	10,818,122.5	10,166,976.4	12,262,514.9	14,213,439.0	17,203,416.0	7,734,525.7	8,539,962.8
<i>of which:</i>							
Mining and quarrying <sup>(1)</sup> .....	5,982,772.0	5,170,567.7	6,047,727.3	7,244,830.7	9,035,308.7	4,189,830.3	4,707,527.4
Manufacturing <sup>(2)</sup> .....	4,093,849.1	4,201,012.1	5,321,896.9	5,944,890.9	7,057,977.6	2,992,380.3	3,296,050.5
Electricity, gas, steam and air conditioning supply .....	637,529.2	693,589.4	775,534.8	881,890.1	955,108.8	478,744.8	456,016.9
Water supply; sewerage, waste management and recycling .....	103,972.2	101,807.2	117,355.9	141,827.3	155,020.9	73,570.3	80,368.0
Construction .....	2,357,993.8	2,447,736.1	2,758,760.4	2,896,652.7	3,270,917.0	1,143,145.6	1,278,377.6
<b>Production of services .....</b>	<b>21,757,669.9</b>	<b>24,243,321.4</b>	<b>27,176,302.6</b>	<b>30,493,009.4</b>	<b>32,497,182.7</b>	<b>13,515,062.0</b>	<b>14,932,470.4</b>
<i>of which:</i>							
Wholesale and retail trade; repair of motor vehicles and motorcycles .....	6,332,749.1	6,994,015.8	7,898,849.7	8,440,566.0	9,628,417.8	3,724,434.4	4,180,035.0
Transport and storage .....	3,144,595.2	3,520,545.5	3,876,007.8	4,442,189.6	4,873,482.1	1,981,913.6	2,237,286.0
Accommodation and food service activities .....	366,505.8	420,185.0	528,771.4	614,643.6	620,500.9	213,917.8	236,443.1
Communications and information .....	1,005,229.0	1,071,814.5	978,417.4	1,021,040.7	1,102,757.3	415,941.2	439,573.8
Financial and insurance activities .....	1,199,418.3	1,430,703.9	1,668,758.4	2,382,442.1	2,090,181.8	956,795.4	1,060,637.6
Real estate activities .....	3,283,010.9	3,685,580.4	4,101,176.8	4,345,451.2	4,486,502.6	1,890,753.5	1,990,403.9
Professional, scientific and technical activities .....	1,670,643.0	1,864,408.9	2,335,967.1	2,456,766.0	2,543,914.4	1,151,532.1	1,268,209.2
Administrative and support service activities .....	752,924.9	846,480.3	1,005,314.3	1,232,621.6	1,360,381.0	571,370.3	651,996.8
Public administration and defence; compulsory social security .....	773,223.0	809,408.7	856,126.3	1,043,177.8	934,085.6	423,693.5	462,170.5
Education .....	1,125,456.2	1,197,316.9	1,325,335.8	1,476,573.8	1,609,054.1	790,891.9	850,123.4
Human health and social work activities .....	666,308.4	729,986.8	888,829.7	1,075,532.5	1,062,096.3	511,860.0	530,340.0
Arts, entertainment and recreation .....	289,131.1	329,278.5	357,605.4	404,913.1	449,719.7	180,946.2	198,891.6
Other service activities .....	1,119,352.2	1,312,678.3	1,323,043.5	1,521,219.4	1,696,479.0	680,271.1	804,136.0
Activities of households as employers; undifferentiated goods and services – producing activities of households for own use .....	29,122.8	30,917.9	32,099.0	35,872.0	39,610.1	20,741.0	22,223.5
<b>Gross value added .....</b>	<b>36,651,572.2</b>	<b>38,783,900.4</b>	<b>44,337,585.5</b>	<b>49,918,283.3</b>	<b>55,500,724.4</b>	<b>22,998,797.1</b>	<b>25,426,456.1</b>
Net taxes on products and imports .....	3,024,260.7	2,100,233.2	2,633,564.5	3,182,998.5	4,112,983.1	1,858,322.1	2,270,493.1
<i>of which:</i>							
Product and import taxes .....	3,140,575.7	2,223,043.8	2,777,016.3	3,371,983.4	4,277,352.3	1,858,322.1	2,270,493.1
Product and import subsidies .....	116,315.0	122,810.6	143,451.8	188,984.9	164,369.2	—	—
<b>Total GDP .....</b>	<b>39,675,832.9</b>	<b>40,884,133.6</b>	<b>46,971,150.0</b>	<b>53,101,281.8</b>	<b>59,613,707.5</b>	<b>24,857,119.2</b>	<b>27,696,949.2</b>

Source: MNE

Notes:

- (1) Mining and quarrying includes mining of coal and lignite, extraction of crude oil and natural gas, mining of metal ores and other mining.
- (2) Manufacturing includes manufacturing of coke and refined petroleum products, metallurgy, machines, foods and other manufacturing.
- (3) Preliminary data.



The following table sets forth the composition of Kazakhstan's nominal GDP by source, as a percentage of total GDP, for the years or the periods indicated.

	2014	Years ended 31 December			2018 <sup>(3)</sup>	Six months ended 30 June	
	2015	2016	2017		2018 <sup>(3)</sup>	2019 <sup>(3)</sup>	
	(percentage share of GDP)						
<b>Production of goods</b> .....	<b>37.6</b>	<b>35.5</b>	<b>36.6</b>	<b>36.6</b>	<b>38.7</b>	<b>38.1</b>	<b>37.9</b>
<i>of which:</i>							
Agriculture, forestry and fishing.....	4.4	4.8	4.6	4.3	4.3	2.4	2.4
Industry .....	27.3	24.7	26.1	26.8	28.9	31.1	30.9
<i>of which:</i>							
Mining and quarrying <sup>(1)</sup> .....	15.2	12.7	12.9	13.6	15.2	16.9	17.0
Manufacturing <sup>(2)</sup> .....	10.2	10.1	11.3	11.2	11.8	12.0	11.9
Electricity, gas, steam and air conditioning supply	1.6	1.7	1.7	1.7	1.6	1.9	1.7
Water supply; sewerage, waste management and recycling .....	0.3	0.2	0.2	0.3	0.3	0.3	0.3
Construction .....	5.9	6.0	5.9	5.5	5.5	4.6	4.6
<b>Production of services</b> .....	<b>54.8</b>	<b>59.4</b>	<b>57.8</b>	<b>57.4</b>	<b>54.4</b>	<b>54.4</b>	<b>53.9</b>
<i>of which:</i>							
Wholesale and retail trade; repair of motor vehicles and motorcycles .....	16.0	17.0	16.8	15.9	16.1	15.0	15.1
Transport and storage .....	7.9	8.6	8.3	8.4	8.2	8.0	8.1
Accommodation and food service activities .....	0.9	1.1	1.1	1.2	1.1	0.9	0.8
Communications and information.....	2.6	2.6	2.1	1.8	1.9	1.7	1.6
Financial and insurance activities .....	3.0	3.5	3.5	4.5	3.5	3.8	3.8
Real estate activities .....	8.3	9.0	8.7	8.2	7.5	7.6	7.2
Professional, scientific and technical activities .....	4.2	4.6	5.0	4.6	4.2	4.6	4.6
Administrative and support service activities .....	1.9	2.1	2.1	2.3	2.2	2.3	2.3
Public administration and defence; compulsory social security .....	1.9	2.0	1.8	2.0	1.6	1.7	1.7
Education.....	2.8	2.9	2.8	2.8	2.7	3.2	3.1
Human health and social work activities.....	1.7	1.8	1.9	2.0	1.8	2.1	1.9
Arts, entertainment and recreation.....	0.7	0.8	0.8	0.8	0.7	0.7	0.7
Other service activities .....	2.8	3.3	2.8	2.8	2.8	2.7	2.9
Activities of households as employers; undifferentiated goods and services – producing activities of households for own use.....	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Gross value added</b> .....	<b>92.4</b>	<b>94.9</b>	<b>94.4</b>	<b>94.0</b>	<b>93.1</b>	<b>92.5</b>	<b>91.8</b>
Net taxes on products and imports.....	7.6	5.1	5.6	6.0	6.9	7.5	8.2
<i>of which:</i>							
Product and import taxes .....	7.9	5.4	5.9	6.5	7.2	7.5	8.2
Product and import subsidies .....	0.3	0.3	0.3	0.4	0.3	—	—
<b>Total GDP</b> .....	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: MNE

Notes:

- (1) Mining and quarrying includes mining of coal and lignite, extraction of crude oil and natural gas, mining of metal ores and other mining.
- (2) Manufacturing includes manufacturing of coke and refined petroleum products, metallurgy, machines, foods and other manufacturing.
- (3) Preliminary data

From 2014 through 2018, the largest sources of Kazakhstan's GDP were mining and quarrying (including the extraction of crude oil and natural gas, mining of coal and lignite, mining of metal ores and other mining), manufacturing (including metallurgy, foods, coke and refined petroleum products, machines, and other manufacturing) and wholesale and retail trade, which collectively represented 41.4%, 39.8%, 41.0%, 40.7% and, according to preliminary data, 43.1% of GDP in 2014, 2015, 2016, 2017 and 2018, respectively.

Production of goods as a percentage of GDP increased from 37.6% in 2014 to 38.7% in 2018. This was due to the services sector growing at a slower rate than production of goods during this period.

## GDP by Use

The following table sets forth the composition of GDP by use for the years and the periods indicated.

		Years ended 31 December				Three months ended 31 March
	2014	2015	2016	2017	2018 <sup>(2)</sup>	2019 <sup>(2)(3)</sup>
			<i>(as a % of GDP)</i>			
<b>Consumption</b> .....	<b>59.2</b>	<b>65.3</b>	<b>66.2</b>	<b>62.7</b>	<b>60.1</b>	<b>58.4</b>
Private.....	47.4	52.6	53.4	50.8	50.3	48.6
Public.....	10.7	11.6	11.7	10.8	8.7	8.7
Non-profit institutions.....	1.1	1.1	1.1	1.1	1.1	1.1
<b>Gross domestic investment</b> .....	<b>25.8</b>	<b>27.9</b>	<b>27.9</b>	<b>26.6</b>	<b>24.7</b>	<b>21.2</b>
Fixed capital .....	21.6	22.9	22.7	21.9	21.4	18.0
Inventory accumulation .....	4.2	5.0	5.2	4.7	3.3	3.2
<b>Net exports</b> .....	<b>13.7</b>	<b>4.0</b>	<b>3.3</b>	<b>8.1</b>	<b>12.7</b>	<b>16.7</b>
Exports of goods and services.....	39.3	28.5	31.8	34.4	38.9	44.6
Imports of goods and services.....	25.6	24.5	28.5	26.3	26.2	27.9
<b>GDP<sup>(1)</sup></b> .....	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: MNE

Notes:

- (1) GDP figures may differ from the sum of their component parts due to statistical discrepancies.
- (2) Preliminary data.
- (3) All ratios in this column are based on the preliminary GDP data for the three months ended 31 March 2019 and not on the projected GDP figures for the full year.

As a percentage of GDP, domestic demand (i.e., final consumption and gross domestic investment) slightly decreased from 85.0% in 2014 to 84.8% in 2018 and then further decreased to 79.6% in the three months ended 31 March 2019 (based on the preliminary GDP data for the three months ended 31 March 2019). Net exports decreased from 13.7% in 2014 to 12.7% in 2018 and then increased to 16.7% in the three months ended 31 March 2019 (based on the preliminary GDP data for the three months ended 31 March 2019).

Domestic consumption as a percentage of GDP was 59.2%, 65.3%, 66.2%, 62.7%, 60.1% and 58.4%, in 2014, 2015, 2016, 2017, 2018 and the three months ended 31 March 2019 (based on the preliminary GDP data for the three months ended 31 March 2019), respectively. Between 2015 and 2018, personal income used for private consumption increased by 30.9% as a result of an increase in real personal income by 1.4% in 2015, a decrease in real personal income by 0.7% in 2016 an increase in real personal income by 1.0% in 2017 and, according to preliminary data, an increase by 5.3% in 2018.

The GDP consumption rate increased from 59.2% in 2014 to 66.2% in 2016 due to a number of measures undertaken by the Government both in the public and private sectors, which were aimed at increasing demand and supporting business activity. The GDP consumption rate decreased from 66.2% in 2016 to 62.7% in 2017. It should be noted that this indicator is relative and its share decreased due to the increase in the share of net exports of GDP. However, in nominal terms, there is an increase from KZT 31.1 trillion in 2016 to KZT 33.3 trillion in 2017. The decrease from 62.7% in 2017 to 60.1% in 2018 and to 58.4% in the three months ended 31 March 2019 (based on the preliminary GDP data for the three months ended 31 March 2019) was due to a significant increase in the contribution of net exports to GDP from 8.1% in 2017 to 12.7% in 2018 and 16.7% in the three months ended 31 March 2019 (based on the preliminary GDP data for the three months ended 31 March 2019). This was mainly due to a significant increase in the export of goods.

Gross domestic investment as a percentage of GDP was 25.8%, 27.9%, 27.9%, 26.6%, 24.7% and 21.2% in 2014, 2015, 2016, 2017, 2018 and the three months ended 31 March 2019 (based on the preliminary GDP data for the three months ended 31 March 2019), respectively. The increases in gross domestic investment as a percentage of GDP from 2014 to 2015 were due to measures undertaken by the Government to prevent illegal interference by state authorities in private business, to support certain sectors of the economy, such as agriculture, and to ensure a greater availability of credit resources. The increases were also due to the positive effects of the Customs Union, which covers a market of about 183 million people, as well as the opening of the

participating countries. Inventory accumulation decreased from 4.2% in 2014 to, according to preliminary estimates, 3.3% in 2018. The decreases in gross domestic investment as a percentage of GDP from 2016 to 2017, from 2017 to 2018 and from 2018 to the three months ended 31 March 2019 were all principally due to increases in net exports as a percentage of GDP from 3.3% in 2016 to 8.1% in 2017, 12.7% in 2018 and 16.7% in the three months ended 31 March 2019 (based on the preliminary GDP data for the three months ended 31 March 2019). In nominal terms, gross domestic investment increased from KZT 13.1 trillion in 2016 to KZT 14.1 trillion in 2017 and KZT 14.7 trillion in 2018. Gross domestic investment also increased from KZT 2.6 trillion in the three months ended 31 March 2018 to KZT 2.8 trillion in the three months ended 31 March 2019.

The growth of net exports was slower than the growth of GDP from 2014 to 2018. Net exports, as a percentage of GDP, decreased from 2014 to 2018 by 1.0%. Net exports, as a percentage of GDP, increased to 13.7% in 2014, decreased sharply to 4.0% in 2015 and 3.3% in 2016, and then increased to 8.1% in 2017 and 12.7% in 2018. The sharp decrease in 2015 and 2016 was due to the low prices of commodities in global markets. From 2014 to 2018, the real value of exports decreased by 23.1%, and the real value of imports decreased by 18.5%. The overall decline in net exports was in large part due to a decrease in oil prices (prices are the average spot price of Brent crude oil as reported by the U.S. Energy Information Agency) from U.S.\$98.89 per barrel in 2014 to U.S.\$71.19 per barrel in 2018.

## Principal Sectors of the Economy

### Industry

The following table sets forth Kazakhstan's industrial output by sector in Tenge for the years or the periods indicated:

#### Industrial output by type of economic activity

	Years ended 31 December					Six months ended 30 June 2019 <sup>(2)</sup>
	2014	2015	2016	2017	2018	2019 <sup>(2)</sup>
	<i>(KZT millions)</i>					
Mining and quarrying .....	11,060,179	7,521,180	9,397,619	11,568,785	14,877,068	8,187,882
<i>Of which:</i>						
Coal and lignite .....	219,282	213,521	232,703	292,079	342,996	164,909
Crude oil .....	9,078,513	5,757,048	7,293,085	8,994,914	11,819,915	6,390,735
Natural gas .....	85,582	123,179	116,844	207,819	240,320	193,017
Metal ores .....	863,139	740,258	989,193	1,188,391	1,474,218	905,690
Other mining .....	136,671	154,573	175,694	191,988	265,709	125,159
Technical services to mining industry .....	676,992	532,599	590,100	693,593	733,909	408,371
Manufacturing .....	6,089,645	5,978,008	8,046,845	9,400,848	10,403,854	5,175,865
<i>Of which:</i>						
Foods .....	1,103,491	1,123,041	1,448,386	1,525,814	1,527,687	756,836
Beverages .....	233,059	216,316	254,294	311,675	343,794	191,065
Tobacco .....	104,232	93,469	105,936	106,247	123,620	43,340
Light industry .....	63,189	71,592	82,464	98,090	99,351	50,983
Wood and cork products (excluding furniture), straw wares and wickerwork .....	19,882	21,313	24,385	21,355	23,741	10,368
Paper products .....	33,605	33,687	48,416	56,672	62,381	31,126
Coke and refined petroleum products .....	565,219	462,234	640,137	716,297	901,982	409,919
Chemicals and chemical products .....	230,310	241,588	284,551	333,328	401,141	232,934
Basic pharmaceuticals .....	38,043	37,172	47,353	72,439	78,526	45,887
Rubber and plastic products .....	158,057	150,028	186,777	226,568	211,380	96,543
Other non-metallic mineral products .....	452,081	442,989	442,975	506,479	563,678	244,170
Metallurgy <sup>(1)</sup> .....	1,912,427	2,140,058	3,380,172	4,075,747	4,614,873	2,329,926
Metal products (excluding machines and equipment) .....	179,898	176,733	234,453	233,937	239,609	110,161
Engineering, including machine building .....	902,541	668,265	766,781	998,176	1,089,800	553,156
Furniture .....	33,796	30,256	35,959	43,483	38,613	19,081

Electrical supply, gas supply, steam supply and air conditioning.....	1,210,167	1,256,429	1,384,129	1,582,299	1,693,343	809,935
Water supply, sewer system, waste system collection and removal of waste .....	169,234	175,761	198,189	238,277	243,797	118,625
<b>Total industrial output.....</b>	<b>18,529,225</b>	<b>14,931,378</b>	<b>19,026,781</b>	<b>22,790,209</b>	<b>27,218,063</b>	<b>14,292,307</b>

Source: MNE

Notes:

- (1) Metallurgy includes ferrous metallurgy, production of basic precious and non-ferrous metals, and metal casting.
- (2) Preliminary Data

Kazakhstan has a sizeable industrial base, with a large share of its industrial activity concentrated in heavy industry. The industrial sector accounted for 27.3%, 24.7%, 26.1%, 26.8% and, according to preliminary data, 28.9% and 30.9% of Kazakhstan's total GDP in 2014, 2015, 2016, 2017, 2018 and the six months ended 30 June 2019 (based on the preliminary GDP data for the six months ended 30 June 2019), respectively. Mining and quarrying (including both oil and gas extraction and mining of metal ores and coal and lignite) is the most important component of the Kazakhstan's industrial base. In 2018, total mining output included crude oil (79.5%), metal ores (9.9%), technical services (4.9%), coal and lignite (2.3%), other mining (1.8%) and natural gas (1.6%). For the six months ended 30 June 2019, total mining output included crude oil (78.1%), metal ores (11.1%), technical services (5.0%), natural gas (2.4%), coal and lignite (2.0%) and other mining (1.5%). Kazakhstan was a major raw materials supplier to the former Soviet Union and has sizeable, largely unexploited, endowments of oil, natural gas and minerals. Output from crude oil extraction accounted for 22.9%, 14.1%, 15.5%, 16.9%, 19.8% and 23.1% of Kazakhstan's GDP in 2014, 2015, 2016, 2017, 2018 and the six months ended 30 June 2019 (based on the preliminary GDP data for the six months ended 30 June 2019), respectively.

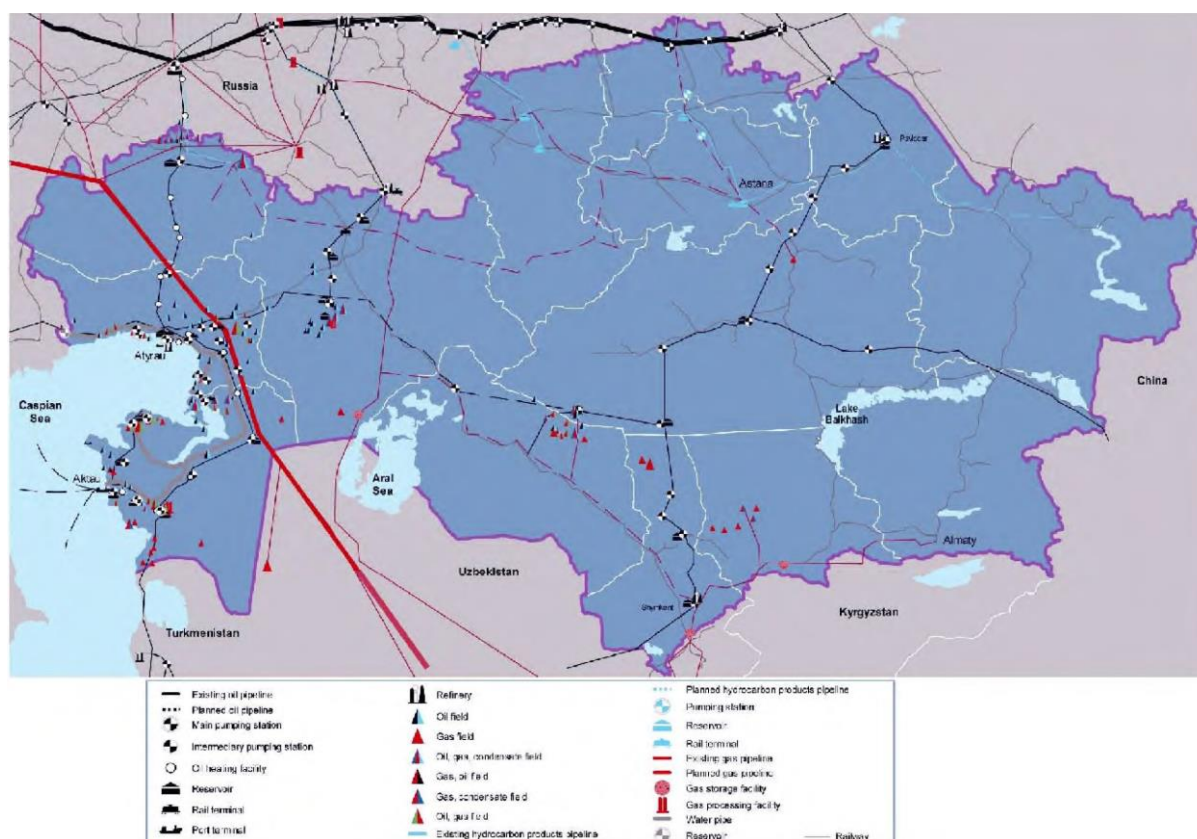
It is a strategic priority of the Government to diversify the economy away from natural resources extraction by developing the industrial sector through programmes such as those set out in the Strategic Plan 2020. See "*The Republic of Kazakhstan—Development Strategy*".

From 2014 to 2018, in nominal terms, total industrial output grew by 46.9%. The greatest growth over the 2014 to 2018 period was recorded in engineering (including machine building), metallurgy, crude oil extraction and metal ore mining, as these industries benefited from high levels of investment and external demand during these years. In nominal terms, total industrial output grew by 8.5% from the six months ended 30 June 2018, when it amounted to KZT 13.2 trillion, to the six months ended 30 June 2019, when it amounted to KZT 14.3 trillion.

Total industrial output decreased by 19.4% in 2015 and then increased by 27.4%, 19.8%, 19.4% and 8.5% in 2016, 2017, 2018 and the six months ended 30 June 2019 as compared to the six months ended 30 June 2018, respectively (in real terms, it decreased by 1.6% in 2015 and by 1.1% in 2016 and then increased by 7.3% in 2017, by 4.4% in 2018 and by 2.6% in the six months ended 30 June 2019 as compared to the six months ended 30 June 2018). The decrease in industrial output in 2015 as compared to 2014 was mainly driven by reduced output in crude oil production and engineering. The increase in industrial output in 2016 as compared to 2015 was principally driven by increased output in the manufacturing sector. The increase in industrial output in 2017 as compared to 2016 was principally driven by increased output in crude oil production and the manufacturing sector. The increase in industrial output in 2018 as compared to 2017 and in the six months ended 30 June 2019 as compared to the six months ended 30 June 2018 was mainly driven by increased output in crude oil production.

## Oil and Natural Gas

The following map sets forth Kazakhstan's principal onshore oil and gas exploration and production, transportation and refining and trading assets as at 30 June 2019:



The oil and gas sector is of strategic importance to Kazakhstan because it is the principal source of Kazakhstan's export earnings and reserves, fiscal revenue and future FDI inflow. According to the Annual Statistical Bulletin for 2018 published by the Organisation of the Petroleum Exporting Countries, Kazakhstan ranked 11th in the world for its level of proven crude oil reserves and 18th in the world for its level of gas reserves. As at 30 June 2019, there were 219 hydrocarbon subsoil use contracts registered in Kazakhstan.

The national oil and gas company, JSC NC KazMunayGas ("**KazMunayGas**"), was created in 2002 to represent the State's interests in Kazakhstan's oil and gas industry. KazMunayGas has a number of subsidiaries, including companies operating in the areas of exploration, extraction, transportation, refining and sales of hydrocarbon raw materials. KazMunayGas holds equity interests in the Kashagan field (8.44% with another 8.44% owned by Samruk-Kazyna) and the Tengiz field (20%), as well as interests ranging between 15% and 100% in many onshore projects. It holds at least a 50% interest in most of the offshore projects.

Increasing oil production has been the result of an influx of foreign investment into Kazakhstan's oil sector since 1991. International investment in the oil and gas sector in Kazakhstan has taken the form of joint ventures, including with KazMunayGas, as well as production-sharing agreements and exploration/field concessions.

Kazakhstan's methods of classifying oil and gas reserves, which are based on the system employed in the former Soviet Union, differ significantly from the standard international methodology. Accordingly, stated reserves do not necessarily correspond to economically recoverable reserves. The oil and gas reserve information contained herein represents total "explored reserves", consisting of oil and gas reserves in categories A, B and C1, and "preliminary reserves" in category C2 of the Kazakh classification system.

The volume of exports of oil and gas products in tonnes from Kazakhstan has decreased slightly between 2014 and 2018. See "*Balance of Payments and Foreign Trade - Composition of Trade*".

## Oil

Kazakhstan is the second largest oil producer in the CIS after Russia and has the Caspian region's largest recoverable crude oil reserves. According to the BP Statistical Review of World Energy 2019, as at 31 December 2018, Kazakhstan had proven reserves of approximately 30 billion barrels of oil, or 1.7% of global proven reserves, and produced 91.2 million tonnes of oil in 2018, or 2.0% of global production in that year.

In 2016, Kazakhstan joined the OPEC Plus Agreement and has undertaken to maintain production of oil at the level of 1.86 million barrels per day in 2017 to 2018. Since that time, Kazakhstan continues to cooperate with OPEC and non-OPEC countries within the OPEC Plus Agreement. The latest agreement on maintaining the production of oil at the above levels by another nine months was agreed in Vienna on 2 July 2019.

The most significant oil fields in Kazakhstan are the Tengiz field, the Kashagan field and the Karachaganak field. Set out in the table below is data for production of oil in each of three fields for the periods indicated.

Oil and Gas Condensate Field	Years ended 31 December					Six months ended 30 June
	2014	2015	2016	2017	2018	2019 <sup>(1)</sup>
	<i>(million tonnes)</i>					
Tengiz	26.7	27.2	27.6	28.7	28.6	14.9
Karachaganak	11.0	10.8	10.5	11.2	11.0	5.9
Kashagan	-	-	1.0	8.3	13.2	5.7

Source: MNE

Note:

(1) Preliminary data.

The Tengiz field is located in the south-eastern part of the Pre-Caspian Basin on the north-eastern edge of the Caspian Sea. It was discovered in 1979 in the Atyrau region. In 1993, the Tengizchevroil consortium was formed to develop the Tengiz field. The current equity owners in the Tengizchevroil consortium are Chevron (50.0%), ExxonMobil (25.0%), KazMunayGas (20.0%) and LukArco (5.0%). The Tengiz field has estimated recoverable reserves of 781 million tonnes of oil. In July 2016, equity owners in the Tengizchevroil consortium made the final investment decision to finance the Future Growth Project – Wellhead Pressure Management Project. The integrated Future Growth Project – Wellhead Pressure Management Project is designed to further increase total daily production from the Tengiz reservoir and seeks to maximise the ultimate recovery of resources. The Future Growth Project uses sour gas injection technology, successfully developed and proven during the previous expansion in 2008, to increase daily crude oil production from the Tengiz field by approximately 260,000 barrels per day. Over 45,000 Kazakhstani nationals were working on the Future Growth Project at the end of 2018. In parallel, the Wellhead Pressure Management Project seeks to maximise the value of existing Tengizchevroil facilities by extending the production plateau and keeping the existing plants production at full capacity. As a result of the implementation of the integrated Future Growth Project – Wellhead Pressure Management Project at the Tengiz field, its capacity is expected to increase by approximately 12 million tonnes per year. First oil production as a result of the implementation of the Future Growth Project – Wellhead Pressure Management Project is currently planned for 2022.

The Karachaganak oil and gas condensate field (KOGCF) located in western Kazakhstan is one of the largest oil and gas condensate fields in the world. The field was discovered in 1970, has an area of about 280 square kilometres and contains reserves of more than 1.2 billion tonnes of oil and gas condensate and more than 1.3 trillion cubic metres of gas. The field has recoverable reserves of liquid hydrocarbon feedstock of approximately 320 million tonnes and over 450 billion cubic metres of natural gas. The field is owned by Karachaganak Petroleum Operating B.V. (“KPO”), a consortium of Shell (29.25%), ENI (29.25%), Chevron (18%), Lukoil (13.5%) and KazMunayGas (10%), which is party to a 40-year production sharing agreement with the Government. In 2018, the total volume of oil production at the Karachaganak field was 11.0 million tonnes. Most of the exported volumes of processed oil and gas condensate were transported through the CPC pipeline. A portion was also exported via the Atyrau-Samara (Russia) pipeline. Liquids not exported via these pipelines were sold as condensate in local and Russian markets. Currently, KPO is starting several plateau extension and expansion projects, which include KPC gas debottlenecking (KGDBN) project, 4th injection compressor (4IC) project and 5th trunkline and wells project (three Karachaganak plateau extension projects aimed at extending the duration of the liquid production plateau) as well as Karachaganak expansion project, stage 1.

Kashagan is Kazakhstan's first major offshore oil and gas upstream deposit project, which incorporates four fields – Kashagan, Kalamkas-morye, Kairan and Aktoty. The giant Kashagan field is one of the largest oil fields opened in the last decades. Its recoverable reserves amount to approximately two billion tonnes of oil. The Kashagan offshore reservoir is 80 kilometres from Aturau and lies at a depth of over four kilometres below the sea bed. North Caspian Operating Company (“NCOC”) acts as the operator of the project on behalf of a consortium with the following shares in the project: KMG Kashagan BV (16.88%, which is owned in equal shares by KazMunayGas and Samruk Kazyna), Shell (16.81%), Total (16.81%), Eni (16.81%), ExxonMobil (16.81%), CNPC (8.33%) and Inpex (7.56%). Production of oil from the Caspian shelf of the Kashagan field started on 11 September 2013, but was suspended on 25 September 2013 due to problems with the gas pipelines at the field. On 28 September 2016, production of oil in the Kashagan field resumed and amounted to 1.0 million tonnes in 2016, 8.3 million tonnes in 2017, 13.2 million tonnes in 2018 and 5.7 million tonnes for the six months ended 30 June 2019. In June 2019, NCOC announced that oil production volumes reached 370,000 barrels of oil per day following the first major shutdown since production began in 2016. The 35-day shutdown, completed in May 2019, included projects to improve safety and efficiency, among them a processing plant re-boiler upgrade and a revamp of the offshore gas injection system.

Despite the decline in the global demand for crude oil following the onset of the global financial crisis, total production of oil and gas condensate in Kazakhstan in 2014, 2015, 2016, 2017 and 2018 amounted to 80.8 million tonnes, 79.5 million tonnes, 78.0 million tonnes, 86.2 million tonnes and 90.4 million tonnes, respectively. For the six months ended 30 June 2019, the total production of oil and gas condensate in Kazakhstan amounted to 44.3 million tonnes. The slight decline in the oil and gas condensate production between 2014 and 2016 is attributable to a material degree to the suspension of production from the Kashagan field due to problems with the gas pipelines at the field.

Kashagan (with production of 13.2 million tonnes of oil and gas condensate in 2018 as compared to 8.3 million tonnes of oil and gas condensate in 2017) was predominantly responsible for the growth in production in 2018. Tengiz, Kashagan and Karachaganak accounted for 58% of Kazakhstan oil production in 2018.

Kazakhstan exports most of the oil it produces. Exports of crude oil have grown significantly since 2000 and most of the oil from Kazakhstan is currently delivered to international markets by pipelines, through Russia, to shipping points on the Black Sea. The opening of the CPC Pipeline in 2001 increased the crude oil export capacity of Kazakhstan substantially. In 2014, 2015, 2016, 2017, 2018 and the six months ended 30 June 2019 Kazakhstan exported 66.7 million tonnes, 62.4 million tonnes, 61.0 million tonnes, 67.8 million tonnes, 69.4 million tonnes and 34.5 million tonnes, respectively.

In 2018 as well as in the first six months of 2019, the largest importers of Kazakhstan oil by volume were Italy, France, the Netherlands, South Korea and Switzerland.

Oil refining in Kazakhstan is strictly regulated by the Government, through direct administration and through the control of transportation tariffs. Kazakhstan (through KazMunayGas) has a significant or controlling interest in three major oil refineries in Kazakhstan. Recent projects have been completed with respect to three refineries located in Atyrau, which launched new units in 2018, Pavlodar, which completed modernisation in 2017, and Shymkent, which completed the final stage of its modernisation in 2018. These projects increased refining capacities and enabled each of the refineries to produce gasoline that is in compliance with higher environmental protection standards. Following completion of these projects, Kazakhstan's total oil refining capacity at the end of 2018 was approximately 17.1 million tonnes per year. In 2018, 13.4 million tonnes of oil were refined in Kazakhstan, as compared to 12.2 million tonnes, 11.9 million tonnes and 12.1 million tonnes in 2017, 2016 and 2015 and 2014, respectively. In the six months ended 30 June 2019, 8.2 million tonnes of oil were refined in Kazakhstan.

Kazakhstan regulates the domestic prices of petroleum products in accordance with the “Rules for determining the maximum price for the retail sale of petroleum products”, which are established by the Ministry of Energy. Pursuant to these rules, a maximum domestic price on petroleum products is fixed. The fixed price is calculated in accordance with a specified formula, which includes the world price of Brent crude oil, and such formula can be changed no more than once a month. Regulation of the prices of domestic petroleum products is intended to mitigate against the risk of a sudden increase in global oil prices, which occur frequently during seasonal consumption peaks.

## Natural Gas

According to the BP Statistical Review of World Energy 2019, as at 31 December 2018 Kazakhstan had proven reserves of approximately 1.0 trillion cubic metres of natural gas, or 0.5% of global reserves, and produced 24.4 billion cubic metres of gas in 2018, or 0.6% of global production in that year. Most of Kazakhstan's natural gas reserves are in crude oil or condensate-rich fields. Two of the three largest petroleum liquids fields, Karachaganak and Tengiz, are also the two largest natural gas fields.

Total production of natural gas in Kazakhstan in 2014, 2015, 2016, 2017 and 2018 amounted to 43.2 bcm, 45.3 bcm, 46.4 bcm, 52.9 bcm and 55.5 bcm, respectively, and, according to preliminary data for the six months ended 30 June 2019, total production of natural gas in Kazakhstan amounted to 28.1 bcm. Output from natural gas extraction accounted for 0.22%, 0.30%, 0.25%, 0.39% and 0.40% of Kazakhstan's GDP in 2014, 2015, 2016, 2017 and 2018, respectively.

Karachaganak is currently the largest gas-producing field in Kazakhstan. Karachaganak operates within the scope of a final production sharing agreement entered into between the Government and a consortium of foreign investors.

Natural gas production in Kazakhstan has increased significantly since 1999. Under Kazakhstan law, subsoil users (such as oil companies) are required to include natural gas utilisation projects in their development plans. Since this law was passed, natural gas production has steadily increased and, by 2000, it had surpassed its pre-independence production levels. Increases in Kazakhstan's gas production are expected to be primarily associated gas from the Tengiz, Karachaganak and Kashagan fields.

Natural gas in Kazakhstan is almost entirely associated gas, meaning it is produced with oil. For this reason, several fields, including the Karachaganak field, re-inject significant quantities of gas into the ground to maintain crude wellhead pressure for liquids extraction. In the long-term, when the liquids are exhausted, this gas can then be recovered. Associated gas that is not re-injected is instead flared, which is economically inefficient and is particularly harmful to the environment. With a view to reducing the occurrence of natural gas flaring, in May 2005, the Government ordered all oil producing firms to reduce oil production levels. One of the main sources of pollution related to the exploration and operation of oil, gas and gas condensate fields is the products of associated petroleum gas flaring, and consequently the utilisation of associated gases at Kazakhstan's oil and gas fields has become an issue of State significance. According to the Subsoil Code, the Ministry of Energy is conducting a permanent monitoring of the fulfilment of the approved Associated Gas Utilisation Programmes by Kazakhstan subsoil users. Pursuant to the Subsoil Code, subsoil users have been required to provide for associated gas processing development programmes, which are to be updated every three years for the purpose of the rational use of associated gas and the mitigation of environmental impact by reducing the volumes of gas flaring or re-injecting (utilising) it. Since these measures were introduced, there has been a reduction of gas flaring from 3.1 to 2.0 billion cubic metres between 2006 and 2018, whereas oil production has increased from 64.9 million tonnes in 2006 to 90.3 million tonnes in 2018 and gas production has increased from 27.0 to 55.5 billion cubic metres during the same period.

The following table sets out the amount of natural gas consumed in Kazakhstan and exported from Kazakhstan, for the years and the periods indicated:

	Years ended 31 December					Six months ended 30 June 2019
	2014	2015	2016	2017	2018	2019
	<i>(billion cubic metres)</i>					
Total consumption of natural gas in Kazakhstan	12.5	12.1	13.1	13.8	15.1	8.6
Total natural gas exports	11.1	12.7	13.7	17.2	19.4	9.4

Source: Ministry of Energy of the Republic of Kazakhstan

Kazakhstan has two separate domestic natural gas distribution networks: one in the west that services the country's operational natural gas fields and one in the south that mainly delivers imported natural gas to the southern consuming regions, including Almaty.



Domestic gas consumption in Kazakhstan is increasing. Kazakhstan encourages the use of gas instead of coal and other energy sources that are associated with higher levels of air pollution. For example, public transport in some cities is now powered by gas. Another state priority is the development of a petrochemical industry for the production of polyethylene and polypropylene from associated gas. Further, in 2014, the Government adopted the General Plan for Gasification of the Republic of Kazakhstan, under which it plans to make natural gas available by 2030 to 56% of the population. Domestic gas consumption increased in 2018 by 9.4% as compared to 2017, and amounted to 15.1 bcm. The level of gasification in Kazakhstan increased from 47.4% as at 1 January 2018 to 49.7% as at 1 January 2019.

In 2012, a new law on gas and gas supply was adopted, which aims to ensure that Kazakhstan continues to meet its domestic gas needs through, among other things, storing gas reserves and ensuring that the State has a right of first refusal over any gas assets that are sold, which are currently privately owned. In addition, this law on gas and gas supply sought to provide for the efficient, reliable and safe operation of gas supply systems through the continuous remote monitoring of gas transportation and the unification of Kazakhstan's gas supply system.

On 5 December 2014, the Government approved an ongoing programme, the "Concept for the Development of Gas Sector until 2030", which provides for various measures, including a pilot project on the production of coal-bed methane in the Karaganda region and the identification of gas fields on which it is practicable to construct facilities for the production of liquefied natural gas, synthetic oil products and methanol or which can be connected feasibly to the gas collection centres of a national gas operator.

### *Electricity*

Electricity in Kazakhstan was generated by 138 power plants in 2018. In 2018, the volume of electricity generated in Kazakhstan was 106.8 billion kWh, an increase of 4.4% compared to 2017. Of this volume, thermal power stations generated 86.8 billion kWh (81%); hydropower plants generated 10.3 billion kWh (9.6%); gas turbine stations generated 9.2 billion kWh (8.6%); wind stations generated 401.9 million kWh (0.4%); and solar power stations generated 142.3 million kWh (0.1%). The aggregate installed electricity capacity in Kazakhstan as at 31 December 2018 was 21,902 MW and the electricity production capacity was 18,895 MW (with the difference being due to the age and disrepair of some assets and losses in the transmission system).

The table below shows the installed and electricity production capacity of Kazakhstan as at the dates indicated:

	As at 31 December				
	2014	2015	2016	2017	2018
			(MW)		
Installed electricity capacity .....	20,613	21,307	22,055	21,673	21,902
Electricity production capacity .....	16,255	17,500	18,789	18,790	18,895

Source: Kazakhstan Electricity Grid Operating Company (KEGOC)

In 2018, Kazakhstan exported approximately 5.2% of the total volume of electricity it generated. Electricity was exported to Russia and to other countries in Central Asia. Export of electricity from Kazakhstan has grown over the years. Kazakhstan exported 1,625 billion kWh, 3,108 billion kWh, 5,788 billion kWh and 4,876 billion kWh of electricity in 2015, 2016, 2017 and 2018, respectively. Due to the fact that Kazakhstan's electricity transmission and distribution network was constructed as a part of the former Soviet Union's electricity system and is concentrated in the northern region of Kazakhstan, which is close to the main sources of power generation, Kazakhstan imports electricity to serve its Southern and the Western zones. In the seven months ended 31 July 2019, the volume of electricity generation amounted to 60.4 billion kWh, or 95.5% of the volume of electricity generation in the seven months ended 31 July 2018, while the volume of consumption of electricity amounted to 60.4 billion kWh. The decrease in the the volume of electricity generation in the seven months ended 31 July 2019 as compared to the seven months ended 31 July 2018 was principally due to the decrease in export of electricity. In the past, Russia was the main purchaser of exported electricity from Kazakhstan and most of such electricity came from Ekibastuzskaya GRES-1. However, in August 2018, Russia refused to renew its agreement with Ekibastuzskaya GRES-1, which had a negative impact on exports.

As at 1 January 2019, power stations in Kazakhstan were divided into eight power stations of national importance and 130 other power stations that were connected to the national grid either directly or through grids of 29 distribution companies or other owners. Power stations of national importance include (i) Ekibastuzskaya GRES-1, owned by Samruk Energy (100%); (ii) Ekibastuzskaya GRES-2, owned by Inter RAO UES (50%) and Samruk Energy (50%); (iii) "Eurasian Energy Corporation" (Aksu GRES), owned by Eurasian Resources Group

(100%); (iv) Zhambylskaya GRES; (v) Karaganda GRES-2; (vi) Bukhtarminskaya GES; (vii) Ust-Kamenogorskaya GES; and (viii) Shulbinskaya GES.

The electricity transmission network of Kazakhstan is a complex network of substations and distribution facilities. It connects 0.4-1,150 KV electricity transmission lines, which are used for the transmission and distribution of electricity. The national power grid plays an instrumental role by underpinning the network of the Unified Power System of Kazakhstan. It provides electricity connections between different regions in Kazakhstan and with the power systems of neighbouring countries (Russia, Kyrgyzstan and Uzbekistan), as well as electricity transmission from power plants to wholesale consumers. The Kazakhstan Electricity Grid Operating Company (“**KEGOC**”) is the State-owned transmission system operator that owns the substations, switchgear installations, interregional and cross-border transmission lines, as well as the transmission lines for the delivery of power from power plants, all of which are 220 KV or higher and form the national power grid.

Power is supplied in Kazakhstan by way of the electricity and heat energy markets, in which electricity and heat energy are considered to be commodities. The electricity market operates on both a wholesale and retail level, whereas the heat energy market is a single-level retail market. In the wholesale market, organisations and customers (large corporates, regional electricity companies, and trade and intermediary organisations) obtain the rights to sell and buy electricity by entering into direct bilateral contracts of sale. According to procedures established by the Natural Monopoly Agency, KEGOC, as the system operator, regional electricity companies as well as other organisations that own the electricity networks, are obliged to provide unrestricted access to the electricity market for all participants. Wholesale market participants also have unrestricted access to the national power grid for the transportation of purchased and sold electricity. The management of the wholesale market of Kazakhstan is carried out by JSC “Kazakhstan Electricity Market Operator of Energy and Power” (KOREM), as the centralised trade market operator, and by KEGOC, as the system operator of the Unified Power System of Kazakhstan.

The retail market consists of individual regional markets with their own power plants, electricity grids, traders and consumers. The Electric Power Industry Law authorises competition in the retail market between suppliers. However, in practice, the supply of electricity to retail customers is exclusively performed by regional electricity companies based on power contracts.

Electricity generating companies, natural monopolies (which include heat energy generating companies, electricity and heat energy transmission and distribution companies, and heat energy sale and purchase companies) and electricity sale and purchase companies that have dominant or monopolistic positions are subject to price regulation.

The power industry remains a key factor in Kazakhstan’s industrial development and economic growth. The Government approved the “Concept on Development on Fuel Energy Sector until 2030”, which includes goals and measures for the development of the energy sector.

As at the date of this Base Prospectus, Kazakhstan has no active nuclear power generation capacity. The country's only nuclear power plant, the BN-350 sodium-cooled fast reactor located near Aktau in the Mangystau Region, ceased generating in 1999 after 26 years of operation and is being decommissioned.

In 2014, JSC Kazakhstan Nuclear Power Plants was created, which is owned by Samruk Kazyna. Currently, it is conducting research on two potential locations for a new nuclear power plant – Kurchatov city in the East Kazakhstan region and the area near Ulken village in the Almaty region. To clarify the economic and technical parameters for a possible nuclear power plant and to choose the reactor technology, generation III+ reactor technologies available on the market are being analysed. Technologies of the world leading companies from China, France, South Korea, the U.S. and Russia with experience in the design, construction and operation of nuclear power plants are being reviewed and considered. However, to date, no decision on the construction of a nuclear power plant has been made.

From 1 January 2019, an electricity capacity market has started operating in Kazakhstan and it has been implemented to ensure that investors receive a return on their investments relating to the construction or modernisation of electricity generating facilities. The concept of the electricity capacity market provides that electricity generating companies will receive revenue through two tariffs: a tariff for the sale of electricity and a tariff for maintaining the readiness of electric capacity. The first tariff, payments with respect to which are supposed to cover the operating expenses of power plants, will be paid by purchasers of electricity. The second tariff, payments with respect to which are supposed to cover the capital expenses of investments in new projects

and in the modernisation, reconstruction and expansion of existing power facilities, will be paid by a designated-by-law single offtaker (currently, a wholly-owned subsidiary of KEGOC).

### *Mining*

Kazakhstan is a leading producer of many mineral commodities. Despite being a major mineral producer, Kazakhstan's mining output has been relatively modest in relation to its estimated reserves. Moreover, further reserves are known to exist which have not yet been fully surveyed.

In addition to its oil and gas reserves, Kazakhstan has significant reserves of other energy producing minerals. It produced 114.6 million tonnes of coal in 2014, 107.3 million tonnes in 2015, 103.1 million tonnes in 2016, 112.3 million tonnes in 2017, 118.5 million tonnes in 2018 and 54.0 million tonnes in the first half of 2019.

In terms of proven reserves, according to the BP Statistical Review of World Energy 2019, Kazakhstan is ranked tenth in the world for coal as at 31 December 2018. As at the same date, Kazakhstan had proven reserves of 25.6 billion tonnes of coal, or 2.4% of global reserves, and produced 50.6 million tonnes oil equivalent in 2018, or 1.3% of global production in that year. There are 10 pools of black and brown coal, and more than 300 explored deposits, in Kazakhstan. Most of the coal deposits are located in the Karaganda, Pavlodar and Kostanai regions. The Karaganda coal basin is the main coal basin in Kazakhstan, covering an area of more than 3,600 square kilometres. The second largest coal basin in Kazakhstan is Ekibastuz, which is located between the Saryarka and Priertysskoy plains.

According to UxC data, as reported in the 2018 annual report of National Atomic Company Kazatomprom JSC, Kazakhstan accounted for approximately 44% of global uranium production in 2018. In 2014, the volume of production amounted to 22.8 thousand tonnes, in 2015 – 23.8 thousand tonnes, in 2016 – 24.6 thousand tonnes, in 2017 – 23.3 thousand tonnes, in 2018 – 21.7 thousand tonnes and, in the six months ended 30 June 2019 – 11.5 thousand tonnes. The decrease in uranium production in 2018 as compared to 2017 was due to the decision of National Atomic Company Kazatomprom JSC, which has a monopoly over uranium production in Kazakhstan, to reduce planned production of uranium volumes by 20% for the period from 2018 to 2020 (as compared to consolidated planned production levels under subsoil use licences) due to market conditions. Currently, due to the lack of domestic demand, all uranium mined in Kazakhstan is exported.

Kazakhstan produces a significant amount of precious metals. Kazakhstan produced approximately, 49.2 tonnes in 2014, 63.6 tonnes in 2015, 74.7 tonnes in 2016, 85.0 tonnes in 2017, 100.3 tonnes of gold in 2018 and 48.1 tonnes in the first half of 2019. Kazakhstan also produces a significant amount of the world's silver, producing 981.9 tonnes in 2014, 1,308.9 tonnes in 2015, 1,186.5 tonnes in 2016, 1,058.6 tonnes in 2017, 969.3 tonnes in 2018, and 471.4 tonnes in the first half of 2019.

According to the Kazakhstan Institute of Geology, Kazakhstan has substantial reserves of non-ferrous minerals, including lead, zinc and copper. In 2016, Kazakhstan produced 70.7 thousand tonnes of lead, 325.6 thousand tonnes of zinc and 439.5 thousand tonnes of copper. In 2017, Kazakhstan produced 112.3 thousand tonnes of lead, 306.8 thousand tonnes of zinc and 502.9 thousand tonnes of copper. In 2018, Kazakhstan produced 86.0 thousand tonnes of lead, 303.7 thousand tonnes of zinc and 580.6 thousand tonnes of copper. In the seven months ended 31 July 2019, Kazakhstan produced 40.0 thousand tonnes of lead, 133.4 thousand tonnes of zinc, and 344.9 thousand tonnes of copper.

Ferrous and non-ferrous metals mined in Kazakhstan are exported principally to Japan, South Korea, the U.S., Canada, Russia, China and the EU.

### *Construction*

As at 31 December 2018, there were approximately 7,654 construction contractors operating in Kazakhstan, of which 7,094 were small companies (up to 100 employees), 354 were medium-sized companies (from 101 to 250 employees) and 206 were large companies (over 250 employees). The construction sector accounted for 5.9%, 6.0%, 5.9%, 5.5% and, according to preliminary data, 5.5% and 4.6% of GDP in 2014, 2015, 2016, 2017 and 2018 and the six months ended 30 June 2019 (based on the preliminary GDP data for the six months ended 30 June 2019), respectively.

According to the Statistical Committee of the Ministry of National Economy, the total area of new housing built in Kazakhstan in 2018 was 12.5 million square metres, which is an increase of 12.1% compared to 2017.

Approximately KZT 204.5 billion was spent on housing construction in Kazakhstan in the six months ended 30 June 2019, which is an increase of 14.3% as compared to the six months ended 30 June 2018. The total cost of construction works and services in Kazakhstan in the six months ended 30 June 2019 is estimated to be KZT 3.9 billion, representing a 4.6% increase compared to the six months ended 30 June 2018. In the six months ended 30 June 2019, 21,720 new buildings were built in Kazakhstan, including 19,950 residential buildings. In 2018, 90 comprehensive schools, 103 pre-school institutions, five hospitals and 48 outpatient clinics were commissioned. In addition, eight comprehensive schools, 30 pre-school institutions and three outpatient clinic were commissioned in the six months ended 30 June 2019.

### ***Agriculture***

Agriculture has traditionally been the second largest sector in Kazakhstan's economy after the industrial sector, both in terms of employment and contribution to GDP. However, its relative importance has diminished in recent years. The agricultural sector (agriculture, forestry and fishing) accounted for 4.4%, 4.8%, 4.6%, 4.3% and, according to preliminary data, 4.3% and 2.4% of Kazakhstan's total GDP in 2014, 2015, 2016, 2017 and 2018 and the six months ended 30 June 2019 (based on the preliminary GDP data for the six months ended 30 June 2019), respectively.

The agricultural sector in Kazakhstan is comprised of crop cultivation and livestock farming. Crop cultivation accounted for 55.3%, 55.2%, 55.6%, 55.2% and 53.9% of the gross agricultural products (services) output in 2014, 2015, 2016, 2017 and 2018, of which the growing of cereal grains (including rice) and leguminous crops accounted for 15.7%, 18.2%, 19.7%, 19.6%, and 17.9%, respectively. Corn and wheat are also important components of agricultural output. Kazakhstan exports a significant amount of wheat and is one of the largest wheat producers in the world. Other crops include barley, cotton, sugar beets, sunflowers and flax. In 2018, 15.0 million hectares were sown with grain (excluding rice) and leguminous crops, of which 11.4 million hectares were sown with wheat. The gross cropping of cereal grains (excluding rice) and leguminous crops accounted for 19.8 million tonnes including 13.9 million tonnes of wheat in 2018.

Of the country's overall land mass of 272.5 million hectares, approximately 222 million hectares are classified as agricultural land. Pastures account for 187 million hectares, or 84%, of agricultural land. Drought and soil erosion are significant problems and substantial parts of Kazakhstan's agricultural land are under threat of becoming desert due to over-intensive farming during the 1950s and 1960s under the Soviet Union regime and the diversion of sources of water, such as the rivers flowing into the Aral Sea. See "*Environment*" below. In order to support the agriculture sector, the Government has implemented several programmes to improve the investment climate for farming in Kazakhstan. Government subsidies for agriculture amounted to KZT 146.0 billion in 2014, KZT 34.8 billion in 2015, KZT 92.5 billion in 2016, KZT 115.2 billion in 2017 and KZT 226.0 billion in 2018. In the 2019 budget, Government subsidies for agriculture amount to KZT 104.5 billion.

The gross output of agricultural products (including services) amounted to KZT 3,143.7 billion, KZT 3,307.0 billion, KZT 3,684.4 billion, KZT 4,070.9 billion, KZT 4,474.1 billion and KZT 1,459.6 billion in 2014, 2015, 2016, 2017, 2018 and the six months ended 30 June 2019, respectively.

Kazakhstan has implemented a number of measures to support its agriculture sector, including, investing in new irrigation technologies, taking steps to diversify crop farming by encouraging the cultivation of crops other than wheat, supporting the modernisation of agricultural equipment and machinery, and providing low interest loans to companies and individuals working within the agricultural sector. Kazakhstan has also taken steps to support its fishing industry, including, cleaning oil products from the Caspian Sea and increasing protection against illegal fishing practices.

### ***Transportation***

Kazakhstan has a railway network, 24 airports, a merchant fleet, a comprehensive road network and extensive pipeline infrastructure. The market for the provision of transport services has been liberalised and restructured, particularly in the rail sector.

Transportation is considered a key strategic sector of the Kazakhstan economy. At the 25th plenary session of the Foreign Investors' Council in September 2012, President Nazarbayev announced the commencement of the implementation of a "New Silk Way" project. Pursuant to this project, Kazakhstan would seek to revive its historic role and become the largest business transit hub within the Central Asian region and provide a unique connection between Europe and Asia. The project consists of creating favourable conditions for transit and

reducing existing physical and non-physical barriers, so that Kazakhstan will serve as a land bridge between the East and West, opening the way for the transit of goods from western China to Europe, Russia, the Gulf countries, Central Asia and the Caucasus.

### *Railways*

As at 31 December 2018, Kazakhstan's railway network consisted of 16,060.8 km of railways, of which 4,237.5 km (or 26.3%) were electrified and 4,913.1 km (or 30.4%) were double tracks.

As a result of certain geographical characteristics particular to Kazakhstan, such as its vast territory, extensive land borders, highly dispersed population, the location of natural resources and the location of centres of economic activity, the Kazakhstani economy is heavily reliant on rail freight transportation. The railway network plays an important role in transporting coal, minerals and other commodities over vast distances, as Kazakhstan's economy places a strong emphasis on the production of raw materials and related products. The Kazakhstani railway network also includes an extensive passenger network, providing suburban, intercity and interregional passenger services throughout Kazakhstan. Kazakhstan serves as a vital hub for trade from Russia, China, the EU and the Republics of Kyrgyzstan, Uzbekistan and Turkmenistan and, as such, has one of the busiest railways in terms of volume of traffic among the countries in Eastern Europe and Central Asia.

The Kazakhstan railway system was originally part of the Soviet Union's rail network and was divided into three railways, which were operated by the Soviet Railway Ministry. As a result of the large volumes of bulk raw materials that were required to be transported over long distances across the country, the three railways were among some of the most profitable in the Soviet Union. After the dissolution of the Soviet Union in 1991, the resulting economic disruption and falling production levels throughout the former Soviet Union caused a sharp decline in rail transportation volumes throughout the 1990s. After Kazakhstan's independence, the Government kept certain tariffs artificially low and introduced tariff discounts for certain industries, in particular, the mining industry. Even with tariff discounts, some entities were unable to afford the cost of rail transportation, which resulted in a decline in the volume of railway traffic. This decline, coupled with a decline in Government aid, had a significant impact on railway revenues in the 1990s and, in order to remain operational, railroad operators were forced to defer fleet renewals and maintenance programmes.

The reform of the Kazakhstan railway sector began in 1997 when the Government merged the three railways and established the Railway Republican State Enterprise in an effort to consolidate the rail network and thereby stabilise its financial condition. Despite the restructuring efforts undertaken between 1997 and 2000, the Government recognised the need for further fundamental restructuring and, in 2002, it incorporated the State-owned railway company, Kazakhstan Temir Zholy.

Kazakhstan is currently taking further steps to reform the railway industry, with the aim of improving efficiency and the quality of services as well as increasing freight transit volumes, through liberalisation reforms and the involvement of private investment and private initiatives. These reforms include: (i) disposing of non-core business activities; (ii) de-regulation of the transportation businesses; (iii) subsidising the passenger business; and (iv) privatising potentially viable businesses in the railway industry. Kazakhstan is also developing its domestic rail engineering industry in order to meet increasing domestic demand and export growth, in part related to the implementation of the China-proposed Silk Road Economic Belt initiative (see *"The Republic of Kazakhstan—International Relations—Foreign States — China"*).

Kazakhstan is now capable of domestically producing locomotives, freight cars, passenger cars, railway switches, wrought wheels, large car casting and other railway components. The Aktobe rail and structural steel mill commenced production. Kazakhstan is in the process of constructing a further 213 km of railways, electrifying 524 km of railways and modernising about 5,000 km of railways, which are planned to be completed by the end of 2020.

The MNE regulates activities of Kazakhstan Temir Zholy by establishing tariffs for domestic, import and export freight transportation on the mainline railway network and tariffs for interregional, intercity and suburban passenger transportation. Kazakhstan Temir Zholy currently receives Government grants as compensation for certain passenger transportation tariffs that are set at levels that are either low or not profitable.

By agreement under the CES, Kazakhstan, Belarus and Russia each enacted into law on 1 January 2012 rules that regulate the standards for establishing certain tariff policies for rail transportation services on an agreed basis across these countries and unified rail transportation tariffs in each of these countries, effective from 1

January 2013, across export, import and domestic freight tariffs. However, the agreement permits rail transportation operators, based on certain economic factors, to change those tariffs at their discretion up to certain caps set under national law. In addition, since 1 January 2015, transport operators have had access to the railway infrastructure at the borders of other EEU member states (within the scope set out by the infrastructure operator of the relevant area of railway infrastructure concerned).

#### *Air Transport*

Kazakhstan is serviced by 24 airports, of which Almaty, Shymkent and Astana bear most of the freight and passenger transportation load. The volume of air freight transportation in Kazakhstan was approximately 19,082 tonnes in 2014, 17,178 tonnes in 2015, 18,016 tonnes in 2016, 22,450 tonnes in 2017 and 44,100 tonnes in 2018. Air Astana has been the country's flagship carrier since 2004. The country's flagship carrier had previously been Air Kazakhstan from 1996 to 2004 and Kazakhstan Airlines from 1991 to 1996. In 2015, Samruk Kazyna announced that they have created a new airline, Qazaq Air, which commenced operating domestic flights the same year.

In November 2018, Air Astana, Samruk Kazyna and BAE Systems agreed to create the first Kazakhstani budget carrier, FlyArystan, on the basis of Air Astana. Sales of FlyArystan tickets on the website of the company commenced on 29 March 2019. FlyArystan started flying on domestic routes from its base in Almaty to Nur-Sultan, Karaganda, Taraz, Pavlodar, Chymkent and Uralsk on 1 May 2019 using Airbus A320 planes.

#### *Ports and Shipping*

As at 1 July 2019, Kazakhstan had two river ports (Pavlodar and Atyrau), three Caspian Sea ports (Aktau, Kuryk and Bautino) and over 4,081 kilometres of internal navigable water routes. The sea ports of Aktau and Kuryk are focussed on international shipping of various dry cargoes, crude oil and oil products and ferry cargoes.

In 2017, the project to expand the Aktau port in the northern direction was fully completed. Due to the construction of three cargo terminals with a combined capacity of three million tonnes per year, the capacity of the port is currently 20.5 million tonnes per year.

Work on constructing a ferry terminal in the port of Kuryk commenced in 2015 and continued until 2019. In 2016, the railway ferry terminal for carrying rolling stock with the capacity of 4.2 million tonnes per year was completed, followed by the ferry terminal for carrying freight vehicles with the capacity of 2.0 million tonnes per year, which was launched in August 2018. The main cargoes in this port include oil products (gas oil), consumer goods, chemicals, equipment and metal products.

In total, the capacity of Kazakhstani sea ports has been increased to 27 million tonnes per year.

#### *Roads*

As at 31 December 2018, Kazakhstan had 96,246 km of roads. Much of the road network in Kazakhstan was constructed during the Soviet era and is in need of maintenance or modernisation.

As a result of the need for improvement in the Kazakhstan road network, the Kazakhstan South-West Roads Project was implemented. This programme was designed to help upgrade the trade route that links China to Russia and Western Europe through Kazakhstan. The project was announced on 30 April 2009 and was completed in the second half of 2016. The total length of roads is 8,747 km, of which 4,287 km is through the territory of Kazakhstan.

The Asian Development Bank is providing financing to the Government of Kazakhstan to assist with the implementation of the Central Asia Regional Economic Cooperation (CAREC) Transport Corridor 1 Programme. The Programme involves the rehabilitation, upgrade and construction of an International Transport Corridor between Western Europe and Western China.

In addition to the above, approximately 20 projects are currently being planned to improve the inter-regional road network in Kazakhstan. These projects have an aim to eliminate the gaps in the existing road network and aim to assist in creating a network of efficient infrastructure in transportation and logistics in Kazakhstan by 2025.

The construction of inter-regional road networks include key projects such as, “Center-South” (Nur-Sultan – Karaganda – Balkhash – Almaty) and “Center-East” (Nur-Sultan – Pavlodar – Kalbatau – Ust-Kamenogorsk). These projects remain ongoing, with plans to complete them by 2022. The completion of the “Center-West” project (Nur-Sultan – Arkalyk – Torgau – Shalkar – Beyneu-Aktau) is currently scheduled for 2025.

The “Center-South” project, once constructed, will connect Nur-Sultan with the southern regions of the country, which will result in an increase in the transit capacity between the dry ports located in the border zones and an increase in exports to foreign markets. The “Center-East” project (Nur-Sultan – Pavlodar – Kalbatau – Ust-Kamenogorsk) will connect Nur-Sultan with the eastern regions of the country that contribute to the development of tourism and attract additional opportunities. The “Center-West” project will connect Nur-Sultan with the western regions of the country and consequently increase the transportation of goods between the central and western regions. It is anticipated that this will further integrate the sea ports and the railways into the road network, hence opening up new markets for domestic goods.

Furthermore, a highway from Altynkol to Pidzhim was completed at the end of 2016 as part of the infrastructure for a special economic zone, “Korgos-Eastern Gates”, on the China-Kazakhstan border. This special economic zone is expected to become an important centre of consolidation and distribution of cargo flows in Eurasia.

In addition to the above, there are a number of projects relating to the reconstruction of roads that have particular national importance such as: Kapshagay – Kalbatau; Nur-Sultan – Petropavlovsk – settlements in the Russian Federation; and Usharal – Dostyk. These projects remain ongoing, with plans to complete them by 2022. The completion of the Kyzylorda – Zhezkazgan – Karaganda and Nur-Sultan – Kostanay – settlements in the Russian Federation projects is currently scheduled for 2025.

### *Pipelines*

Kazakhstan has a land-locked geographic position in that its only coastlines lie on closed seas. As a result, the pipeline infrastructure through neighbouring countries has played an important role in the exploitation of Kazakhstan’s hydrocarbon resources, allowing it to reach international markets. As at 31 December 2018, there were 23,334 km of pipelines in Kazakhstan. Kazakhstan’s pipeline infrastructure is owned and operated by State-owned companies.

The main oil pipelines, which are mostly used to export crude oil from Kazakhstan to bordering states, are:

- the Atyrau-Samara pipeline, having a pipeline capacity of 18 million tonnes per year, which transports crude oil from Western Kazakhstan to Russia;
- the CPC Pipeline, which was recently upgraded to increase its capacity from 28.2 million tonnes of oil and gas condensate per year to 67 million tonnes per year, including to 54.3 million tonnes per year on the Kazakhstan segment, for transportation of crude oil from the Tengiz oil field to the Novorossiysk sea port in Russia;
- the Atasu-Alashankou pipeline, having a pipeline capacity of 10 million tonnes per year, which transports crude oil from Central Kazakhstan to China; and
- the Kenkiyak-Kumkol pipeline, having a pipeline capacity of 10 million tonnes per year, which represents a section of the Kazakhstan-China pipeline with a flow capacity up to 20 million tonnes per year.

The CPC Pipeline is owned and operated by the CPC. KazMunayGas acts on behalf of the Government in respect of its 19% holding in CPC. The CPC Pipeline is the primary transportation route for oil from the Tengiz field and is the major transportation route for oil from the Kashagan field. In May 2008, the Russian Ministry of Industry and Energy and the Kazakhstan Ministry of Energy and Mineral Resources reached an agreement to increase the capacity of the CPC Pipeline, which was approved by the CPC Pipeline shareholders in 2009. Under the capacity expansion project, the capacity of the CPC Pipeline was increased from 28.2 million tonnes of oil and gas condensate per year to 67 million tonnes per year, including to 54.3 million tonnes per year on the Kazakhstan segment. The capacity expansion project involved the construction of ten oil transfer stations (two in Kazakhstan and eight in the Russian Federation), six tank farms next to Novorossiysk, a third berth unit at the CPC oil terminal and the replacement of 88 km of pipeline in Kazakhstan with pipes of 100 mm diameter

instead of the 700 mm diameter. Transneft was managing the expansion project in the Russian Federation, Chevron was managing the expansion at Novorossiysk port and KazMunayGas was managing the expansion in Kazakhstan. The capital expenditures for expanding the CPC pipeline capacity were financed out of CPC's own cash flows from the proceeds of oil transportation services provided to the CPC shareholders pursuant to their preferential capacity rights and excess capacity rights on a ship-or-pay basis. Construction works on the expansion project began in July 2011. Works relating to the expansion of the CPC Pipeline's segment in Kazakhstan were completed by the end of 2017 and it currently has the capacity of 54.3 million tonnes of oil per year. Works relating to the expansion of the CPC Pipeline's segment in Russia were completed in 2018. As at 31 December 2018, the CPC Pipeline was 1,511 km long (including storage and loading facilities), with the segment in Kazakhstan totalling 452 km. In 2018, 54.3 million tonnes of oil and gas condensate produced in Kazakhstan were transported through the CPC Pipeline, representing approximately 89% of the total oil and gas condensate produced in Kazakhstan.

In August 2007, Kazakhstan and China reached an agreement on the construction and operation of the Kazakhstan-China Gas Pipeline (the "**Asia Gas Pipeline**"). The first phase of the Asia Gas Pipeline was completed in December 2009 and the second phase of the project was completed in December 2012. In 2018, the project to increase the capacity of the Asia Gas Pipeline (Branch C) to 55 billion cubic metres of gas per year was completed. Work has started on drafting a feasibility study to increase A and B branch capacity to 40 billion cubic metres of gas per year, which will help to increase total gas pipeline capacity to 65 billion cubic metres of gas per year. The Asia Gas Pipeline transported 17.6 billion cubic metres in 2016, 19.6 billion cubic metres in 2017 and 24.6 billion cubic metres in 2018. Another key investment project in the area of gas transportation is the Beineu-Bozoi-Shymkent Gas Pipeline. With the launch of the Kokyt Ata compressor station in the end of January 2019, the project to increase the pipeline capacity of the Beineu-Bozoi-Shymkent Gas Pipeline from 10 billion cubic metres per year to 15 billion cubic metres per year was completed. This pipeline transported 2.2 billion cubic metres of gas in 2017 and 4.2 billion cubic metres of gas in 2018.

Kazakhstan's natural gas pipeline system transports natural gas principally from Turkmenistan, Uzbekistan and Kazakhstan to Russia and from one part of Russia to another through Kazakhstan territory, and distributes gas within Kazakhstan. The natural gas pipeline network includes the Central Asia Centre pipeline, the shortest pipeline route from the gas producing regions of Central Asia (principally Turkmenistan and Uzbekistan) through Russia to Europe. In 2018, the volume of gas transit through the territory of Kazakhstan was 67 billion cubic metres.

### ***Telecommunications***

The telecommunications sector has expanded rapidly in Kazakhstan. The statistics with respect to access to telecommunications services in this section are provided as at 31 December 2018.

There were 17 fixed line telephone subscribers per 100 inhabitants, with a total of 3,206 million fixed line subscribers across the country. In rural areas there were 11 fixed line subscribers per 100 inhabitants, with a total of 0.886 million subscribers in such areas.

Kazakhstan has witnessed significantly faster growth in the use of mobile telephones than fixed line telephones. There were 143 mobile phone subscriptions per 100 inhabitants, with a total of 26,065,600 such subscribers across the country. Both 3G and 4G (LTE) technologies are used in Kazakhstan. In particular, all settlements with a population of at least 10,000 have access to 3G technology; and all settlements with a population of at least 50,000 and all regional centres have access to 4G technology.

There were 2,462,400 subscribers with access to the internet across the country, of which 2,461,300 were subscribers for broadband internet services. 81.3% of Kazakhstan's population had access to internet, including 84.1% in cities and 77.5% in rural areas. Kazakhstan emphasises making internet available through modern ADSL, FTTH/B and wireless 3G and 4G technology. In larger cities, internet connection is supplied through fibreoptic cables with FTTH technology at the speed of 120 Mbit per second.

### **Employment**

In 2014, 2015, 2016, 2017, 2018 and the second quarter of 2019, an average of 8.5 million, 8.4 million, 8.6 million, 8.6 million, 8.7 million and 8.8 million people, respectively, were employed in Kazakhstan representing 95.0%, 94.9%, 95.0%, 95.1%, 95.1% and 95.2%, respectively, of the labour force (i.e., economically active population).



The following table sets out the number of employed people in Kazakhstan by main economic activity for the years or the periods indicated.

### Employed population by main economic activities<sup>(1)</sup>

	Years ended 31 December					Six months ended 30 June
	2014	2015 <sup>(5)</sup>	2016	2017	2018	2019 <sup>(6)</sup>
	<i>(thousand people)</i>					
<b>Total</b> .....	8,510.0	8,433.3	8,553.4	8,585.2	8,695.0	8,762.9
Agriculture, forestry and fishing .....	1,605.4	1,362.9	1,385.5	1,319.0	1,228.2	1,220.7
Industry .....	1,090.6	1,083.7	1,087.2	1,090.4	1,097.8	1,100.2
of which:						
Mining and quarrying <sup>(2)</sup> .....	294.6	284.2	277.6	283.7	286.2	278.0
Manufacturing <sup>(3)</sup> .....	536.3	552.6	568.2	581.6	580.5	594.4
Electricity, gas, steam and air conditioning supply .....	173.3	165.1	161.2	151.0	150.6	148.0
Water supply; sewerage, waste management and recycling .....	86.4	81.9	80.2	74.2	80.4	78.8
Construction .....	677.8	689.5	679.1	614.0	629.1	633.6
Wholesale and retail trade; repair of motor vehicles and motorcycles <sup>(4)</sup> .....	1,248.3	1,260.9	1,305.9	1,334.9	1,396.7	1,409.2
Transport, storage, communications and information .....	584.9	619.5	619.5	608.0	624.7	638.6
Accommodation and food service activities .....	167.2	174.2	170.9	192.0	187.6	204.6
Financial and insurance activities .....	160.1	151.7	160.1	156.1	166.4	162.4
Real estate activities .....	192.5	195.1	180.1	175.0	180.3	186.2
Professional, scientific and technical activities .....	87.4	94.2	114.8	162.5	157.5	153.0
Administrative and support service activities .....	162.0	221.3	240.2	239.1	248.9	253.9
Community, social and personal services .....	196.4	234.3	255.5	279.7	288.2	296.0
Public administration and defence; compulsory social security .....	467.7	470.8	472.8	479.3	500.5	487.0
Education .....	982.4	1,012.8	1,032.8	1,056.1	1,095.8	1,102.0
Human health and social work activities .....	464.0	455.3	469.7	482.4	498.8	501.1
Arts, entertainment and recreation .....	132.3	127.3	132.6	133.8	145.6	150.8
Other service activities <sup>(4)</sup> .....	285.1	279.5	246.7	263.0	248.6	264.0
Activities of households as employers; undifferentiated goods and services – producing activities of households for own use .....	5.2	-	-	-	-	-
Activities of extraterritorial organisations and bodies .....	0.6	0.3	-	-	-	-

Source: MNE

Notes:

- (1) Information formed according to the results of a sample survey of employment.
- (2) Mining and quarrying includes mining of coal and lignite, extraction of crude oil and natural gas, mining of metal ores and other mining.
- (3) Manufacturing includes manufacturing of coke and refined petroleum products, metallurgy, machines, foods and other manufacturing.
- (4) Personal and household goods are included in other service activities for 2014, 2015, 2016, 2017, 2018 and the three months ended 30 June 2019.
- (5) Data are generated in accordance with the new employment standards (19th ILO ILO).
- (6) Preliminary data.

The following table sets out information on the level of unemployment in Kazakhstan for the years or the periods indicated.

	Years ended 31 December					Six months ended 30 June
	2014	2015	2016	2017	2018	2019 <sup>(2)</sup>
Unemployed population (thousands of persons) <sup>(1)</sup> .....	451.9	454.2	445.5	442.3	443.6	441.8
Unemployment rate (percentage of labour force)						
(%) .....	5.0	5.1	5.0	4.9	4.9	4.8

Source: MNE

Notes:

- (1) Based on sample survey of employment. Persons not working, currently looking for a job or available for work at any time during the period surveyed, are counted as unemployed.
- (2) Preliminary data.

Kazakhstan's unemployment rate increased from 5.0% in 2014 to 5.1% in 2015, before decreasing to 5.0% in 2016 and 4.9% in 2017 and 2018. In the second quarter of 2019, the estimated unemployment rate was 4.8%. The decline in the population employed in the agricultural sector is mainly due to relocation of people from low growth areas to areas with better employment opportunities and infrastructure improvements.

The following table sets out quarterly information regarding unemployment in Kazakhstan for the period from 1 January 2014 through 30 June 2019:

	Total unemployed <sup>(1)</sup>		Registered unemployed <sup>(2)</sup>	
	Unemployed population (Thousands)	% of labour force	Unemployed population (Thousands)	% of labour force
<b>2014</b>				
First Quarter .....	464.0	5.1	52.3	0.6
Second Quarter.....	461.0	5.1	55.6	0.6
Third Quarter.....	458.1	5.0	55.9	0.6
Fourth Quarter.....	458.6	5.0	33.4	0.4
<b>2015</b>				
<b>First Quarter</b>	447.4	5.0	56.1	0.6
Second Quarter.....	448.5	5.0	59.9	0.7
Third Quarter.....	443.8	4.9	62.4	0.7
Fourth Quarter.....	451.1	5.0	34.6	0.4
<b>2016</b>				
First Quarter .....	447.0	5.1	69.0	0.8
Second Quarter.....	447.4	5.0	68.5	0.8
Third Quarter.....	444.7	4.9	74.4	0.8
Fourth Quarter.....	441.3	4.9	37.5	0.4
<b>2017</b>				
First Quarter .....	439.2	4.9	70.9	0.8
Second Quarter.....	439.3	4.9	94.3	1.1
Third Quarter.....	441.0	4.9	128.8	1.4
Fourth Quarter.....	439.3	4.9	70.3	0.8
<b>2018</b>				
First Quarter .....	439.6	4.9	133.8	1.5
Second Quarter.....	441.4	4.9	149.5	1.7
Third Quarter.....	441.5	4.8	185.0	2.0
Fourth Quarter.....	441.9	4.9	229.8	2.5
<b>2019</b>				
First Quarter .....	442.8	4.8	74.8	0.8
Second Quarter.....	441.8	4.8	149.9	1.6

Source: MNE, Ministry of Healthcare and Social Development

Notes:

- (1) Based on data from surveys. Persons not working, currently looking for a job or available for work at any time during the period surveyed, are counted as unemployed.
- (2) Based on number of individuals who choose to register as unemployed with the Ministry of Labour and Social Protection of the Republic of Kazakhstan.

As at 30 June 2019, the unemployment rate as a percentage of the labour force, was 4.8%.

In January 2011, the Employment Road Map-2020 was approved by the Government. The programme aimed at providing employment through the development of infrastructure and housing and communal services, creating jobs through the development of entrepreneurship and villages and assisting unemployed people by providing them with training and the ability to relocate. Between 2011 and 2016 (at which point the Employment Road Map 2020 programme was updated), over 796,700 obtained employment under the programme. Among them, over 103,800 obtained employment on infrastructure projects, of which over 56,100 were referred by employment centres. Over 44,200 people were granted micro-loans, and over 29,800 of them started businesses and created over 41,900 new employment places. Over 129,700 people obtained training, and over 109,700 of them were subsequently employed. Over 111,600 people obtained term contract employment specifically created under the programme, and over 77,600 of those transitioned to permanent employment. Further, over 91,400 young people obtained jobs under the programme, and over 57,400 of those continued as permanent employees.

In December 2016, the Employment Road Map 2020 programme was updated through the introduction by the Government of the 2017-2021 Productive Employment and Mass Entrepreneurship Programme. The latter concentrates on the enhancement of skills and qualifications in the economic sectors with a high employment demand, encouragement of entrepreneurship and provision of basic business training among the population, provision of micro-loans to those wishing to start a business, enhancement of the mobility of the workforce, creation of a model for the employment intermediaries sector and establishment of a unified employment database.

In November 2018, the 2017-2021 Productive Employment and Mass Entrepreneurship Programme was re-adopted by the Government with the status of a State programme. From 2017 and up to the end of the second quarter of 2019, more than 1.6 million people were involved in this programme. Approximately 1.2 million people obtained jobs under this programme, of which 847.6 thousand, or 70.6%, obtained permanent jobs.

The 2017-2021 Productive Employment and Mass Entrepreneurship Programme contains three main elements. The first one is providing technical and vocational education and short-term vocational training to recent school graduates who are not continuing their education and are looking for their first job. From 2017 and up to the second quarter of 2019, 140.9 thousand participants were given an opportunity to participate in such training programmes. Out of 117.6 thousand participants who completed short-term vocational training, 72.3 thousand, or 61.5%, obtained jobs.

The second element of the 2017-2021 Productive Employment and Mass Entrepreneurship Programme is the development of mass entrepreneurship in Kazakhstan. From the start of this programme until the end of the second quarter of 2019, 27.1 thousand microfinance loans were provided to the participants in this programme, including 24.7 thousand loans to village residents and 2.4 thousand to urban residents. In total, the recipients of these microfinance loans created approximately 22 thousand new jobs during this period.

The third element of the 2017-2021 Productive Employment and Mass Entrepreneurship Programme is the development of the labour market through efforts to support employment and mobility of the labour force. Specific measures include providing employment as social workers and through participation in youth apprenticeships and public works projects, as well as increasing mobility of labour force through state support with respect to moving people from one region to another. From the start of this programme until the end of the second quarter of 2019, 359.2 thousand people obtained such subsidised jobs, including 63.3 thousand people employed as social workers, 74.3 thousand people who obtained youth apprenticeships and 221.6 thousand who obtained employment at public works projects. To increase mobility of the labour force, 4,376 families (15,279 people, out of which 7,681 were of working age) were moved from the southern regions that have excess labour force to other regions. 5,178 of them, or 67.4%, subsequently found employment.

## Wages and Income

The following table sets out information on the average monthly nominal wages in Kazakhstan for the years and periods indicated.

	2014	Years ended 31 December			2018	Six months ended 30 June 2019
		2015	2016	2017		
				(KZT)		
Average monthly nominal earnings.....	121,021	126,021	142,898	150,827	162,673	177,256

Nominal wages increased by 10.9% in 2014, 4.2% in 2015, 13.4% in 2016, 5.5% in 2017, 7.9% in 2018 and 12.9% in the first half of 2019. These increases are due to increases in the wages of public sector employees, the implementation of special Government programmes aimed at supporting certain categories of employees (including those working in the health and education sectors), and an overall improvement in the country's macroeconomic situation. The average monthly nominal earnings increased to KZT 177,256 in the six months ended 30 June 2019, as compared to KZT 157,052 in the six months ended 30 June 2018.

The minimum wage is set annually by the Law on the National Budget for the relevant financial year. Under the applicable law, the minimum wage may not be below the subsistence level and does not include bonuses, allowances, compensation and welfare payments, and other incentive payments, and is paid in proportion to the time worked. The minimum wage has steadily increased (by approximately 9% per annum) over the past five years, from KZT 19,966 in 2014 to KZT 21,364 per month in 2015, KZT 22,859 per month in 2016, KZT

24,459 per month in 2017 and KZT 28,284 per month in 2018. The applicable minimum wage for 2019 is KZT 42,500 per month, an increase of 50.3% over the 2018 level.

According to the MNE, approximately 2.8%, 2.7%, 2.6%, 2.6% and 4.3% of the population earned an income below the official subsistence level in 2014, 2015, 2016, 2017 and 2018, respectively. The decline from 2014 to 2017 was primarily the result of an increase in wages throughout this period. The increase in 2018 as compared to 2017 is related to a new structure for determining the official subsistence level introduced in January 2018. In this new structure, the fixed share of expenses on non-food products and services is set at 45% of the value of minimum consumer basket. With a view to supporting families on lower incomes, from 1 January 2018, the Government has, in addition to cash payments, granted such families targeted assistance with finding employment.

As at 1 January 2019, the total wage arrears were KZT 2.0 billion, as compared to KZT 1.4 billion as at 1 January 2018. Since 1 January 2019, 848 fines in the aggregate amount of KZT 110.1 million were levied on companies which allowed wage arrears to occur. As a result of the enforcement measures, employees have been paid wage arrears in the total amount of over KZT 310 million. As at 1 September 2019, the total wage arrears were KZT 1.6 billion attributable to 126 privately owned companies. KZT 982 million of that amount was attributable to 86 insolvent enterprises. Wage arrears are monitored by several national and local agencies, including the MNE, Office of the Prosecutor General, the Finance Ministry and the Ministry of Justice, local authorities and the Republican Commission on Social Partnership and Regulation of Social and Employment Relations, and enforcement actions including administrative fines and enforcement notices, are applied to the enterprises and/or their management where appropriate.

### **Social Benefits and Expenditure**

Social security benefits were introduced in Kazakhstan in 1991, with new institutions founded to deliver social benefits. The social security system includes a range of allowances and social benefits for children, including child birth allowances, maternity allowances, childcare benefits, benefits for children from families with a low annual income and benefits for disabled children. The system also provides benefits for disabled persons, military veterans, other distinguished individuals, mothers with many children and persons who work in difficult conditions. Other allowances and benefits include housing aid and unemployment benefits.

As part of implementation of the National Plan 100, in October 2015, Kazakhstan made changes to its legislation relating to social security. Under those changes, with effect from 1 January 2018, Kazakhstan replaced three prior benefit payments to lower income families (benefits payable to families with four or more children, benefits to children below the age of eighteen and a targeted social benefit payment), with a single targeted social security payment. On 1 April 2019, additional changes to the targeted social security payment programme were introduced, including a guaranteed payment of at least KZT 20,789, or 70% of the minimum subsistence level, to each child who is a recipient of the targeted social security payments.

As at 1 August 2019, 1,767.7 thousand people, or 341.1 thousand families, received single targeted social aid payments.

Disabled citizens are also entitled to disability benefits. The amount of disability benefit a citizen may receive depends on the degree and cause of disability, and on the minimum subsistence level at the time. In 2018, 520,146 people were receiving disability benefits in the median amount of KZT 39,897 per month. Individual disability payments increased by 12%, 7%, 32%, 7% and 16% in 2014, 2015, 2016, 2017 and 2018, respectively. As at 1 July 2019, 516.6 thousand people were receiving disability benefits in the median amount of KZT 41,563 per month.

Social security and social aid are provided through expenditures of the Republic Budget and local budgets. In addition, since 2005, social benefits have also been provided through the State Social Insurance Fund (the “SSIF”).

Social assistance and social security, which includes social benefits and state pensions, is the largest expenditure item in the State Budget and accounted for 18.6%, 20.0%, 19.8%, 17.16%, 23.4% and 25.7% of total State Budget expenditure in 2014, 2015, 2016, 2017, 2018 and the six months ended 30 June 2019, respectively.

The SSIF is funded by mandatory social insurance contributions made by employers in respect of their employees. SSIF benefits are paid only to individuals whose employers make contributions to the social insurance fund. Participants in the system of mandatory social insurance include workers; self-employed persons, including foreign citizens; and stateless persons permanently residing in Kazakhstan and carrying out activity which results in income in Kazakhstan, excluding retired persons who are still active within the private sector. Payments from the SSIF are made to individuals who have experienced a loss of earnings as a result of injury, redundancy, pregnancy and childbirth, adoption of a newborn child or caring for a child below the age of one.

## **Education**

Primary, junior and secondary school education is provided by the State free of charge and is compulsory from the age of six or seven; children typically attend at least nine years of school. The majority of the population has a primary, junior and secondary school education. All secondary school graduates are required to pass the Unified National Test, which serves as an entrance examination to universities and colleges. Kazakhstan's current adult literacy rate exceeded 99% in 2018. With respect to the labour force in Kazakhstan, which amounted to 9,151.6 thousand people in the fourth quarter of 2018, 4,229 thousand people, or 46.2% of all labour force, received technical or vocational training, while 3,481.1 thousand people, or 38% of all labour force, had degrees from university-level institutions.

A number of significant projects in the education sector are currently being implemented, including the establishment of six centres of excellence. Further, additional incentives, including grants, have been made available to individuals who complete certain advanced teaching and vocational training qualifications, in an attempt to increase the number and quality of employees in the education sector. Education accounted for 16.1%, 15.8%, 16.5%, 14.0%, 16.6% and 17.9% of total State Budget expenditure in 2014, 2015, 2016, 2017, 2018 and the six months ended 30 June 2019, respectively. The education sector accounted for 2.8%, 2.9%, 2.8%, 2.8%, 2.7% and 3.1% of Kazakhstan's GDP in 2014, 2015, 2016, 2017, 2018 and the six months ended 30 June 2019 (based on the preliminary GDP data for the six months ended 30 June 2019), respectively.

As at 31 December 2018, the number of children who are 1 to 6 years old and who are in pre-school education in Kazakhstan was 77.1% of all children in that age group. For children who are 1 to 3 years old, the number of such children in pre-school education was 31.7% of all children in that age group. For children who are 3 to 6 years old, the number of such children in pre-school education was 92.5% of all children in that age group. As at 31 December 2018, there were 10,314 pre-school education establishments, of which 3,749 were private pre-school education establishments. Of these 10,314 pre-school education establishments, 6,159 were kindergartens. These pre-school education establishments were attended by 880,896 children, of which 307.3 thousand children attended private pre-school education establishments. In 2018, 788 new pre-school education establishments that can provide places for 63.4 thousand children were opened in Kazakhstan, of which 718 were private pre-school education establishments.

A step-by-step pre-school organisation commissioning and opening plan for 2014-2020 has been developed to solve the problem of insufficient number of pre-school educational institutions in Kazakhstan. It is currently expected that 407 new pre-school education establishments that can provide places for 55 thousand children will be opened before 2020 to enable coverage of up to 100% for children who are 3 to 6 years old.

In the 2018-2019 academic year there were 7,393 public day comprehensive schools for 3.2 million children in Kazakhstan, as compared to 7,414 public day comprehensive schools for 3.1 million children in the 2017-2018 academic year. A network of additional children's education organisations comprised 1,303 organisations in 2018-2019, as compared to 1,287 organisations in 2017-2018.

As at 31 December 2018, there were 821 colleges in Kazakhstan, including 342 private colleges. In 2018, 488.7 thousand people studied at these colleges.

In 2018, there were 131 post-college higher educational institutions in Kazakhstan (10 national, 31 state, 14 non-civil, one autonomous educational organisation, one international, 18 joint-stock companies and 56 private). 556,293 students studied in at such institutions, 37,792 of which were in master's degree programmes and 5,262 of which were in doctorate degree programmes.

As part of the “100 Steps” programme, it has been announced that there will be a phased transition to the use of the English language in the education system in order to improve the competitiveness of graduates and the export potential of the education sector.

On 1 March 2016, the Government adopted the State Programme for the Development of Educational Science for 2016-2019. The programme focuses on improving education at all levels, increasing the prestige of the teaching profession, ensuring the infrastructure development of educational organisations, promoting spiritual and moral values among students within the framework of the modernisation of the public consciousness “Ruhani zhangyru” and culture of a healthy lifestyle, and improving the management of educational organisations.

The International Institute for Management Development (IMD) placed Kazakhstan 34th in terms of global competitiveness among 63 countries surveyed in its IMD Global Competitiveness Ranking 2019, up four spots from a year earlier. Kazakhstan also improved its education subfactor in this ranking, having moved up to 26th (up by three positions) compared with 2018. In the 2018-2019 academic year, 764 schools in Kazakhstan participated in a pilot scheme in which sciences are taught in the English language.

## Healthcare

Citizens of Kazakhstan are entitled to guaranteed free medical care. The scope of free medical care is approved by the Government and is subject to adjustment as necessary. The healthcare system is normally funded by the State Budget. The principal aims of the governmental healthcare policy are disease prevention and development of the primary health care service, promotion of maternal and child health, improvement of diagnostics, treatment and rehabilitation of basic socially-significant diseases and injuries, development of science and human resources and increasing the efficiency and competitiveness of healthcare organisations.

Inoculation of people against 21 infectious diseases is provided at the expense of the State Budget, among which vaccination against 17 diseases is funded by the republican budget, and four – by local budgets. In 2011, Kazakhstan introduced free screening in respect of eleven diseases under the National Screening Programme, which was introduced in 2011.

In 2011, the Government introduced “Salamatty Kazakhstan” programme for the development of healthcare in Kazakhstan for 2011-2015. The programme was then extended and updated for 2016-2020. The priorities of this updated programme include introduction of a diseases management system, which combines preventive medicine, early detection of diseases and medical treatment, into a unified healthcare process; modernisation of the national healthcare system to ensure its efficiency, financial stability, with a view to fostering support for social and economic growth. Among other things, in recent years, Kazakhstan modernised its emergency medical service and developed a comprehensive cancer treatment strategy.

In recent years, there has been significant improvement in the health of the citizens of Kazakhstan and a reduction in the rate of mortality from preventable causes. For example, early detection and use of hi-tech means of diagnostics and treatment have helped to increase the average life expectancy from 71.44 years in 2014 to 73.15 years in 2018, reduce the rate of mortality from 7.65 per 1,000 people in 2014 to 7.14 per 1,000 people in 2018 and reduce the rate of mortality from cardiovascular diseases from 207.43 per 100,000 people in 2014 to 167.28 per 100,000 people in 2018.

## Pensions and Pension Reform

The following table sets out information regarding pension assets as at the dates indicated:

	Pension assets (end of period)	Of which investment income (end of period)	Pension contributions (for the period)
		<i>(KZT billion)</i>	
Year ended 31 December 2014.....	4,517.8	990.5	654.8
Year ended 31 December 2015.....	5,828.2	1,751.9	688.8
Year ended 31 December 2016.....	6,685.3	2,224.3	682.2
Year ended 31 December 2017.....	7,780.7	2,774.9	754.4
Year ended 31 December 2018.....	9,377.6	3,692.0	847.1
Six months ended 30 June 2019.....	9,992.3	3,319.0	464.1

Source: NBK.

The role of the pension sector in the country's economy is growing. As at 1 July 2019, the total assets of the pension system amounted to KZT 9,992.3 billion (including KZT 3,319.0 billion of investment income), an increase of 6.6% as compared to 31 December 2018.

As at 1 July 2019, Kazakhstan's pension assets consisted of Government bonds (40.3%), debt securities of second-tier Kazakhstani banks (12.7%), foreign government securities (14.5%), quasi-public sector debt securities (13.7%), deposits in foreign banks (2.9%), deposits with second-tier Kazakhstani banks (2.7%), monetary funds on investment account (0.5%), international financial companies debt securities (3.1%), shares and depository receipts of Kazakhstani companies (2.3%), quasi-public sector debt securities of foreign issuers (2.3%), assets under external management (0.9%), corporate debt securities of Kazakhstani issuers (0.3%) and other assets (3.8%).

The current pension system has five levels. These include:

- a flat basic pension funded by the State Budget, which covers all residents of Kazakhstan who reach retirement age. This pension was introduced in 2005 and, until 2018, all recipients received the same amount under this flat basic pension (KZT 15,274 per month just prior to 1 July 2018). With effect from 1 July 2018, this level has been significantly increased for pensioners with longer term record of employment and participation in the pension system and flat basic pension is now determined separately for each recipient. As at 1 July 2019, 2.2 million people received such flat basic pension and the average size of such pension was KZT 26,978 per month;
- a (closed) earnings-related defined benefit pension funded by the State Budget, which is the main source of current retirement income. The size of this pension depends on the number of years of employment prior to 1 January 1998 and the level of income prior to retirement. As at 1 July 2019, 2,189,873 million people received such pension and the average size of such pension was KZT 58,719 per month;
- a mandatory defined contribution pension funded by individuals pursuant to which employees contribute 10% of their monthly income. According to the NBK, the total volume of pension assets as at 1 July 2019 was KZT 9,992.3 billion. As at that date, there were 10.5 million individual pension accounts. According to the Unified Accumulative Pension Fund, the average size of monthly pension payments out of the Unified Accumulative Pension Fund is currently approximately KZT 21, 000;
- a mandatory professional pension contribution funded by employers for employees, whose employment involves dangerous working conditions, in an amount equal to 5% of the employee's monthly income; and
- a voluntary defined contribution pension, which can be funded by both employee and employer contributions. As at 1 July 2019, the number of individual pension accounts was approximately 51,600 and the total amount of pension contributions into these accounts amounted to KZT 190.6 million.

Beginning in 1998, Kazakhstan citizens were given the ability to transfer their pension payments to privately-held pension funds existing alongside the state-controlled system. The State Accumulating Pension Fund (the centralised state-owned pension fund that existed prior to the 1998 reforms) was privatised in 2006. On 21 June 2013, the Parliament adopted a new pension law (the "**Pension Law**"), which reformed the country's pension system by consolidating the accounts of payers of mandatory pension contributions to private pension funds into a single state pension fund.

Key changes of the reform introduced by the Pension Law include:

- the establishment of a single state pension fund, the JSC "Unified Accumulative Pension Fund" (the "UAPF"). The UAPF replaces private pension funds and is currently the only organisation in Kazakhstan that is eligible to accept mandatory pension contributions;
- the introduction of mandatory professional pension contributions paid at the expense of employers whose employees are involved in heavy or hazardous work (paid at a rate of 5% of the employee's monthly income); and

- a phased increase of the retirement age of women from 58 to 63 years (63 years being the current retirement age for men), which increase will be implemented within 10 years, starting from January 2018.

In addition, the latest conceptual change in the modernisation of the pension system involves the introduction of a new component of the accumulative pension system – employer’s obligatory pension contributions. Starting from 1 January 2020, employers in Kazakhstan must pay a new component of the accumulative pension system – employer’s obligatory pension contributions (“**EOPC**”) – to the UAPF. The EOPC rate is five percent of gross employment income. The EOPC will be borne entirely by Kazakhstan-based employers. The UAPF will record EOPC on nominal pension accounts opened for each employee. In contrast to pension contributions withheld from salaries or paid by individuals for themselves, EOPC will not represent the property of individuals for whom they are paid; rather, it will generate a common pool of funds held by the UAPF.

The UAPF is a non-commercial organisation, which is established in the form of a joint stock company by the Government, being its sole shareholder. The establishment of the UAPF does not change the principles of the pension savings system. The UAPF maintains the pension savings accounts of individuals, and the Government guarantees the security of mandatory pension contributions subject to inflation adjustments.

The UAPF has consolidated the accounts of payers of mandatory pension contributions to private pension funds. The consolidation was completed in March 2014.

The pension assets of the UAPF are in trust management of NBK on the basis of the trust management agreement concluded with UAPF. The trust management of the UAPF pension assets is performed according to the investment strategy (investment declaration) of the UAPF, which is approved by the Management Board of the NBK. As trustee of the pension assets of the UAPF, the NBK can transfer part of pension assets in trust to another person (including voluntary accumulative pension funds (“**VAPFs**”)). The Council for Management of UAPF Pension Assets was also established, and its functions include the elaboration and review of proposals on improving the efficiency of the UAPF pension asset management and optimising the list of financial instruments in which the UAPF will invest.

Private pension funds transformed into VAPFs are permitted to attract and manage voluntary pension contributions and act as investment portfolio managers.

The Pension Law currently restricts the use of pension assets for purposes other than: investment in financial instruments approved by the NBK; payment of pensions pursuant to Kazakhstan law; transfer of pension savings to insurance companies under annuity contracts as provided for under Kazakhstan law; transfer of pension savings generated by voluntary pension contributions from the UAPF to VAPF and vice versa, or from one VAPF to another; repayment of erroneously credited pension contributions and other amounts; and payment of commission fees to the UAPF and VAPFs.

On 2 September 2019, in his state of the nation address, President Tokayev requested the Government to work out the issue of employed citizens being able to use part of their pension funds for home or flat purchases or for obtaining education by the end of 2019.

The UAPF is prohibited from: conducting business activities except for permitted under the Pension Law; utilising pension assets for purposes other than those which are provided for under the legislation of Kazakhstan; pledging pension assets and/or its own assets; issuing securities other than shares; borrowing funds; providing loans; issuing guarantees or suretyships; and having participating interests in legal entities except as provided by the NBK.

The Pension Law limits UAPF commission fees to the rate of 7.5% of investment income and 0.025% of the monthly pension assets. Previously, pension funds were entitled to retain up to 15% of investment income and up to 0.05% of monthly pension assets. VAPF commission fees are kept at the same rate of 15% of investment income and 0.05% of monthly pension assets as was previously applicable to pension funds.

The principal current source of retirement income is the state flat-rate pension and the (closed) earnings-related defined benefit state pension, both of which are unfunded and represent a direct charge on the State Budget. These pensions cost the State Budget KZT 1,053 billion, KZT 1,185 billion, KZT 1,337 billion and KZT 1,584 billion, KZT 1,978 billion in 2014, 2015, 2016, 2017 and 2018, respectively, and are budgeted to cost KZT 1,154 billion in 2019. As a percentage of GDP, such costs were 2.7%, 2.9%, 2.8%, 3.0% and 3.3% in 2014,



2015, 2016, 2017 and 2018, respectively. See “*Monetary and Financial System—Capital Markets—Pension Funds*”.

## Environment

Kazakhstan faces significant environmental problems which, to a large extent, originate from the Soviet era. Kazakhstan continues to deal with the effects of nuclear weapons and biological testing that took place in the country, the drying out of the Aral Sea and land degradation resulting from extensive agricultural development, mining, and oil and gas exploration.

Outdated technology and capital equipment in the metallurgical sector produce heavy pollution, mostly in the north and east of the country. Semey, a city in north east Kazakhstan, has a military facility which, until 1990, was used for nuclear testing and many locations in the vicinity are heavily contaminated as a result of past experiences of nuclear weapons testing and radioactive waste disposal, and which continue to threaten the environment. Other locations in Kazakhstan were used by the Soviet Union for the testing of biological weapons and as a result are contaminated with various harmful pathogens.

The former Soviet Union’s “Virgin Lands” policy of the 1950s and 1960s, whereby large areas of Kazakhstan’s steppe land were ploughed to increase Soviet Union grain production, has led to wide-scale soil erosion; up to 66% of Kazakhstan’s agricultural land is under threat of desertification. Poor agricultural and irrigation practices have resulted in severe soil desertification and land degradation, damaging Kazakhstan’s biodiversity and hindering agricultural development in many areas in the country. Excess irrigation has halved the surface area of the Aral Sea in southern Kazakhstan. Further, the Caspian Sea shelf, a sensitive ecosystem, is home to several oil and gas developments, which have created significant pollution as a result of industrial dumping. Significant soil, water and air pollution remains a problem for a number of industrial cities, including, Balkhash, Ekibastuz, Almaty, Temirtau, Pavlodar, Ust-Kamenogorsk and Aktobe.

Although a reversal of these problems will take many years, Kazakhstan has taken several steps to improve the environment. These steps include the following:

- Transition to a “green economy” is referred as one of the key priorities of Kazakhstan-2030 Strategy and Kazakhstan-2050 Strategy. The Kazakhstan-2030 Strategy provides for the transition of Kazakhstan to a “green economy” on the basis of a reduction of the intensity of utilisation of primary resources (such as water and land), an improvement of currently underdeveloped and aging infrastructure, a reduction of air and water pollution, a reduction of dependence on the water resources of other countries and production of energy from renewable resources.
- The Environmental Code of the Republic of Kazakhstan was adopted in 2007 in order to improve Kazakhstan’s legislation on environmental protection and bring it into line with international standards.
- In March 2009, Kazakhstan ratified the Kyoto Protocol to the United Nations Convention on Climate Change, thus joining the global movement to prevent global warming.
- The Sixth Ministerial Conference on Environment and Sustainable Development of 62 countries in the Asia-Pacific region was held in Astana in 2010.
- Kazakhstan presented its “Green Bridge” Partnership Programme at the UN Conference on Sustainable Development “Rio +20”, held in June 2012 in Rio de Janeiro. A final document entitled “The future we want”, which reflects the “Green Bridge” Partnership Programme, was adopted at this conference.
- Kazakhstan, as a party to the Stockholm Convention, has also committed to the environmentally safe disposal of persistent organic pollutants by 2028 and the rehabilitation of contaminated land. Kazakhstan must submit annual reports to the three conventions governing the management of hazardous chemicals and wastes: the Basel, Stockholm and Rotterdam conventions.
- Kazakhstan has taken a series of steps to improve transparency and involvement of the public in the environmental matters. Among other things, in 2000, Kazakhstan ratified the 1998 Convention for Participation in Decision-Making and Access to Justice in Environmental Matters signed in Aarhus, Denmark in 1998 (the “**Aarhus Convention**”), and on 8 April 2016, made changes to a series of

environmental laws including the Environmental Code, with a view of implementing provisions of the Aarhus Convention. Kazakhstan's legislation now provides types of economic activities projects which are subject to public hearings. On 8 October 2009, Kazakhstan joined the Pollutant Release and Transfer Registers protocol of the United Nations Economic Commission for Europe and is currently in the process of ratification of the protocol. The protocol regulates information on pollution produced by the assets of businesses and is aimed at enhancing public scrutiny in this area. In the meantime, Kazakhstan has created a national register for this purpose, which is available to the public online. State company Kazhydromet makes a wide range of environmental information available to the authorities as well as the public.

- To bring the existing environmental legislation to the requirements of the OECD (Organization for Economic Co-operation and Development), the Ministry of Energy is currently working on a new Environmental Code, which will define the following issues:
  - transition to standards in the field of environmental protection and economic mechanisms in the field of environmental regulation;
  - revision of the EIA procedure (environmental impact assessment);
  - implementation of strategic environmental assessment;
  - improvement of the polluter pays principle;
  - implementation of integrated environmental permits;
  - improvement of the procedure for state environmental control; and
  - improving the regulation of ozone-depleting substances and greenhouse gas emissions, as well as the inclusion of norms for adaptation to climate change.

The draft Concept of the new Environmental Code was sent to the relevant state bodies and organisations for approval. The Draft Code is planned to be submitted to the Parliament of the Republic of Kazakhstan in December 2019.

State expenditure on environmental protection has continually increased in recent years until 2017; in 2018 the expenditure on environmental protection was below the level of 2017, but still above the years prior to 2017. The 2019 State Budget provides for KZT 9,026.5 million for environmental protection, as compared to KZT 7,004.2 million in the 2018 State Budget and KZT 9,911.2 million in the 2017 State Budget.

## **Privatisation**

Kazakhstan has undertaken a substantial and rapid programme of privatising State-owned enterprises. According to data collected by the Committee of State Assets and Privatisation of the Ministry of Finance of the Republic of Kazakhstan, the aggregate selling price for entities that were privatised from 2014 to 2018 was as follows: (i) in 2014, 142 entities were privatised with the aggregate selling price of KZT 36,049 million, of which 8 entities with the aggregate selling price of KZT 158 million were privatised within the framework of the Comprehensive Privatisation Plan; (ii) in 2015, 120 entities were privatised with the aggregate selling price of KZT 34,579 million, of which 48 entities with the aggregate selling price of KZT 11,211 million were privatised within the framework of the Comprehensive Privatisation Plan; (iii) in 2016, 149 entities were privatised with the aggregate selling price of KZT 46,375 million, of which 134 entities with the aggregate selling price of KZT 45,640 million were privatised within the framework of the Comprehensive Privatisation Plan (iv) in 2017, 192 entities were privatised with the aggregate selling price of KZT 122,240 million, of which 185 entities with the aggregate selling price of KZT 121,959 million were privatised within the framework of the Comprehensive Privatisation Plan (v) in 2018, 101 entities were privatised with the aggregate selling price of KZT 348,551 million, of which 95 entities with the aggregate selling price of KZT 285,648 million were privatised within the framework of the Comprehensive Privatisation Plan.

Privatisation of State-owned enterprises has to date been implemented through three programmes. Under the first programme, which began in 1991, State-owned enterprises were transformed into joint-stock companies

and their shares were offered to their workers or managers. Privatisations were also carried out through lease purchase arrangements, outright sales, tender and auction sales (primarily in the service sector). This programme resulted in the privatisation of approximately 12% of the enterprises that were then State-owned.

In March 1993, the Government introduced its second privatisation programme involving either “smallscale” privatisation, “mass” privatisation or “case-by-case” privatisation, depending on the characteristics of the enterprise. In the small-scale privatisation programme, enterprises employing 200 or fewer people were offered for sale through auctions. The implementation of the small-scale privatisation programme was completed in August 1997, with 17,070 small-scale enterprises being sold, primarily to individuals and companies in Kazakhstan. Mass privatisation involved the sale of medium to large enterprises employing 200 to 5,000 people. Under the case-by-case privatisation programme, all or part of the State’s interest in 26 large enterprises were sold during 1999.

The rate of case-by-case privatisation intensified when the Government’s third privatisation programme (including the strategic energy and mining sectors) was launched in late 1995. With most eligible small and medium-sized enterprises having been privatised, the focus of the Government shifted to privatising large enterprises, increasing privatisation proceeds through competitive tendering, identifying suitable strategic investors and enhancing the efficiency of enterprises through the use of long-term management contracts with reliable operators.

In 1999, the Government introduced a programme to provide regional authorities with the option to privatise State-owned property located in their respective regions. In order to allow regional authorities to privatise State-owned property, a strategy of transferring control of State-owned assets to regional authorities was formally adopted in 2000, and was implemented through three programmes between 2001-2002, 2003-2005, and 2006-2008. The governors of oblasts and the governors of Astana and Almaty were given the right to privatise and generally manage assets transferred to them. Between 1 January 1999 and 1 August 2013, 20,397 State-owned assets were privatised raising a total amount of KZT 197.5 billion. The current aim of the Government’s privatisation strategy is to decrease the State’s influence in sectors of the economy in which competitive markets have already developed. This will continue to be implemented through the privatisation of non-core State-owned assets and the privatisation of State-owned assets that are deemed inefficient.

In 2011, the Government adopted a “People’s IPO” programme aimed at providing citizens of Kazakhstan with the ability to buy shares of the country’s major enterprises, creating a new tool for investing and augmenting personal savings, and further developing the local Kazakhstan stock market in order to enable businesses to raise additional funding. Under the programme, citizens of Kazakhstan were first offered the right to purchase newly-issued shares in the participating companies, and pension funds were then offered the right to purchase such shares, including the UAPF pursuant to the Pension Law. Ten national companies were initially chosen to participate in the People’s IPO programme, and these IPOs were scheduled to take place between 2012 and 2014. These companies were specifically chosen due to their high standards of corporate governance and transparency, their stable asset base and their growth prospects. However, only KazTransOil and KEGOC have conducted an IPO under the People’s IPO programme. During the KazTransOil IPO, which took place in December 2012, 33,989 individuals purchased a total of KZT 22.1 billion in shares. During the KEGOC IPO, which took place in December 2014, all offered shares were purchased and individuals purchased a total of KZT 13.1 billion in shares.

In July 2014, the Government approved the Comprehensive Privatisation Plan for 2014-2016. Implementation of the plan was designed to reduce the State’s involvement in the economy and strengthen its foundations by increasing private sector participation. The plan included a list of approximately 850 entities (including subsidiaries of the national management holding companies and socio-entrepreneurial corporations) that were to be privatised.

In December 2015, the Government approved a further, 2016-2020 Comprehensive Privatisation Plan that replaced the People’s IPO programme. The 2016-2020 Comprehensive Privatisation Plan envisages, among other things, a 15% reduction in the number of quasi-state companies. The 2016-2020 Comprehensive Privatisation Plan includes two lists: (i) one for the large national entities, which are to be privatised through IPO, SPO or sales to strategic investors, and (ii) the other which comprises small and medium companies, which are to be privatised through direct electronic trades. The list of large national entities included several entities shortlisted for priority privatisation, including JSC Research and Production Center Eurasian Water Center (51% of the shares in which was sold in December 2016 to farming company Besmeyram) and LLC Karagandalikvidshakht (the entire share capital of which was sold in July 2017 to a local entrepreneur Nariman

Erkimbayev. Additionally, the Comprehensive Privatisation Plan for 2016-2020 provided for sale, through IPOs, SPOs or sales to strategic investors of shares of significant companies owned by Samruk Kazyna, including Kazakhtelecom (a telecommunications company), Kazatomprom (the national atomic company), Air Astana (Kazakhstan's largest air carrier), KazMunayGas (the national oil and gas company), Samruk Energy (a power company), Kazakhstan Temir Zholy (a national railway company), Tau-Ken Samruk (a national mining company) and KazPost (a postal service). In November 2018, 15% of shares of Kazatomprom were sold to investors in the form of global depositary receipts listed on the London Stock Exchange and the AIX shares listed on the AIX, raising KZT 168 billion. Preparations to privatise Air Astana, Kazakhtelecom and KazMunayGas have commenced.

As at 1 July 2019, under the 2014-2016 and 2016-2020 Comprehensive Privatisation Plans, 501 entities have been privatised, which has raised KZT 497 billion, including (i) 54 entities that were previously owned by the Republic of Kazakhstan, raising KZT 65 billion, (ii) 251 entities that were previously communal property, raising KZT 64 billion and (iii) 105 entities that were previously assets of national holdings, raising KZT 361 billion, and (iv) 91 entities that were previously assets of national companies, raising KZT 7 billion.

### **State-Owned Enterprises**

As at 1 June 2019, there were 213 State-incorporated enterprises in Kazakhstan, of which 121 were joint stock companies and 35 were limited liability partnerships.

Samruk Kazyna is a State-owned, sovereign wealth fund and a locally incorporated joint stock company which was established in 2008 and which owns, either in whole or in part, many important companies in the country, including the national railway company (Kazakhstan Temir Zholy), the national postal service (KazPost), the national oil and gas company (KazMunayGas), the national nuclear power company (Kazatomprom), the national grid (KEGOC) and the national airline (Air Astana). As at 31 December 2018, Samruk Kazyna had 317 subsidiaries and controlled assets of approximately KZT 25.6 trillion (U.S.\$66.8 billion), representing approximately 43% of Kazakhstan's GDP in 2018.

In September 2014, Samruk Kazyna announced a 'transformation plan', which was further updated in March 2018. Under the 'transformation plan', Samruk Kazyna intends to increase the value of its portfolio companies, to simplify its portfolio companies' legal structure (by reducing the number of ownership layers from six in the end of 2017 to four by 2020 and the number of legal entities within the Samruk Kazyna's group from 348 to 300 within the same period) and to change corporate governance within its portfolio companies. Samruk Kazyna intends to increase the value of its portfolio companies by seeking to optimise their business processes and greater reliance on information technology, changing their key performance criteria and through the use of certain other measures. In May 2019, at a meeting of Samruk Kazyna Fund management Council chaired by Nursultan Nazarbayev, the decision was made to change the 'transformation plan' to the Digital Transformation Programme. Six national companies reviewed their ongoing transformation plans and updated them, identifying a total of 56 projects and 98 activities as part of the programme. These projects and activities will be reviewed and approved by each company by the end of 2019.

Baiterek is a State-owned joint stock company that was created in May 2013 to manage and own, either in whole or in part, various financial development institutions in Kazakhstan, including the JSC Development Bank of Kazakhstan ("DBK"), the Housing Construction Savings Bank, the Kazakhstan Mortgage Company and the Fund for Developing Entrepreneurship. The principal purpose of Baiterek is to hold shares of financial development institutions, to improve the efficiency of those institutions and to provide funding for projects implemented by those institutions, with the overall aim of supporting the Government's plans to diversify the economy through supporting the growth of non-natural resources extraction sector based companies and promoting social responsibility. Baiterek is also responsible for allocating resources available under the programme of forced industrial and innovative development to the financial development institutions that it manages. See *"The Republic of Kazakhstan—Development Strategy"*. As at the date of this Base Prospectus, Baiterek owns, either in whole or in part, 11 financial development institutions, certain of which were previously owned by Samruk Kazyna prior to the creation of Baiterek. Transfer of such institutions from Samruk Kazyna to Baiterek was not a part of any privatization programme. As at 31 December 2018, Baiterek had total assets of KZT 4,718 billion, as compared to total assets of KZT 4,432 billion as at 31 December 2017. As part of the Government's 2016-2020 privatisation programme, Baiterek transferred stakes in nine of its companies to private ownership and, as a result, transferred KZT 947.9 million to the National Fund of the Republic of Kazakhstan. Currently, a transfer of a stake in the Housing Construction Savings Bank to private

ownership is under consideration, but this transfer is not a part of the 2016-2020 Comprehensive Privatisation Plan.

The National Management Holding “KazAgro” (“**KazAgro**”), is a State-owned joint stock company that was established in 2007 and which is the parent of a group of agricultural holding companies. KazAgro’s principal activities are participation in the development and implementation of State lending programmes and financial support for agricultural commodity producers, rendering assistance to the agricultural sector by direct funding and investments, as well as by raising funding and investments from other sources. There are 40 companies in total, in which KazAgro owns 10% or more of shares or stakes in the authorized capital of those legal entities including National Company JSC “Food Contract Corporation”, which manages grain reserves; JSC KazAgroProduct, which purchases and supplies livestock products; JSC Kazagrofinance, which provides leasing services with respect to equipment; JSC Agrarian Credit Corporation, which provides financing to agricultural commodity producers and processors; the JSC Fund of Financial Support for Agriculture, which expands access to financial and credit resources in rural areas; JSC KazAgroGarant, which provides guarantees of loans in the countryside and seeks to develop insurance in the agricultural sector; and Kazagromarketing LLP, which provided marketing and advisory support to agricultural commodity producers until 2019. With the goal of reducing State involvement in the economy, three subsidiaries of KazAgro – JSC KazAgroProduct, JSC Kazagrofinance and Kazagromarketing LLP – were included in the Government’s 2016-2020 privatisation programme. However, due to the lack of interest for privatising Kazagromarketing LLP, the decision has been made to liquidate this entity by the end of 2019. With respect to JSC KazAgroProduct, the State Commission on Modernisation of the Economy made a decision on 27 August 2018 that this company will be merged into JSC Agricultural Credit Corporation. The State Commission on Modernisation of the Economy has also made a decision on 26 December 2018 that, due to its systemic importance for the agricultural sector, JSC Kazagrofinance should be excluded from the Government’s 2016-2020 privatisation programme.

The total amount of outstanding external debt incurred by state-owned enterprises (*i.e.*, entities in which the State has a direct or indirect majority interest of more than 50%) amounted to approximately U.S.\$17.8 billion as at 30 June 2019, including the total amount of outstanding external debt incurred by state-owned enterprises that is guaranteed by the Republic of Kazakhstan and which amounted to U.S.\$1.7 billion as at 30 June 2019.

## BALANCE OF PAYMENTS AND FOREIGN TRADE

### Balance of Payments

The following table sets forth the balance of payments of the Republic of Kazakhstan for the years 2014 through 2018 and the six months ended 30 June 2018 and 2019 based on the methodology of the Balance of Payments and International Investment Position Manual (sixth edition, 2009):

	2014	2015	2016	2017	2018	Six months ended 30 June 2018	Six months ended 30 June 2019 <sup>(1)</sup>
<i>(U.S.\$ millions)</i>							
<b>Current account</b> .....	<b>6,113.7</b>	<b>(6,011.6)</b>	<b>(8,132.1)</b>	<b>(5,101.9)</b>	<b>(51.7)</b>	<b>(1,361.6)</b>	<b>(1,986.1)</b>
<b>Goods</b> .....	<b>36,618.9</b>	<b>11,627.1</b>	<b>9,253.4</b>	<b>16,727.8</b>	<b>26,358.9</b>	<b>12,571.3</b>	<b>11,275.5</b>
Credit (Exports) .....	79,072.7	44,826.4	35,485.8	47,301.0	59,630.1	28,242.5	28,542.6
Debit (Imports) .....	42,453.8	33,199.3	26,232.4	30,573.2	33,271.2	15,671.1	17,267.1
<b>Services</b> .....	<b>(6,843.5)</b>	<b>(4,720.3)</b>	<b>(3,762.4)</b>	<b>(3,577.8)</b>	<b>(4,595.7)</b>	<b>(1,947.5)</b>	<b>(2,219.1)</b>
Credit (Exports) .....	7,002.5	6,177.4	6,084.5	6,504.9	7,274.9	3,470.7	3,501.7
Debit (Imports) .....	(13,845.9)	10,897.7	9,846.9	10,082.6	11,870.7	5,418.2	5,720.8
<b>Primary income</b> .....	<b>(22,701.2)</b>	<b>(11,617.9)</b>	<b>(13,450.3)</b>	<b>(18,148.5)</b>	<b>(22,087.2)</b>	<b>(12,025.9)</b>	<b>(11,186.9)</b>
Credit .....	2,215.6	2,258.4	2,256.3	2,448.3	2,611.4	1,286.7	1,126.9
Debit .....	24,916.7	13,876.4	15,706.6	20,596.9	24,698.6	13,312.6	12,313.8
<b>Secondary income</b> .....	<b>(960.6)</b>	<b>(1,300.5)</b>	<b>(172.7)</b>	<b>(103.4)</b>	<b>272.3</b>	<b>40.5</b>	<b>144.3</b>
Credit (receivable) .....	2,762.6	1,851.8	1,701.5	2,088.6	2,319.6	1,066.1	1,102.6
Debit (payable) .....	3,723.2	3,152.3	1,874.2	2,191.9	2,047.3	1,025.6	958.3
<b>Capital account</b> .....	<b>29.3</b>	<b>131.7</b>	<b>269.5</b>	<b>346.8</b>	<b>203.4</b>	<b>187.6</b>	<b>45.5</b>
Credit .....	36.4	139.9	280.4	351.3	279.8	199.0	48.7
Debit .....	7.0	8.2	10.9	4.4	76.4	11.4	3.2
<b>Financial account</b> <sup>(2)</sup> .....	<b>(2,449.9)</b>	<b>(10,423.4)</b>	<b>(7,966.0)</b>	<b>(6,843.9)</b>	<b>1,032.4</b>	<b>411.9</b>	<b>(1,387.2)</b>
<b>Direct investment</b> .....	<b>(4,674.6)</b>	<b>(3,261.4)</b>	<b>(13,746.4)</b>	<b>(3,756.1)</b>	<b>(4,919.2)</b>	<b>(4,275.3)</b>	<b>(3,243.8)</b>
Net acquisition of financial assets .....	2,633.5	3,316.4	3,474.6	956.5	(4,711.1)	(3,366.2)	(2,461.5)
Net incurrence of liabilities .....	7,308.1	6,577.8	17,221.0	4,712.6	208.1	909.0	782.3
<b>Portfolio investment</b> .....	<b>1,038.8</b>	<b>(5,887.9)</b>	<b>746.2</b>	<b>(5,398.3)</b>	<b>2,630.4</b>	<b>2,017.0</b>	<b>4,156.3</b>
Net acquisition of financial assets .....	6,473.8	(9,524.5)	(1,250.2)	(3,246.9)	(996.7)	(613.7)	3,092.4
Net incurrence of liabilities .....	5,434.9	(3,636.6)	(1,996.4)	2,151.4	(3,627.0)	(2,630.7)	(1,063.9)
<b>Financial derivatives (other than reserves) and employee stock options</b> .....	<b>(37.1)</b>	<b>(14.6)</b>	<b>(24.8)</b>	<b>115.5</b>	<b>109.4</b>	<b>72.1</b>	<b>(49.3)</b>
Net acquisition of financial assets .....	(18.7)	60.1	(22.1)	(31.7)	96.2	54.7	(14.1)
Net incurrence of liabilities .....	18.4	74.7	2.8	(147.2)	(13.2)	(17.4)	35.2
<b>Other investment</b> .....	<b>(3,032.0)</b>	<b>(491.8)</b>	<b>5,130.8</b>	<b>3,560.6</b>	<b>4,738.1</b>	<b>3,581.1</b>	<b>3,117.0</b>
Net acquisition of financial assets .....	1,098.7	(545.1)	8,021.1	4,541.1	3,515.7	3,475.3	2,906.0
Net incurrence of liabilities .....	4,130.7	(53.2)	2,890.3	980.6	(1,222.4)	(105.9)	(211.1)
<b>Reserve assets of NBK</b> .....	<b>4,254.9</b>	<b>(767.7)</b>	<b>(71.7)</b>	<b>(1,365.5)</b>	<b>(1,526.2)</b>	<b>(983.1)</b>	<b>(5,367.4)</b>
<b>Net errors and omissions</b> .....	<b>(8,592.9)</b>	<b>(4,543.5)</b>	<b>(103.4)</b>	<b>(2,088.9)</b>	<b>880.7</b>	<b>1,585.8</b>	<b>553.4</b>

Source: NBK.

Notes:

(1) Estimate.

(2) Financial account includes reserve assets of the NBK.

## Current Account

Kazakhstan recorded a current account deficit from 2015 to 2018, after a current account surplus in 2014. In 2018, Kazakhstan had a current account deficit of U.S.\$51.7 million, as compared to U.S.\$5.1 billion in 2017, U.S.\$8.1 billion in 2016 and U.S.\$6.0 billion in 2015, and as compared to a current account surplus of U.S.\$6.1 billion in 2014. The positive trade balance in goods of U.S.\$36.6 billion in 2014 was due to high prices for raw materials, including oil prices. However, in 2015-2016, against the background of decline of commodity prices, net exports of goods decreased, which led to a deficit of the current account in this period. In 2017, the recovery of prices for major export goods contributed to the growth of net exports, which resulted in a reduction in the current account deficit. Relatively favourable trend in oil prices in 2018 had a significant positive impact on increased trade surplus in that year, which, in turn, resulted in a significant improvement in current account deficit.

In 2014, Kazakhstan recorded a current account surplus of U.S.\$6.1 billion (2.8% of GDP) as compared with U.S.\$2.0 billion in 2013. The growth in the current account surplus from 2013 to 2014 was due to a decrease in the negative balance of primary income as well as an increase in the trade balance surplus as a result of a reduction in imports of goods. Exports decreased by 7.1% to U.S.\$79.1 billion and imports decreased by 13.7% in 2014 to U.S.\$42.5 billion as compared to 2013. As a result, Kazakhstan's trade surplus was U.S.\$36.6 billion in 2014, which was a 1.8% increase as compared with U.S.\$36.0 billion in 2013. The services deficit decreased by 15.6% to U.S. \$6.8 billion in 2014 as compared to U.S.\$8.1 billion in 2013. The primary income deficit decreased by 9.7% to U.S.\$22.7 billion in 2014.

The balance of Kazakhstan's current account in 2015 was negative at U.S.\$6.0 billion (3.3% of GDP). One of the factors contributing to the growth of the current account deficit during the year was the strengthening of the Tenge relative to the currencies of the main trading partners of Kazakhstan and, above all, to the Russian rouble. The consequence of the sharp depreciation of the Russian rouble was the loss of exchange rate competitiveness of Kazakh producers, which, given the structure of bilateral trade relations, not only led to an increase in the physical volumes of imports of Russian goods, but also to a decrease in Kazakhstan's exports. Correction of the rate in August 2015 after transition to free floating of the Tenge within the framework of inflation targeting, and also in November 2015 after minimisation of the operations of the National Bank to maintain the exchange rate of the Tenge contributed to the restoration of exchange rate competitiveness and slowed the rate of decline of net exports. The export of goods decreased by 43.3%, amounting to U.S.\$44.8 billion. Import of goods decreased by 21.8% to U.S.\$33.2 billion. As a result, the positive trade balance was U.S.\$11.6 billion, down more than threefold relative to 2014. The reduction of export earnings contributed to a reduction in the incomes of direct investors from investing in Kazakhstan's raw materials industries. As a result, the negative balance of primary income fell by almost a half from 2014 to 11.6 billion dollars. The deficit in the balance of international services declined by 31.0% to U.S.\$4.7 billion.

In 2016, the balance of payments was determined by the relative stabilisation of world oil prices after reaching the minimum value at the beginning of the year and the indirect effect of the transition to free floating of the Tenge. The external factors that caused the fall in prices for Kazakhstan's export commodities continued to have a negative impact on the balance of payments indicators. However, already in the second half of 2016, against the backdrop of improving price conditions, the value volumes of exports and imports of goods began to grow, as well as the incomes of foreign direct investors. The negative balance of the current account in 2016 was U.S.\$8.1 billion (5.9% of GDP), an increase of 35.3%. The value of exports decreased by 20.8% compared to 2015, to U.S.\$35.5 billion, while imports decreased by 21.0% to U.S.\$26.2 billion. As a result, the trade surplus was U.S.\$9.3 billion, down by 20.4% compared to 2015. The negative balance of primary income increased by 15.8% to U.S.\$13.5 billion. The deficit in the balance of services fell by 20.3% to U.S.\$3.8 billion.

In 2017, a favourable external environment positively affected the balance of payments. The increase in the trade surplus under the influence of the recovery of energy prices was the key factor that led to a reduction in the current account deficit. The current account deficit decreased by 37.3% in 2017 compared to 2016 and amounted to U.S.\$5.1 billion (3.1% of GDP). The improvement of the current account in comparison with the previous year was principally due to a significant increase in the trade surplus to U.S.\$16.7 billion. Exports of goods amounted to U.S.\$47.3 billion, an increase of 33.3% as compared to the previous year, while imports of goods increased by 16.5% to U.S.\$30.6 billion. The deficit in the balance of international services declined by 4.9% as compared to 2016, amounting to U.S.\$3.6 billion. The decrease was principally due to the increase in the export of services, which increased by 6.9% (to U.S.\$6.5 billion). The negative balance of the primary income balance increased by 34.9% to U.S.\$18.1 billion.

In 2018, the current account deficit amounted to U.S.\$51.7 million, as compared to U.S.\$5.1 billion in 2017. The improvement of current account in comparison with the previous year was principally due to the increase in trade surplus, which amounted to U.S.\$26.4 billion as compared to U.S.\$16.7 billion in the previous year. Average world prices for Brent crude oil reached U.S.\$71.1 per barrel in 2018, a 30.7% increase as compared to the average price in 2017. In large part due to this increase in oil prices, exports of goods amounted to U.S.\$59.6 billion, an increase of 26.1% as compared to 2017. Imports of goods increased by 8.8% as compared to 2017 and amounted to U.S.\$33.3 billion in 2018. In 2018, the deficit in international services increased by 28.5% in comparison with 2017 and amounted to U.S.\$4.6 billion. The increase of the deficit was due to more significant growth in the imports of services (by 17.7%) as compared to the growth in the export of services, which increased by 11.8%. The negative primary income balance increased to U.S.\$22.1 billion from U.S.\$18.1 billion in 2017 principally due to the increase in income on direct investment payable to non-residents, which increased from KZT 16.5 billion in 2017 to KZT 20.5 billion in 2018.

In the six months ended 30 June 2019, the current account deficit amounted to U.S.\$2.0 billion, as compared to U.S.\$1.4 billion in the six months ended 30 June 2018. While exports of goods according to the balance of payments classification increased only by U.S.\$0.3 billion, or 1.1%, from U.S.\$28.2 billion in the six months ended 30 June 2018 to U.S.\$28.5 billion in the six months ended 30 June 2019, imports of goods according to the balance of payments classification increased by U.S.\$1.6 billion, or 10.2%, from U.S.\$15.7 billion in the six months ended 30 June 2018 to U.S.\$17.3 billion in the six months ended 30 June 2019 primarily due to increased demand for imported investment goods as a result of the implementation of major infrastructure and investment projects.

Kazakhstan's net international investment position (defined as external financial assets minus external financial liabilities) amounted negative U.S.\$33.3 billion as of 1 January 2014, negative U.S.\$39.8 billion as of 1 January 2015, negative U.S.\$37.5 billion as of 1 January 2016, negative U.S.\$45.5 billion as of 1 January 2017, negative U.S.\$56.4 billion as of 1 January 2018, negative U.S.\$61.4 billion as of 1 January 2019 and negative U.S.\$59.9 billion as of 1 April 2019.

### ***Capital Account***

Typically, significant amounts of capital are not transferred into the capital account of the balance of payments of Kazakhstan. From 2014 to 2017, the positive balance of the capital account increased in each year starting from U.S.\$29.3 million in 2014 and reaching U.S.\$346.8 million in 2017. In 2018, the balance of the capital account decreased to U.S.\$203.4 million. Typically, the main credits and debits under this item are related to the forgiveness by creditors of debt obligations of their borrowers. See "*Monetary and Financial System—Kazakhstan's Banking Industry*".

### ***Financial Account***

In 2014, net borrowing in the financial account (excluding operations with reserve assets) amounted to U.S.\$6.7 billion. The negative balance of foreign direct investment amounted to U.S.\$4.7 billion. In 2014, there was an increase in asset growth and a decrease in the growth of resident liabilities. The surplus in portfolio investments was U.S.\$1.0 billion. With the increase in assets in portfolio investments by U.S.\$6.5 billion, resident liabilities increased by U.S.\$5.4 billion due to transactions of banks and non-banking organisations with issuance of debt securities in foreign markets and issuances related to the replacement of the issuer and debt restructurings for a total amount of U.S.\$5.6 billion. In addition, in the fourth quarter of 2014, the Ministry of Finance issued Eurobonds in the amount of U.S.\$2.5 billion. The negative balance of other investments was U.S.\$3.0 billion, due to the increase in liabilities by U.S.\$4.1 billion, while the assets increased by U.S.\$1.1 billion.

In 2015, net borrowing in the financial account (excluding operations with reserve assets) amounted to U.S.\$9.7 billion as a result of increased liabilities, mainly for the third quarter of 2015, and a reduction in financial assets. Foreign direct investment had a negative balance of U.S.\$3.3 billion due to outstripping growth in liabilities over assets. The increase in financial assets for FDI operations by U.S.\$3.3 billion was due to an increase in inter-company debt of non-residents and investments of Kazakhstani enterprises in the capital of foreign subsidiaries. The net increase in liabilities for FDI of U.S.\$6.6 billion for 2015 was mainly due to the growth of inter-company debts of Kazakhstan residents to their foreign affiliates, as well as the increase of the capital of Kazakhstani enterprises by foreign parent companies. For portfolio investments, a negative balance of U.S.\$5.9 billion was due to a higher rate of asset reduction compared to a reduction in liabilities. The decrease in assets in the portfolio investment was due to a reduction in foreign assets of the National Fund of the Republic of Kazakhstan. Reduction of liabilities on portfolio investments was due to repayment by Kazakhstani banks and



non-bank organisations of debt securities. The issue of Eurobonds by the Ministry of Finance of the Republic of Kazakhstan in the 3rd quarter of 2015 in the amount of U.S.\$4.0 billion partially compensated for the reduction of liabilities. For other investments, the negative balance was U.S.\$491.8 million.

In 2016, net borrowing in the financial account (excluding operations with reserve assets) totalled U.S.\$8.0 billion due to a significantly higher net increase in liabilities (by U.S.\$18.1 billion) over net increase in assets (by U.S.\$10.2 billion). On foreign direct investment, net growth of liabilities to nonresidents exceeded net growth of foreign assets by U.S.\$13.7 billion. Annual inflows of FDI in 2016 were 4.2 times higher than in 2015. Net growth of financial assets on direct investment amounted to U.S.\$3.5 billion and was due to an inter-company lending by Kazakhstani enterprises to their foreign parent companies as well as an increase in the capital of foreign subsidiaries of Kazakhstani enterprises. Net incurrence of liabilities on FDI in the amount of U.S.\$17.2 billion was due to an increase in liabilities through inter-company borrowing, including through foreign subsidiaries of special purpose entities (SPEs), and reinvestment of earnings by foreign direct investors. For portfolio investments, there was a positive balance of U.S.\$0.7 billion due to higher decrease in resident liabilities compared to a decrease in their assets. For other investments, the surplus amounted to U.S.\$5.1 billion and was primarily due to the growth of resident assets in foreign accounts. At the same time, attracting financing from the International Bank for Reconstruction and Development in the 2nd quarter of 2016 and medium and long-term loans from non-residents to non-banking organisations partially compensated for capital outflows from other investments.

In 2017, net borrowing in the financial account (excluding operations with reserve assets) amounted to U.S.\$5.5 billion as the net increase in liabilities (by U.S.\$7.7 billion) was 3.5 times higher than the net increase in assets (by U.S.\$2.2 billion). With respect to foreign direct investment, net capital inflow (negative balance) amounted to U.S.\$3.8 billion due to an increase in liabilities of U.S.\$4.7 billion as compared to an increase in assets of U.S.\$1.0 billion. For portfolio investments, a negative balance of U.S.\$5.4 billion developed as a result of (i) a reduction in assets of residents (in the amount of U.S.\$3.2 billion) due to sales of foreign-issued securities by the National Fund of the Republic of Kazakhstan, which was partially offset by purchases of foreign-issued securities by banks and non-banking organisations (including JSC "Unified Accumulative Pension Fund") and (ii) an increase in liabilities on portfolio investment (in the amount of U.S.\$2.2 billion) principally due to Eurobond issuances by Kazakhstani companies and banks in a total amount of U.S.\$4.6 billion, which was partially offset by their repayment of previously issued Eurobonds. For other investments, higher asset growth (in the amount of U.S.\$4.5 billion) as compared to growth in liabilities (in the amount of U.S.\$1.0 billion) provided a surplus of U.S.\$3.6 billion.

In 2018, the positive balance of the financial account (excluding operations with reserve assets) amounted to U.S.\$2.6 billion as the net decrease in liabilities (by U.S.\$4.7 billion) was 2.2 times higher than the net decrease in assets (by U.S.\$2.1 billion). With respect to foreign direct investment, net capital inflow (negative balance) amounted to U.S.\$4.9 billion. Net decrease in financial assets from FDI transactions amounted to U.S.\$4.7 billion. This decrease was principally due to repayments by foreign affiliates of their debt obligations to Kazakhstani enterprises, as well as by non-residents' repayment of large dividends (so-called super-dividends) to Kazakhstani residents, which according to the balance of payments classifications are accounted for as withdrawal of capital (equity). Net incurrence of FDI liabilities amounted to U.S.\$208 million. For portfolio investments, a positive balance of U.S.\$2.6 billion was due to a significant reduction in liabilities in portfolio investment of residents (in the amount of U.S.\$3.6 billion), while their assets decreased less significantly (in the amount of U.S.\$1.0 billion). Financial assets on portfolio investment decreased principally due to sales of foreign securities by residents. The decrease in liabilities on portfolio investment was principally due to JSC KazMunaiGas Exploration & Production's buyout of its shares and global depositary receipts in the first quarter of the year and due to redemption by Kazakhstani banks and companies of their previously issued Eurobonds. In addition, residents' purchases in the secondary market of Eurobonds issued by the Ministry of Finance of the Republic of Kazakhstan resulted in a decrease in residents' liabilities. The impact of these factors was partially offset by the new euro-denominated bond by the Ministry of Finance of the Republic of Kazakhstan and the placement by JSC NAC Kazatomprom of its ordinary shares and GDRs in the total amount of U.S.\$451 million in the fourth quarter of 2018. With respect to other investments, the positive balance amounted to U.S.\$4.7 billion as a result of an increase in assets (in the amount of U.S.\$3.5 billion) and a decrease in liabilities (in the amount of U.S.\$1.2 billion).

Reserve assets of the NBK on the balance of payment transactions decreased by U.S.\$5.4 billion in the six months ended 30 June 2019 as compared to a decrease by U.S.\$1.0 billion in the six months ended 30 June 2018. The decrease in reserve assets in the six months ended 30 June 2019 is mainly due to the withdrawal of residents' funds from foreign currency accounts in the NBK. As at 30 June 2019, total official international

reserves (including gold) amounted to U.S.\$28.2 billion as compared to U.S.\$30.9 billion as at 31 December 2018. The impact of the U.S.\$5.4 billion decrease in foreign exchange reserve assets discussed above was partially offset by the U.S.\$2.7 billion increase in official gold reserves (U.S.\$17.1 billion as at 30 June 2019 compared to U.S. \$14.4 billion as at 31 December 2018).

## Foreign Trade

### Foreign Trade Regime

Exports are an important source of foreign exchange earnings for Kazakhstan. Currently, Kazakhstan has various export restrictions in place, such as export quotas, export tariffs and voluntary export restraints, which continue to exist on a list of goods agreed between Kazakhstan and the European Union and between Kazakhstan and the U.S. From 1 March 2016, Kazakhstan linked the rate of export customs duty (“ECD”) for oil to the world oil price. Zero rate ECD applies if the world oil price is below U.S.\$25 per barrel. If the world oil price is above U.S.\$25 per barrel, the ECD is charged at a rate set by a scale which is linked to the level of the world oil price. Accordingly, the higher the world oil prices, the higher is the ECD rate. The export price of manufacturing enterprises in the Republic of Kazakhstan for crude oil in June 2019 amounted to U.S.\$511.9 per tonne.

In July 2010, the Customs Code of the Customs Union entered into force as among Belarus, Kazakhstan and Russia. In November 2011, the parties entered into implementing agreements for the creation of the CES. The agreements provide for the free movement of goods, services, capital and labour and set out common principles in respect of competition, industry subsidies and currency policy. On 1 January 2012, the CES became effective following the ratification by each of the three countries of a basic package of 20 agreements. The Customs Union provides for tariff-free trade among the member countries and a uniform customs tariff being applicable to trade by member states with other countries. On 29 May 2014, the presidents of Kazakhstan, Belarus and Russia signed the Eurasian Economic Union Agreement, and the EEU was established on 1 January 2015. Most of the existing CES agreements are codified in the Eurasian Economic Union Agreement. Based on this agreement, new Customs Code of the EEU came into force starting from 1 January 2018. The new code simplifies certain customs clearance procedures. Armenia’s accession treaty was signed on 10 October 2014 (came into force on 2 January 2015) and Kyrgyzstan signed an accession treaty on 23 December 2014 and ratified it on 20 May 2015. Kyrgyzstan’s accession agreement was ratified by the earlier members of the EEU on 12 August 2015. See “*The Republic of Kazakhstan—International Relations—International Organisations—Eurasian Economic Union*”.

One of the key elements of the Eurasian Economic Union is the free movement of goods and services.

On 30 November 2015, Kazakhstan became a full member of the WTO, having initially applied for WTO membership in 1996. See “*The Republic of Kazakhstan—International Relations—International Organisations—WTO*”.

### Composition of Trade

All data in this “—Composition of Trade” section exclude data on exports to, and imports from, countries of the EEU because data in this section is presented on a customs basis and all trade with countries of the EEU is treated as domestic, as opposed to foreign, trade.

The following table illustrates the composition of Kazakhstan’s exports on a customs basis (excluding unregistered trade adjustments) for the years 2014 to 2018 and the six months ended 30 June 2018 and 2019:

	2014		2015		Year ended 31 December 2016		2017		2018		Six months ended 30 June 2018		Six months ended 30 June 2019 <sup>(3)</sup>	
	U.S.\$ million	%	U.S.\$ million	%	U.S.\$ million	%	U.S.\$ million	%	U.S.\$ million	%	U.S.\$ million	%	U.S.\$ million	%
<b>Exports</b>														
Products of animal and vegetable origin, finished foodstuffs .....	2,347.8	3.2	1,792.0	4.3	1,705.5	5.2	1,924.5	4.5	2,500.4	4.5	1,194.9	4.6	1,346.3	5.2
Mineral products <sup>(1)</sup> .....	61,348.7	84.0	30,717.3	74.6	22,547.2	68.7	31,349.8	72.5	43,321.2	78.7	20,278.2	78.4	19,585.8	76.3
Chemical products and products of related sectors (including rubber and plastic) .....	2,324.0	3.2	2,364.8	5.7	1,891.5	5.8	1,779.9	4.1	1,655.7	3.0	573.5	2.2	788.8	3.1

Leather and fur products .....	23.0	0.0	23.5	0.1	32.6	0.1	15.3	0.0	9.5	0.0	6.3	0.0	3.9	0.0
Timber, wood pulp and paper products .....	20.1	0.0	12.8	0.0	229.9	0.7	33.5	0.1	58.9	0.1	25.2	0.1	32.8	0.1
Textiles and textile products .....	66.6	0.1	66.0	0.2	78.9	0.2	167.4	0.4	130.5	0.2	42.6	0.2	80.6	0.3
Footwear, headwear and fashion accessories .....	1.4	0.0	1.4	0.0	1.0	0.0	1.1	0.0	1.7	0.0	0.7	0.0	0.6	0.0
Construction materials .....	25.0	0.0	12.0	0.0	15.1	0.0	12.9	0.0	16.1	0.0	7.3	0.0	10.3	0.0
Metals and metal products <sup>(2)</sup> .....	5,723.2	7.9	5,676.1	13.6	5,781.8	17.6	7,543.5	17.4	7,008.6	12.7	3,604.7	13.9	3,566.1	13.9
Machinery, equipment and transport, devices and apparatus .....	993.7	1.4	463.7	1.1	496.9	1.5	379.2	0.9	342.8	0.6	125.8	0.5	243.2	0.9
Other .....	611.7	0.8	576.3	1.4	658.7	2.0	33.6	0.1	18.9	0.0	7.3	0.0	9.5	1.4
<b>Total exports .....</b>	<b>73,010.0</b>	<b>100</b>	<b>41,201.6</b>	<b>100</b>	<b>32,806.7</b>	<b>100</b>	<b>43,240.7</b>	<b>100</b>	<b>55,064.3</b>	<b>100</b>	<b>25,866.7</b>	<b>100</b>	<b>25,667.9</b>	<b>100</b>

Source: Ministry of Finance, Ministry of National Economy

Notes:

- (1) Mineral products includes oil, gas and coal as well as metals and precious stones.
- (2) Metals and metal products (including precious metals and items produced from them) are at a more advanced stage of refining or processing than metals in the mineral products category.
- (3) Preliminary data.

The following table illustrates the composition of Kazakhstan's imports on a customs basis (excluding unregistered trade adjustments) for the years 2014 to 2018 and the six months ended 30 June 2018 and 2019:

	2014		2015		Year ended 31 December 2016		2017		2018		Six months ended 30 June 2019		Six months ended 30 June 2019 <sup>(3)</sup>	
	U.S.\$ million	%	U.S.\$ million	%	U.S.\$ million	%	U.S.\$ million	%	U.S.\$ million	%	U.S.\$ million	%	U.S.\$ million	%
<b>Imports</b>														
Products of animal and vegetable origin, finished foodstuffs .....	2,571.6	9.6	1,965.7	10.1	1,693.6	10.9	1,822.6	10.7	1,822.8	9.4	1,005.2	11.2	852.2	8.2
Mineral products <sup>(1)</sup> .....	816.2	3.1	693.4	3.6	662.6	4.3	646.0	3.8	679.8	3.5	320.5	3.6	259.5	2.5
Chemical products and products of related sectors (including rubber and plastic) .....	3,856.6	14.4	2,995.2	15.4	2,451.0	15.8	2,979.9	17.4	3,117.8	16.1	1,593.7	17.7	1,611.9	15.5
Leather and fur products .....	121.3	0.5	79.5	0.4	48.2	0.3	57.9	0.3	50.5	0.3	23.0	0.3	35.0	0.3
Timber, wood pulp and paper products .....	652.8	2.4	373.7	1.9	257.0	1.7	293.0	1.7	272.3	1.4	119.7	1.3	108.4	1.0
Textiles and textile products .....	1,153.7	4.3	684.4	3.5	511.2	3.3	588.7	3.4	705.3	3.7	289.6	3.2	409.4	3.9
Footwear, headwear and fashion accessories .....	566.7	2.1	280.7	1.4	180.3	1.2	235.0	1.4	238.3	1.2	84.0	0.9	164.0	1.6
Construction materials .....	362.8	1.4	240.0	1.2	214.5	1.4	226.2	1.3	249.3	1.3	106.6	1.2	102.0	1.0
Metals and metal products <sup>(2)</sup> .....	2,380.5	8.9	2,506.5	12.9	1,972.0	12.7	1,684.9	9.9	2,053.7	10.6	857.7	9.6	1,048.9	10.1
Machinery, equipment and transport, devices and apparatus .....	13,332.6	49.9	9,014.9	46.2	7,033.0	45.3	7,929.5	46.4	9,480.3	49.1	4,306.0	48.0	5,506.7	52.9
Other .....	911.8	3.4	680.6	3.5	509.0	3.3	617.8	3.6	650.9	3.4	273.6	3.0	302.5	2.9
<b>Total imports .....</b>	<b>26,714.0</b>	<b>100.0</b>	<b>19,500.3</b>	<b>100.0</b>	<b>15,513.2</b>	<b>100.0</b>	<b>17,061.5</b>	<b>100.0</b>	<b>19,311.0</b>	<b>100.0</b>	<b>8,979.6</b>	<b>100.0</b>	<b>10,400.5</b>	<b>100.0</b>

Source: Ministry of Finance, Ministry of National Economy

Notes:

- (1) Mineral products includes oil, gas and coal as well as metals and precious stones.
- (2) Metals and metal products (including precious metals and items produced from them) are at a more advanced stage of refining or processing than metals in the mineral products category.
- (3) Preliminary data.

The following table illustrates the balance between Kazakhstan's exports and imports by products category and for total exports and imports on a customs basis (excluding unregistered trade adjustments) for the years 2014 to 2018 and the six months ended 30 June 2018 and 2019:

	2014		2015		Year ended 31 December 2016		2017		2018		Six months ended 30 June 2018		Six months ended 30 June 2019 <sup>(3)</sup>	
	U.S.\$ million	%	U.S.\$ million	%	U.S.\$ million	%	U.S.\$ million	%	U.S.\$ million	%	U.S.\$ million	%	U.S.\$ million	%
<b>Balance</b>														
Products of animal and vegetable origin, finished foodstuffs.....	(223.8)	(0.5)	(173.7)	(0.8)	11.9	0.1	101.9	0.4	677.6	1.9	189.7	1.1	494.1	3.2
Mineral products <sup>(1)</sup> .....	60,532.5	130.8	30,023.9	138.4	21,884.6	126.5	30,703.8	117.4	42,641.4	119.3	19,957.7	118.2	19,326.3	126.6
Chemical products and products of related sectors (including rubber and plastic).....	(1,532.6)	(3.3)	(630.4)	(2.9)	(559.5)	(3.2)	(1,200.0)	(4.6)	(1,462.1)	(4.1)	(1,020.2)	(6.0)	(823.1)	(5.4)
Leather and fur products.....	(98.3)	(0.2)	(56.0)	(0.3)	(15.6)	(0.1)	(42.6)	(0.2)	(41.0)	(0.1)	(16.5)	(0.1)	(31.1)	(0.2)
Timber, wood pulp and paper products.....	(632.7)	(1.4)	(360.9)	(1.7)	(27.1)	(0.2)	(259.5)	(1.0)	(213.4)	(0.6)	(94.5)	(0.6)	(75.6)	(0.5)
Textiles and textile products.....	(1,087.1)	(2.3)	(618.4)	(2.8)	(432.3)	(2.5)	(421.3)	(1.6)	(574.8)	(1.6)	(247.0)	(1.5)	(328.8)	(2.2)
Footwear, headwear and fashion accessories.....	(565.3)	(1.2)	(279.3)	(1.3)	(179.3)	(1.0)	(233.9)	(0.9)	(226.6)	(0.6)	(83.3)	(0.5)	(163.4)	(1.1)
Construction materials.....	(337.8)	(0.7)	(228.0)	(1.1)	(199.4)	(1.2)	(213.3)	(0.8)	(233.2)	(0.7)	(99.3)	(0.6)	(91.7)	(0.6)
Metals and metal products <sup>(2)</sup> .....	3,342.7	7.2	3,169.6	14.6	3,809.8	22.0	5,858.6	22.4	4,954.9	13.9	2,747.0	16.3	2,517.2	16.5
Machinery, equipment and transport, devices and apparatus.....	(12,338.9)	(26.7)	(8,551.2)	(39.4)	(6,536.1)	(37.8)	(7,550.3)	(28.9)	(9,137.5)	(25.6)	(4,180.2)	(24.8)	(5,263.5)	(34.5)
Other.....	(762.7)	(1.6)	(594.3)	(2.7)	(463.5)	(2.7)	(584.2)	(2.2)	(632)	(1.9)	(266.3)	(1.6)	(293.0)	(1.9)
<b>Total trade balance..</b>	<b>46,296.0</b>	<b>100.0</b>	<b>21,701.3</b>	<b>100.0</b>	<b>17,293.5</b>	<b>100.0</b>	<b>26,159.2</b>	<b>100.0</b>	<b>35,753.3</b>	<b>100.0</b>	<b>16,887.1</b>	<b>100.0</b>	<b>15,267.4</b>	<b>100.0</b>

Source: Ministry of Finance, Ministry of National Economy

Notes:

- (1) Mineral products includes oil, gas and coal as well as metals and precious stones.
- (2) Metals and metal products (including precious metals and items produced from them) are at a more advanced stage of refining or processing than metals in the mineral products category.
- (3) Preliminary data.

The following table sets out the volumes of exports of principal oil and gas products from Kazakhstan for the years 2014 to 2018 and the six months ended 30 June 2018 and 2019.

	2014	Year ended 31 December		2017	2018	Six months ended 30 June 2018	Six months ended 30 June 2019
		2015	2016				
		(Million tonnes)					
Crude oil.....	67.5	61.3	62.1	68.6	69.7	34.7	34.6
Fuel oil.....	4.8	4.7	3.5	3.6	2.8	1.8	1.4
Liquefied gas.....	1.9	2.0	1.9	2.2	2.0	1.1	1.0
Natural gas condensate.....	1.5	1.1	1.1	0.8	0.3	0.2	0.1

Source: Ministry of Finance

Exports of mineral products (including oil, gas and coal as well as metals and precious stones) account for a substantial majority of Kazakhstan's exports, collectively representing 84.0% of exports in 2014, 74.6% of exports in 2015, 68.7% of exports in 2016, 72.5% of exports in 2017, 78.7% of exports in 2018 and 76.3% in the six months ended 30 June 2019. Exports of oil and petroleum products represented 25.4%, 14.9%, 14.6%, 16.9% and 22.4% of Kazakhstan's GDP in 2014, 2015, 2016, 2017 and 2018, respectively.

The volume of exports of oil and gas products from Kazakhstan has decreased slightly from 75.7 million tonnes in 2014 to 74.8 million tonnes in 2018. Exports of crude oil increased by 3.3%, or 2.2 million tonnes, from 2014 to 2018. Exports of fuel oil decreased by 41.7%, or 2.0 million tonnes, from 2014 to 2018. Exports of liquefied gas increased by 5.3%, or 0.1 million tonnes, from 2014 to 2018. Exports of natural gas condensate

decreased by 80%, or 0.9 million tonnes, from 2014 to 2018. In the six months ended 30 June 2019 as compared to the six months ended 30 June 2018, exports of crude oil, liquefied gas and natural gas condensate decreased by 0.1 million tonnes and exports of fuel oil decreased by 0.4 million tonnes.

In 2014, energy (including oil, petroleum products, natural gas, coal and electricity) accounted for approximately 82.4% of Kazakhstan's exports, of which oil and petroleum products accounted for 77.9%, while natural gas accounted for 4.2%, coal for 0.2% and electricity for 0.05%. In 2015, energy (including oil, petroleum products, natural gas, coal and electricity) accounted for approximately 73.1% of Kazakhstan's exports, of which oil and petroleum products accounted for 67.3%, while natural gas accounted for 5.3%, coal for 0.4% and electricity for 0.02%. In 2016, energy (including oil, petroleum products, natural gas, coal and electricity) accounted for approximately 66.4% of Kazakhstan's exports, of which oil and petroleum products accounted for 61.1%, while natural gas accounted for 4.9%, coal for 0.4% and electricity for 0%. In 2017, energy (including oil, petroleum products, natural gas, coal and electricity) accounted for approximately 69.3% of Kazakhstan's exports, of which oil and petroleum products accounted for 63.8%, while natural gas accounted for 4.9%, coal for 0.4% and electricity for 0%. In 2018, energy (including oil, petroleum products, natural gas, coal and electricity) accounted for approximately 76.0% of Kazakhstan's exports, of which oil and petroleum products accounted for 70.5%, while natural gas accounted for 5.0%, coal for 0.4% and electricity for 0%.

Other significant exports include metals and metal products, which represented 7.9%, 13.6%, 17.6%, 17.4%, 12.7%, 13.9% and 13.9% of exports in 2014, 2015, 2016, 2017, 2018 and the six months ended 30 June 2018 and 2019, respectively, foodstuffs and agricultural products, which represented 3.2%, 4.3%, 5.2%, 4.5%, 4.5%, 4.6% and 5.2% of exports in 2014, 2015, 2016, 2017, 2018 and the six months ended 30 June 2018 and 2019, respectively, and chemical products and the products of related sectors, which represented 3.2%, 5.7%, 5.8%, 4.1%, 3.0%, 2.2% and 3.1% of exports in 2014, 2015, 2016, 2017, 2018 and the six months ended 30 June 2018 and 2019, respectively.

Kazakhstan is a net importing country of many items, most of which enter the country by rail and trucks. Imports of machinery, equipment and transport accounted for 49.9% of imports in 2014, 46.2% of imports in 2015, 45.3% of imports in 2016, 46.4% of imports in 2017, 49.1% of imports in 2018, 48.0% of imports in the six months ended 30 June 2018 and 52.9% of imports in the six months ended 30 June 2019. Chemical products and the products of related sectors accounted for 14.4% of imports in 2014, 15.4% of imports in 2015, 15.8% of imports in 2016, 17.4% of imports in 2017, 16.1% of imports in 2018, 17.7% of imports in the six months ended 30 June 2018 and 15.5% of imports in the six months ended 30 June 2019.

### ***Direction of Trade***

All data in this “—*Direction of Trade*” section include data on exports to, and imports from, countries of the EEU as such data was prepared on the basis of actual trade flows and not on a customs basis. Accordingly, the overall exports and imports amounts in this section exceed the overall exports and imports amounts in the “—*Composition of Trade*” section above.

The following tables illustrate the geographic distribution of Kazakhstan's exports based on actual trade flows (excluding unregistered trade adjustments) for the years 2014 to 2018 and the six months ended 30 June 2018 and 2019:

	2014	2015	Year ended 31 December 2016	2017	2018 <sup>(1)</sup>	Six months ended 30 June 2018 <sup>(1)</sup>	2019 <sup>(1)</sup>
	U.S.\$ million						
<b>Exports to non-CIS countries .....</b>	<b>68,407.3</b>	<b>38,047.5</b>	<b>30,409.3</b>	<b>40,204.4</b>	<b>51,542.9</b>	<b>24,356.8</b>	<b>23,736.8</b>
Germany .....	444.7	342.6	262.2	418.0	462.8	259.7	151.7
United Kingdom .....	631.5	828.8	889.4	926.7	784.9	404.7	315.9
Netherlands .....	8,724.2	4,981.0	3,255.8	4,747.9	6,186.1	3,318.2	2,001.5
Switzerland .....	4,539.2	2,659.3	2,442.8	3,100.7	2,900.4	1,562.3	1,246.7
Japan .....	741.0	858.6	558.8	886.5	1,503.0	600.0	473.3
US .....	411.5	434.4	613.0	390.4	955.2	172.4	439.1
Italy .....	16,051.6	8,136.3	7,481.7	8,667.3	11,734.3	5,461.9	4,239.6
Finland .....	893.6	287.6	217.7	175.9	125.2	37.1	33.9
France .....	4,690.3	2,681.3	1,791.8	2,860.7	3,839.2	1,964.1	1,980.4
Egypt .....	15.4	13.8	38.3	11.6	16.7	9.5	9.8
India .....	1,083.3	220.1	411.1	733.3	953.4	287.5	622.8
Iran .....	892.5	565.8	550.5	484.0	429.4	228.8	167.0
Latvia .....	263.4	121.1	93.5	74.4	56.5	22.9	29.8
Lithuania .....	285.1	100.6	240.9	554.4	660.8	378.9	138.7
China .....	9,799.4	5,480.1	4,228.4	5,798.0	6,307.5	2,750.9	4,040.0
Turkey .....	2,272.4	1,275.6	851.0	1,150.6	1,238.6	494.8	1,169.1
<b>Exports to CIS countries .....</b>	<b>11,052.5</b>	<b>7,908.3</b>	<b>6,327.6</b>	<b>8,298.9</b>	<b>9,568.3</b>	<b>4,685.6</b>	<b>4,843.7</b>
Ukraine .....	1,673.0	1,173.7	906.7	1,138.1	1,060.5	395.4	462.1
Belarus .....	61.3	53.5	47.2	101.2	105.1	60.6	49.8
Russia .....	6 388.5	4,547.6	3,445.2	4,639.0	5,279.9	2,723.6	2,590.3
Uzbekistan .....	1,083.9	942.3	925.2	1,249.2	1,639.7	806.6	994.2
Other CIS .....	1,845.7	1,191.3	1,003.4	1,117.3	1,483.2	699.4	747.4
<b>Total exports .....</b>	<b>79,459.9</b>	<b>45,955.8</b>	<b>36,736.9</b>	<b>48,503.3</b>	<b>61,111.2</b>	<b>29,042.4</b>	<b>28,580.5</b>

Source: Ministry of National Economy

Note:

(1) Preliminary data.

The following tables illustrate the geographic distribution of Kazakhstan's imports based on actual trade flows (excluding unregistered trade adjustments) for the years 2014 to 2018 and the six months ended 30 June 2018 and 2019:

	2014	2015	Year ended 31 December 2016	2017	2018 <sup>(1)</sup>	Six months ended 30 June 2018 <sup>(1)</sup>	Six months ended 30 June 2019 <sup>(1)</sup>
	U.S.\$ million						
<b>Imports from non-CIS countries .....</b>	<b>23,748.5</b>	<b>17,505.7</b>	<b>14,013.1</b>	<b>15,467.6</b>	<b>17,624.6</b>	<b>8,151.0</b>	<b>9,746.4</b>
Germany .....	2,314.6	1,986.0	1,442.6	1,485.1	1,640.0	919.3	618.1
US .....	1,979.7	1,471.6	1,269.6	1,245.1	1,268.2	693.5	703.6
Japan .....	924.8	584.5	552.9	413.9	502.0	248.8	335.6
Italy .....	1,037.5	1,174.5	835.7	945.9	1,485.5	470.1	771.2
South Korea .....	1,067.0	607.0	453.0	567.3	921.2	274.7	1,253.5
Finland .....	262.1	179.4	124.3	132.0	146.3	63.7	81.3
France .....	1,085.4	670.6	660.9	535.3	657.5	287.3	272.1
Poland .....	429.3	340.9	254.4	327.6	283.6	134.9	169.1
United Kingdom .....	578.9	402.8	372.4	359.1	459.1	218.3	223.2
Netherlands .....	308.7	312.2	281.5	282.0	307.8	164.3	99.5
Argentina .....	25.9	18.5	10.6	31.0	22.0	7.7	7.0
Brazil .....	256.0	127.7	156.1	111.5	102.1	47.8	150.8
India .....	259.9	241.8	203.9	212.5	242.9	125.3	135.9
Malaysia .....	104.7	96.3	82.8	110.2	126.1	60.5	43.0
Thailand .....	139.5	73.3	66.3	92.1	104.1	52.5	73.9
China .....	7,357.2	5,087.8	3,668.0	4,695.0	5,384.2	2,477.7	2,795.7
Turkey .....	1,019.4	741.9	618.3	729.6	655.3	325.0	365.8
<b>Imports from CIS countries .....</b>	<b>17,547.0</b>	<b>13,062.1</b>	<b>11,363.6</b>	<b>14,132.0</b>	<b>16,033.9</b>	<b>7,657.8</b>	<b>7,306.3</b>
Ukraine .....	1,208.8	827.8	435.6	462.2	388.4	185.7	167.1
Belarus .....	773.8	488.0	339.0	531.7	607.3	295.4	295.0
Russia .....	13,807.7	10,529.3	9,288.3	11,733.0	13,237.5	6,283.3	6,234.3
Uzbekistan .....	1,017.7	725.7	587.8	736.2	1,155.3	562.9	367.1
Other CIS .....	739.0	491.3	712.9	668.9	645.3	330.5	242.8
<b>Total imports .....</b>	<b>41,295.5</b>	<b>30,567.8</b>	<b>25,376.7</b>	<b>29,599.6</b>	<b>33,658.5</b>	<b>15,810.8</b>	<b>17,052.7</b>

Source: Ministry of National Economy

Note:

(1) Preliminary data.

Kazakhstan's largest foreign trading partners are the EU, China and Russia.

The EU is the leading trading partner of Kazakhstan mainly due to its large imports of oil and other mineral resources from Kazakhstan. The volume of trade between Kazakhstan and the EU amounted to U.S.\$37.7 billion in 2018 (with exports of U.S.\$31.0 billion and imports of U.S.\$6.7 billion), which is 12.9% higher than in 2017. In the six months ended 30 June 2019, the volume of trade between Kazakhstan and the EU amounted to U.S.\$15.5 billion (with exports of U.S.\$12.5 billion and imports of U.S.\$3.0 billion), which is 17.7% lower than in the six months ended 30 June 2018.

Following the commencement of operations of the Atasu-Alashankou pipeline (which forms part of the Kazakhstan-China Oil Pipeline) in 2006, China has gradually become the second largest export destination for Kazakhstan goods. Imports to Kazakhstan from China in 2018 amounted to U.S.\$5.4 billion and increased by 14.7% (by U.S.\$1.7 billion) compared with 2017 (U.S.\$4.7 billion). In the six months ended 30 June 2019, according to preliminary data, imports to Kazakhstan from China amounted to U.S.\$2.8 billion. Exports from Kazakhstan to China in 2018 amounted to U.S.\$6.3 billion and increased by 8.8% (by U.S.\$0.5 billion) compared with 2017 (U.S.\$5.8 billion). In the six months ended 30 June 2019, according to preliminary data, exports from Kazakhstan to China amounted to U.S.\$4.0 billion.

Kazakhstan's current membership in the EEU is expected to have a continuing positive effect on trade volumes with Russia, Belarus, Armenia, Kyrgyzstan and other countries that may become members of the EEU.

To date, the EEU has removed customs barriers and developed unified requirements and standards in a number of areas. Additional unified standards are being developed. Another area of focus is an improved access for other members of the EEU to key transport and logistics infrastructure in the other member states.

The volume of trade between Kazakhstan and EEU countries amounted to U.S.\$20.1 billion in 2018 (with exports of U.S.\$6.0 billion and imports of U.S.\$14.1 billion), which is 13.3% higher than in 2017. In the six months ended 30 June 2019, the volume of trade between Kazakhstan and EEU countries amounted to U.S.\$9.6 billion (with exports of U.S.\$2.9 billion and imports of U.S.\$6.7 billion), which is 2.6% lower than in the six months ended 30 June 2018.

#### *CIS Countries*

The value of Kazakhstan's exports to CIS countries amounted to U.S.\$11.1 billion, U.S.\$7.9 billion, U.S.\$6.3 billion, U.S.\$8.3 billion, U.S.\$9.6 billion and U.S.\$4.8 billion in 2014, 2015, 2016, 2017, 2018 and the six months ended 30 June 2019, respectively. As a percentage of total exports, exports to CIS countries accounted for 13.9% in 2014, 17.2% in 2015, 17.2% in 2016, 17.1% in 2017, 15.7% in 2018 and 16.9% in the six months ended 30 June 2019. The total value of exports to CIS countries decreased by 13.4% between 2014 and 2018, principally as a result of a decline in the prices for oil, gas and minerals, and agricultural products. Between 2014 and 2018, average export prices to CIS countries for many products decreased (by 17.2% for gas condensate, by 39.2% for wheat, by 30.5% for coal and by 23.9% for iron ore).

The value of Kazakhstan's imports from CIS countries amounted to U.S.\$17.5 billion, U.S.\$13.1 billion, U.S.\$11.4 billion, U.S.\$14.1 billion, U.S.\$16.0 billion and U.S.\$7.3 billion in 2014, 2015, 2016, 2017, 2018 and the six months ended 30 June 2019, respectively. As a percentage of total imports, Kazakhstan's imports from CIS countries were 42.5% in 2014, 42.7% in 2015, 44.8% in 2016, 47.7% in 2017, 47.6% in 2018 and 42.8% in the six months ended 30 June 2019. Imports from CIS countries decreased by 8.6% between 2014 and 2018, principally as a result of the significant decrease in prices for commodities produced in Kazakhstan, which, in turn, resulted in a weaker economy and decreased buying power and consumer confidence in Kazakhstan. For example, between 2014 and 2018, imports of cars from CIS countries decreased from U.S.\$1.4 billion to U.S.\$309.8 million, imports of rolling stock decreased from U.S.\$ 497.5 million to U.S.\$331.4 million and imports of oil products decreased from U.S.\$1.2 billion to U.S.\$707.1 million.

In 2018, Kazakhstan's exports to Russia accounted for 28.5% of its total trade with Russia, whilst Kazakhstan's imports from Russia accounted for 71.5% of its total trade with Russia.

Kazakhstan's exports to Russia, based on actual trade flows, amounted to U.S.\$2.6 billion, or 9.1% of total exports, in the six months ended 30 June 2019, as compared to U.S.\$2.7 billion, or 9.4% of total exports, in the six months ended 30 June 2018. Kazakhstan's exports to Russia amounted to U.S.\$5.3 billion, or 8.6% of total exports, in 2018, as compared to U.S.\$4.6 billion, or 9.6% of total exports in 2017, U.S.\$3.4 billion, or 9.4% of total exports in 2016, U.S.\$4.5 billion, or 9.9% of total exports in 2015 and U.S.\$6.4 billion, or 8.0% of total exports in 2014. Kazakhstan's main exports to Russia are energy products (including oil, petroleum products, natural gas, coal and electricity), metals and metal products, chemicals and machinery, equipment and vehicles, which accounted for 11.5%, 30.6%, 13.0%, and 7.2%, respectively, of total exports to Russia in the six months ended 30 June 2019.

Kazakhstan's imports from Russia, based on actual trade flows, amounted to U.S.\$6.2 billion, or 36.6% of total imports, in the six months ended 30 June 2019, as compared to U.S.\$6.3 billion, or 39.7% of total imports, in the six months ended 30 June 2018. Kazakhstan's imports from Russia, based on actual trade flows, amounted to U.S.\$13.2 billion, or 39.3% of total imports, in 2018, as compared to U.S.\$11.7 billion, or 39.6% of total imports, in 2017, U.S.\$9.3 billion, or 36.6% of total imports, in 2016, U.S.\$10.5 billion, or 34.4% of total imports, in 2015 and U.S.\$13.8 billion, or 34.4% of total imports, in 2014. Kazakhstan's main imports from Russia are mineral products, machinery, equipment and vehicles, metals and metal products and chemicals, which accounted for 11.4%, 27.2%, 17.3% and 16.4%, respectively, of total imports from Russia in the six months ended 30 June 2019.

#### *Non-CIS Countries*

Kazakhstan's exports to non-CIS countries amounted to U.S.\$68.4 billion, U.S.\$38.0 billion, U.S.\$30.4 billion, U.S.\$40.2 billion, U.S.\$51.5 billion and U.S.\$23.7 billion in 2014, 2015, 2016, 2017, 2018 and the six months ended 30 June 2019, respectively. As a percentage of total exports, exports to non-CIS countries amounted to 87.5% in 2014, 82.8% in 2015, 82.8% in 2016, 82.9% in 2017, 84.3% in 2018 and 83.1% in the six months ended 30 June 2019. Between 2014 and 2018, exports to non-CIS countries decreased by 24.7%, primarily due to the decline in prices for oil, gas and minerals.

The value of Kazakhstan's imports from non-CIS countries amounted to U.S.\$23.7 billion, U.S.\$17.5 billion, U.S.\$14.0 billion, U.S.\$15.5 billion, U.S.\$17.6 billion and U.S.\$9.7 billion in 2014, 2015, 2016, 2017, 2018 and the six months ended 30 June 2019, respectively. As a percentage of total imports, Kazakhstan's imports from non-CIS countries were 57.7% in 2014, 57.3% in 2015, 55.2% in 2016, 52.3% in 2017, 52.4% in 2018 and 57.2% in the six months ended 30 June 2019. Imports from non-CIS countries decreased by approximately 25.8% between 2014 and 2018, primarily as a result of the significant decreases in prices for commodities produced in Kazakhstan, which, in turn, resulted in a weaker economy and decreased buying power and consumer confidence in Kazakhstan. For example, between 2014 and 2018, imports of pharmaceuticals from non-CIS countries decreased from U.S.\$1.2 billion to U.S.\$1.0 billion, imports of cars decreased from U.S.\$943.9 million to U.S.\$296.3 million and imports of computers decreased from U.S.\$597.9 to U.S.\$390.4 million.

Kazakhstan's exports to the EU in the six months ended 30 June 2019 amounted U.S.\$12.5 billion, or 43.6% of total exports as compared to U.S.\$31.0 billion, or 50.8% of total exports in 2018, U.S.\$24.3 billion, or 50.1% of total exports, in 2017, U.S.\$18.7 billion, or 50.8% of total exports, in 2016, U.S.\$24.4 billion, or 53.2% of total exports, in 2015 and U.S.\$44.4 billion, or 55.9% of total exports, in 2014. Kazakhstan's imports from the EU in the six months ended 30 June 2019 amounted to U.S.\$3.0 billion, or 17.5% of total imports as compared to U.S.\$6.6 billion, or 19.7% of total imports, in 2018, U.S.\$5.7 billion, or 19.4% of total imports, in 2017, U.S.\$5.7 billion, or 22.4% of total imports, in 2016, U.S.\$6.9 billion, or 22.5% of total imports, in 2015 and U.S.\$8.6 billion, or 20.9% of total imports, in 2014.



## Foreign Direct Investment

The following table shows the gross FDI inflow into, and outflow from, Kazakhstan for the years 2014 to 2018 and the three months ended 31 March 2019:

Types of economic activities	Years ended 31 December					Three months ended 31 March	Three months ended 31 March
	2014	2015	2016	2017	2018	2018	2019
	(U.S.\$ millions)						
<b>Gross inflow of FDI<sup>(1)</sup></b>	<b>23,809</b>	<b>15,368</b>	<b>21,367</b>	<b>20,960</b>	<b>24,276</b>	<b>6,749</b>	<b>5,964</b>
Mining and quarrying	8,418	3,455	7,208	10,208	13,562.	3,716	3,606
- including extraction of crude oil and natural gas	7,302	2,709	5,740	9,614	12,082	3,408	3,304
Manufacturing	3,668	2,589	4,082	5,130	3,419	1,159	980
Wholesale and retail trade; repair of motor vehicles and motorcycles	2,802	1,550	2,293	3,152	3,277	891	584
Transportation and storage	732	484	515	791	786	257	305
Financial and insurance activities	520	470	385	399	1,309	310	142
Professional, scientific and technical activities	5,835	5,613	4,880	196	679	105	96
<b>Gross outflow of FDI<sup>(2)</sup></b>	<b>3,355</b>	<b>6,930</b>	<b>4,290</b>	<b>1,993</b>	<b>1,319</b>	<b>360</b>	<b>269</b>
Mining and quarrying	4	203	3	3	118	1	0
Manufacturing	99	215	90	69	64	18	14
Wholesale and retail trade; repair of motor vehicles and motorcycles	133	130	133	94	50	18	5
Financial and insurance activities	203	521	317	999	539	150	150
Professional, scientific and technical activities	1,988	5,279	2,452	159	61	36	16
Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	786	256	609	235	222	89	21

Source: NBK

Notes:

- (1) Gross inflow of FDI includes: (i) purchase of at least 10% of voting shares or shares in Kazakhstani enterprises by non-residents or purchase of real estate in Kazakhstan by non-residents, (ii) reinvested earnings: share of foreign direct investors in undistributed income (loss) in Kazakhstani enterprises and (iii) increase in debt instruments: flow of funds from foreign direct investors (both in cash and other forms, including goods, services, intangible assets and purchase of securities) without amortisation.
- (2) Gross outflow of FDI includes: (i) purchase of at least 10% of voting shares or shares in foreign enterprises by Kazakhstani residents or purchase of foreign real estate by Kazakhstani residents, (ii) reinvested earnings: share of Kazakhstani direct investors in undistributed income (loss) in foreign enterprises and (iii) increase in debt instruments: flow of funds from Kazakhstani direct investors (both in cash and other forms, including goods, services, intangible assets and purchase of securities) without amortisation.

The gross inflow of direct investments into Kazakhstan from foreign direct investors in the period from 1 January 2005 to 31 March 2019 amounted to U.S.\$295.6 billion, of which U.S.\$111.7 billion was for the period from 1 January 2014 to 31 March 2019. The gross inflow of foreign direct investments into Kazakhstan was U.S.\$6.0 billion in the three months ended 31 March 2019; U.S.\$24.3 billion in 2018; U.S.\$21.0 billion in 2017; U.S.\$21.4 billion in 2016; U.S.\$15.4 billion in 2015 and U.S.\$23.8 billion in 2014. As a percentage of GDP, the gross inflow of FDI was 14.0% in 2018, compared to 12.9%, 15.6%, 8.3% and 10.7% in 2017, 2016, 2015 and 2014, respectively. In the first three months of 2019, the gross inflow of FDI amounted to U.S.\$6.0 billion, which was a decrease of 11.6% as compared to the gross inflow of FDI in the first three months of 2018. The decrease was principally due to the record level of reinvested earnings by foreign direct investors in the first three months of 2018. Such reinvested earnings amounted to U.S.\$3.1 billion and were the result of significant growth in export revenues of Kazakhstani companies, in which such foreign direct investors had ownership interests, mainly due to the increase in global crude oil prices during this period. In the first three months of 2019, reinvested earnings by foreign direct investors amounted to U.S.\$2.2 billion.

The net inflow of FDI to Kazakhstan was U.S.\$2.4 billion in the three months ended 31 March 2019; U.S.\$3.8 billion in 2018; U.S.\$4.7 billion in 2017; U.S.\$8.5 billion in 2016; U.S.\$4.1 billion in 2015 and U.S.\$8.5 billion in 2014. As a percentage of GDP, the net inflow of FDI was 2.2% in 2018, compared to 2.9%; 6.2%; 2.2% and 3.8% in 2017, 2016, 2015 and 2014, respectively. The net inflow of FDI to Kazakhstan in the three months ended 31 March 2019 as compared to the three months ended 31 March 2018 was also principally due to the unusually high level of reinvested earnings by foreign direct investors in the first three months of 2018.

As at 31 December 2018, cumulative FDI in Kazakhstan amounted to U.S.\$149.3 billion, as compared to U.S.\$146.5 billion, U.S.\$142.8 billion, U.S.\$133.3 billion and U.S.\$132.1 billion as at 31 December 2017, 2016, 2015 and 2014, respectively. Cumulative FDI, as a percentage of GDP amounted to 86.3% as at 31 December 2018, as compared to 89.9%, 104.1%, 72.3% and 59.7% as at 31 December 2017, 2016, 2015 and 2014, respectively.

In the three months ended 31 March 2019, the top five countries for gross FDI inflow in Kazakhstan were the Netherlands (U.S.\$1.8 billion or 30.2% of gross FDI inflow), the U.S. (U.S.\$1.5 billion or 24.3% of gross FDI inflow), Switzerland (U.S.\$0.6 billion or 10.9% of gross FDI inflow), China (U.S.\$0.4 billion or 6.1% of gross FDI inflow) and France (U.S.\$0.3 billion or 4.3% of gross FDI inflow).

In the three months ended 31 March 2019, the main recipients of gross FDI inflow in Kazakhstan were mining and quarrying (including extraction of crude oil and natural gas) (U.S.\$3.6 billion or 60.5% of gross FDI inflow); manufacturing (U.S.\$1.0 billion or 16.4% of gross FDI inflow); wholesale and retail trade; repair of motor vehicles and motorcycles (U.S.\$0.6 billion or 9.8% of gross FDI inflow) and transportation and storage (U.S.\$0.3 billion or 5.1% of gross FDI inflow).

In 2018, the top five countries for gross FDI inflow in Kazakhstan were the Netherlands (U.S.\$7.3 billion or 30.3% of gross FDI inflow), the U.S. (U.S.\$5.3 billion or 22.0% of gross FDI inflow), Switzerland (U.S.\$2.5 billion or 10.5% of gross FDI inflow), Russia (U.S.\$1.5 billion or 6.2% of gross FDI inflow) and China (U.S.\$1.5 billion or 6.1% of gross FDI inflow). The top five countries for gross FDI inflow in 2017 were the Netherlands (U.S.\$5.9 billion), the U.S. (U.S.\$3.7 billion), Switzerland (U.S.\$3.0 billion), Russia (U.S.\$1.2 billion) and China (U.S.\$1.1 billion).

In 2018, the main recipients of gross FDI inflow in Kazakhstan were the mining industry (including oil and gas) (U.S.\$13.6 billion, or 55.9% of gross FDI inflow); manufacturing (U.S.\$3.4 billion, or 14.1% of gross FDI inflow); wholesale and retail trade; repair of motor vehicles and motorcycles (U.S.\$3.3 billion, or 13.5% of gross FDI inflow); financial and insurance activities (U.S.\$1.3 billion, or 5.4% of gross FDI inflow) and transportation and storage (U.S.\$0.8 billion, or 3.2% of gross FDI inflow). FDI per capita in 2018 was U.S.\$1,304.6.

The gross FDI inflow into the extraction of crude oil and natural gas in the three months ended 30 June 2019 amounted to U.S.\$3.3 billion as compared to U.S.\$12.1 billion, or 49.8% of the gross inflow of FDI, in 2018 U.S.\$9.6 billion, or 45.9% of the gross inflow of FDI, in 2017, U.S.\$5.7 billion, or 26.9% of the gross inflow of FDI, in 2016, U.S.\$2.7 billion, or 17.6% of the gross inflow of FDI, in 2015 and U.S.\$7.3 billion, or 30.7% of the gross inflow of FDI, in 2014.

As at 15 August 2019, there were approximately 212 FDI projects worth U.S.\$52.6 billion. Recent FDI investors include among others China Gezhouba Cement Co. Ltd which is investing U.S.\$194 million into a cement plant in Kyzylorda region, Lukoil (Russia) which is investing U.S.\$85 million in the production of lubricant materials in the Almaty region, Airbus Group (EADS) (France) which is investing U.S.\$240 million in the construction of an assembly and testing line for satellite equipment in Astana, Air Liquide (France) which is investing U.S.\$200 million into production of technical gases in Pavlodar and Atyrau regions, and the Linde Group (Germany) which is investing U.S.\$83 million into production of technical gases production in the Karaganda region.

Legal protections available to foreign investors are set out in (i) the Entrepreneurship Code, which contains the main conditions for investor protection, ensuring the stable operation of the investor, as well as a package of preferences that the investor can receive during the implementation of its project; (ii) bilateral investment protection treaties which, as at the date of this Base Prospectus, have been concluded by Kazakhstan with 48 nations, under which protections are available to investors from the relevant nation that is a party to the treaty, (iii) the Energy Charter Treaty, under which protections are available to investors from the other parties to the Energy Charter Treaty in respect of investments in the energy sector and (iv) the 1997 Moscow Convention for the Protection of Investor Rights, under which protections are available to foreign investors irrespective of their nationality. These protections include (depending on the instrument) guarantees of fair and equitable treatment, full protection of security, non-discrimination, certainty of contracts with the Kazakhstan State and Kazakhstan's obligation to pay compensation to the investor in the event of (direct or indirect) expropriation of the investment. Kazakhstan's foreign investment regime provides for the investor's right to refer a dispute arising out of, or in connection with, the investment to international arbitration (as an alternative to the referral of such disputes to the local courts).

The Government has been consistently taking steps designed to attract FDI including, among others:

- In 2010, Kazakhstan joined the Customs Union. In 2012, it joined the CES and, in May 2014, it signed an agreement for the establishment of the EEU, which came into effect on 1 January 2015, in each case with the objective of increasing FDI and improving foreign trade. Kazakhstan also acceded to the WTO on 30 November 2015.
- In 2011, the Government established special economic zones, which enjoy privileges such as corporate income tax exemptions and VAT exemptions on goods, services and property. For example, investments in certain priority investment projects benefit from a 0% tax rate for corporate income tax, land tax and property tax for the first 10 years of the project.
- On 9 September 2013, the National Chamber of Entrepreneurs of the Republic of Kazakhstan was established. It is focused on improving the business and investment climate and the stability and development of the business environment in the country, both for national and foreign investors. See *“The Economy of Kazakhstan—Recent Trends in the Economy”*.
- In 2014, the Law “On introducing amendments and addenda to certain legislative acts of the Republic of Kazakhstan on improvement of the investment climate” was adopted. Subject to certain conditions, an investor, in respect of an investment priority project, may benefit from: (i) an exemption from corporate income tax and land tax for 10 years and property tax for eight years; (ii) an investment subsidy granted by the State of up to 30% of the capital costs incurred by an investor in relation to construction, installation and equipment acquisition; (iii) a guarantee of stability with respect to tax rates in accordance with the Tax Code and legislation on employment; and (iv) the right to employ foreign workforce for the duration of the investment priority project and for one year after commissioning, with no requirement for work permits.
- In 2015, the office of an Investment Ombudsman has been introduced to seek to bring disputes relating to foreign investment to an early resolution and to provide recommendations with respect to related issues.
- From 1 January 2015, a “one window” service was introduced to be at the disposal of investors. This service significantly simplified the document filing procedures by foreign investors. Additionally, service centres for investors have been introduced in all regions of the country.
- In 2012 and 2017, two reviews of Kazakhstan's investment policy were conducted jointly with the OECD. In June 2017, Kazakhstan became an associated member of the OECD Investment Committee and the 48th country to join the OECD Declaration on International Investment and Multinational Enterprises.
- In 2017, Astana was the host city of the EXPO-2017, which was the first EXPO exhibition in the CIS region. The key theme was “Energy of the Future”, with a particular focus on alternative sources of energy.
- Together with the World Bank, Kazakhstan developed and adopted the National Investment Strategy in 2017, the main goal of which is to increase foreign investments and create a favourable investment climate in Kazakhstan. The National Investment Strategy specifies the priority sectors for attracting foreign investments (agriculture, engineering, chemistry and petrochemistry, infrastructure, mining and metallurgy and trade) and 11 priority countries (U.S., Russia, Great Britain, Germany, France, Italy, China, Japan, South Korea, Turkey and United Arab Emirates), which account for up to 80% of worldwide investments.
- In 2017, a national company “NC “Kazakh Invest” was established on the base of the National Export and Investment Agency, Kaznex Invest, which is the single body responsible for negotiating on behalf of the Government with targeted trans-national companies and large investors. The implementation of joint Kazakhstani-Chinese projects in the framework of cooperation in the field of industrialisation and investment is in the active phase. As at 1 August 2019, the list of joint Kazakhstani-Chinese investment projects includes 55 projects worth U.S.\$27.3 billion.

- A new Tax Code was enacted on 25 December 2017 and came into force with effect from 1 January 2018. Among other things, the new Tax Code aims to improve taxation of investment projects in special economic zones, decreases the statute of limitation for tax claims and encourages exploration activities in the subsoil sector by abolishing, with effect from 2019, tax on exploration activities. For additional information on the new Tax Code, see “*Public Finance—Fiscal Policy*”.

## PUBLIC FINANCE

The information presented herein with respect to the State Budget has been prepared substantially in accordance with the guidelines and definitions set forth in the Budget Code and applicable budget laws including the Law of the Republic of Kazakhstan “On the Republican Budget for 2019-2021”, No. 197-VI, dated 30 November 2018, as amended.

### Overview

The State Budget of Kazakhstan (the “**State Budget**”) is a consolidated budget that includes the central Government budget (the “**Republic Budget**”) and the budgets of local authorities, after eliminating inter-budgetary transfers.

The Consolidated Budget of Kazakhstan (the “**Consolidated Budget**”) includes both the State Budget as well as the revenues and expenditures of the National Fund, excluding transfers between the State Budget and the National Fund. See “—*National Fund*”. The State Social Insurance Fund is an extra-budgetary fund which is not included in the Consolidated Budget.

The following tables set forth certain summary information regarding Kazakhstan’s Consolidated Budget, State Budget, Republic Budget and local budgets for the years 2014 to 2018 and the six months ended 30 June 2018 and 2019:

	Years ended 31 December					Six months ended 30 June	
	2014	2015	2016	2017	2018	2018	2019 <sup>(5)</sup>
<b>Consolidated budget<sup>(1)</sup></b>	(KZT millions)						
Receipts.....	10,784,079.8	17,048,442.6	7,517,327.4	10,922,598.3	13,404,754.8	4,432,159.9	6,358,324.9
Revenues <sup>(2)</sup> .....	10,733,127.5	16,972,018.5	7,438,558.6	10,808,703.4	13,275,671.5	4,410,605.1	6,316,595.0
Expenditure.....	8,467,558.0	8,639,087.7	10,143,780.2	13,136,073.0	11,775,814.0	5,355,727.8	6,348,017.5
Balance –							
(Deficit)/Surplus.....	2,316,521.8	8,409,354.8	(2,626,452.9)	(2,213,474.7)	1,628,940.8	(923,567.8)	10,307.4
<b>State Budget</b>							
Receipts.....	7,372,229.0	7,711,229.0	9,387,254.0	11,674,159.1	10,924,667.2	5,265,059.6	6,230,085.8
Revenues <sup>(2)</sup> .....	7,321,276.7	7,634,804.9	9,308,485.2	11,567,691.5	10,808,572.9	5,251,640.0	6,202,873.9
Expenditure.....	8,458,899.4	8,626,933.8	10,124,971.6	13,129,478.9	11,757,739.5	5,343,938.6	6,342,313.9
Balance –							
(Deficit)/Surplus.....	(1,086,670.4)	(915,704.8)	(737,717.6)	(1,455,319.8)	(833,072.3)	(78,879.1)	(112,228.2)
<b>Republic Budget<sup>(3)</sup></b>							
Receipts.....	5,988,455.7	6,251,113.6	7,759,560.3	9,799,302.1	8,907,619.4	4,294,525.6	5,229,687.8
Revenues <sup>(2)</sup> .....	5,908,848.9	6,136,967.6	7,662,220.3	9,691,789.1	8,789,004.5	4,283,493.8	5,202,542.3
Expenditure.....	7,069,695.4	7,163,247.6	8,500,745.5	11,156,277.2	9,636,807.5	4,478,059.5	5,485,086.4
Balance –							
(Deficit)/Surplus.....	(1,081,239.7)	(912,134.1)	(741,185.2)	(1,356,975.1)	(729,188.1)	(183,533.8)	(255,398.6)
<b>Local Budgets<sup>(4)</sup></b>							
Receipts.....	3,757,958.4	3,678,197.0	4,325,937.7	4,722,814.3	4,749,818.9	2,220,625.3	2,596,499.6
Revenues <sup>(2)</sup> .....	3,752,971.1	3,667,358.6	4,315,582.5	4,681,296.3	4,728,531.7	2,210,772.2	2,580,412.1
Expenditure.....	3,788,993.2	3,754,770.9	4,425,499.1	4,866,402.7	4,933,033.5	2,174,838.8	2,537,753.3
Balance –							
(Deficit)/Surplus.....	(31,034.8)	(76,573.9)	(99,561.4)	(143,588.4)	(183,214.6)	45,786.6	58,746.3

Source: Ministry of Finance

Notes:

- (1) The Consolidated Budget includes both the State Budget as well as the revenues and expenditures of the National Fund, excluding transfers between the State Budget and the National Fund. See “—*National Fund*”.
- (2) Revenues comprise receipts less (a) payment of budget credits, (b) receipts from loans and (c) receipts from sale of financial assets.
- (3) Prior to elimination of interbudgetary transfers with local budgets.
- (4) Prior to elimination of interbudgetary transfers with the Republic Budget.
- (5) Preliminary data.

	Years ended 31 December					Six months ended 30 June	
	2014	2015	2016	2017	2018 <sup>(4)</sup>	2018 <sup>(4)</sup>	2019 <sup>(4)(5)</sup>
	<i>(as a % of GDP, unless otherwise indicated)</i>						
<b>Consolidated budget</b>							
Receipts.....	27.2	41.7	16.0	20.6	22.5	7.4	9.7
Revenues <sup>(1)</sup> .....	27.1	41.5	15.8	20.4	22.3	7.4	9.7
Expenditure.....	21.3	21.1	21.6	24.7	19.8	9.0	9.7
Balance – (Deficit)/Surplus.....	5.8	20.6	(5.6)	(4.2)	2.7	(1.5)	0.0
<b>State Budget</b>							
Receipts.....	18.6	18.9	20.0	22.0	18.3	8.8	9.5
Revenues <sup>(1)</sup> .....	18.5	18.7	19.8	21.8	18.1	8.8	9.5
Expenditure.....	21.3	21.1	21.6	24.7	19.7	9.0	9.7
Balance – (Deficit)/Surplus.....	(2.7)	(2.2)	(1.6)	(2.7)	(1.4)	(0.1)	(0.2)
<b>Republic Budget<sup>(2)</sup></b>							
Receipts.....	15.1	15.3	16.5	18.5	14.9	7.2	8.0
Revenues <sup>(1)</sup> .....	14.9	15.0	16.3	18.3	14.7	7.2	8.0
Expenditure.....	17.8	17.5	18.1	21.0	16.2	7.5	8.4
Balance – (Deficit)/Surplus.....	(2.7)	(2.2)	(1.6)	(2.6)	(1.2)	(0.3)	(0.4)
<b>Local Budgets<sup>(3)</sup></b>							
Receipts.....	9.5	9.0	9.2	8.9	8.0	3.7	4.0
Revenues <sup>(1)</sup> .....	9.5	9.0	9.2	8.8	7.9	3.7	4.0
Expenditure.....	9.5	9.2	9.4	9.2	8.3	3.6	3.9
Balance – (Deficit)/Surplus.....	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)	0.1	0.1
<b>GDP (KZT billions).....</b>	<b>39,675.8</b>	<b>40,884.1</b>	<b>46,971.1</b>	<b>53,101.3</b>	<b>59,613.7</b>	<b>59,613.7</b>	<b>65,239.3<sup>(6)</sup></b>

Source: Ministry of Finance

Notes:

- (1) Revenues comprise receipts less (a) payment of budget credits, (b) receipts from loans and (c) receipts from sale of financial assets.
- (2) Prior to elimination of interbudgetary transfers with local budgets.
- (3) Prior to elimination of interbudgetary transfers with the Republic Budget.
- (4) Preliminary data.
- (5) All percentages in this column are calculated using projected GDP for 2019.
- (6) Projected GDP for 2019 is calculated on the basis of historical macroeconomic data for four sectors (agriculture, industry, construction and services) and taking into account current investment and budgetary situation and the implementation of Government programmes.

## State Budget

From 1995 until 2018, the State Budget had an average deficit 1.89%. The largest State Budget surplus to have been achieved to date was a surplus of 2.8% of GDP in 2006 and the largest State Budget deficit to have been incurred to date was a deficit of 4.0% of GDP in 1995.

The State Budget had a deficit equal to 2.2% of GDP in 2015 as compared to 2.7% in 2014. In 2015, State Budget revenues amounted to KZT 7,634.8 billion, or 18.9% of GDP, representing an increase of 0.3% of GDP as compared to 2014. State Budget expenditures amounted to KZT 8,626.9 billion in 2015, or 21.1% of GDP, representing a decrease of 0.2% of GDP as compared to 2014. The major expenditures in 2015 were social assistance and social security expenses (20.0%), education (15.8%) and healthcare (10.0%).

The State Budget had a deficit equal to 1.6% of GDP in 2016 as compared to 2.2% in 2015. In 2016, State Budget revenues amounted to KZT 9,308.5 billion, or 20.0% of GDP, representing an increase of 1.1% of GDP as compared to 2015. State Budget expenditures amounted to KZT 10,125.0 billion in 2016, or 21.6% of GDP, representing an increase of 0.5% of GDP as compared to 2015. The major expenditures in 2016 were social assistance and social security expenses (19.8%), education (16.5%) and healthcare (10.3%).

The State Budget had a deficit equal to 2.7% of GDP in 2017 as compared to 1.6% in 2016. In 2017, State Budget revenues amounted to KZT 11,567.7 billion, or 21.8% of GDP, representing an increase of 2.0% of GDP as compared to 2016. State Budget expenditures amounted to KZT 13,129.5 billion in 2017, or 24.7% of GDP, representing an increase of 3.1% of GDP as compared to 2016. The major expenditures in 2017 were social assistance and social security expenses (17.6%), education (14.0%) and healthcare (8.6%).

The State Budget had a deficit equal to 1.4% of GDP in 2018 as compared to 2.7% in 2017. In 2018, State Budget revenues amounted to KZT 10,808.6 billion, or 18.1% of GDP, representing a decrease of 3.7% of GDP as compared to 2017. The decrease of State Budget revenues, both in nominal terms and as a percentage of GDP, was principally due to a reduction in transfer receipts from KZT 4.1 trillion in 2017 to KZT 2.6 trillion in 2018, which was partially offset by the increase in tax revenue from KZT 6.8 trillion in 2017 to KZT 7.9 trillion in 2018. State Budget expenditures amounted to KZT 11,757.7 billion in 2018, or 19.7% of GDP, representing a decrease of 5.0% of GDP as compared to 2017. The major expenditures in 2018 were social assistance and social security expenses (23.4%), education (16.6%) and healthcare (10.0%).

For the six months ended 30 June 2019, the State Budget had a deficit of KZT 112.2 billion as compared to a deficit of KZT 78.9 billion for the six months ended 30 June 2018. State Budget revenues amounted to KZT 6,202.9 billion, as compared to KZT 5,251.6 billion for the same period of 2018. State Budget expenditures amounted to KZT 6,342.3 billion for the six months ended 30 June 2019, compared KZT 5,343.9 billion for the same period in 2018. The increase in State Budget expenditures was principally due to increases in expenditures on social assistance and social security, expenditures on education and other expenditures, which include expenditures relating to the implementation of new Government programmes and initiatives, payments for services and operational costs of certain Government agencies and payments made to the State emergency fund.

In 2015, there was a sharp decline in the price of oil to U.S.\$52.35 per barrel and, in 2016, to U.S.\$43.74 per barrel (prices are the average spot price of Brent crude oil as reported by the U.S. Energy Information Agency). In connection with the decline, from 1 March 2016, Kazakhstan linked the rate of export customs duty (“**ECD**”) for oil to the world oil price. Zero rate ECD applies if the world oil price is below U.S.\$25 per barrel. If the world oil price is above U.S.\$25 per barrel, the ECD is charged at a rate set by a scale which is linked to the level of the world oil price. Accordingly, the higher the world oil prices, the higher is the ECD rate.

## **State Budgetary Process**

### ***Budget Preparation and Adoption***

The Budget Code was adopted on 4 December 2008 and came into effect on 1 January 2009, with the exception of certain provisions which became effective from 5 December 2008 and 1 January 2013, respectively. The Budget Code regulates budgetary and intergovernmental fiscal relations. It also provides the main provisions, principles and mechanisms for the functioning of Kazakhstan’s budgetary system, the origin and use of budgetary funds as well as the formation and use of the National Fund. See “—*National Fund*”.

In accordance with the Budget Code, budgets are prepared every year for the relevant period. The Republic Budget is prepared every year for the relevant period by the central authorised body of budget planning, which takes into account the social-economic development forecast. The Republic Budget is approved by the republic budget law (the “**Budget Law**”), which sets out the Republic Budget for the following budgetary year and also includes separate projected budgets for the second and third budgetary years. The projected budgets for the second and third years are then adjusted as required in the Budget Laws approved in each year preceding those budgetary years. The draft of the Republic Budget is prepared in accordance with the structure defined in the Budget Code and the unified budget classification (providing for a classification of budget revenues, a functional classification of budget expenditures and an economic classification of expenditures). The Budget Law sets out projected revenues from each revenue source and estimated costs of the various budget programmes. Revenues to be allocated to the National Fund for the following three years are also set out in the Budget Law. See “—*National Fund*”.

The Ministry of Finance prepares the Republic Budget for the forthcoming budgetary period after taking into account the requests of Government ministries, governmental authorities and local executive authorities as well as data provided by the Statistics Committee of the MNE and the NBK. The Republic Budget accounts for amounts required to be transferred from or to local authorities in order to balance local budgets (which are legally required to be balanced). Once the Republic Budget has been agreed by the Government, it is submitted to Parliament for approval. According to the Budget Code, the Government is required to submit the Republic Budget to Parliament by 1 September of the year preceding a budget year.

Local governments prepare the local budgets. Drafts of local budgets are required to be submitted by local governments to the local parliaments by 15 October of the year preceding a budget year. The consolidation into the State Budget of the Republic Budget and the local budgets occurs after Parliament has approved the Republic Budget.

Pursuant to the Budget Code and the law “On Approval of the Action Plan for the Implementation of the Budget”, dated 6 June 2008, since 1 January 2013, state agencies in Kazakhstan have been required to prepare their accounting and financial statements in accordance with the International Public Sector Accounting Standards (“IPSAS”), which have been developed by the International Federation of Accountants. The IPSAS have been adopted to ensure that the accounting standards used by state agencies are in line with international standards.

### ***Budget Implementation***

The budget year commences on 1 January and ends on 31 December. In accordance with the Budget Code, the Government is responsible for the implementation of the Republic Budget, and local authorities are responsible for the implementation of their respective local budgets. Implementation of the budgets involves ensuring revenues are collected, budget programmes are implemented and that the deficit is financed. The Ministry of Finance and the local authorities develop regulations concerning the implementation of the budgets, provide methodological guidance, and provide accounting and financial budgetary reporting services in relation to the execution of their respective budgets. Implementation of the budget is carried out within the limits of the prescribed budgetary funds for the applicable financial year, as approved by the Republic Budget or local budgets, and budgetary funds which are allocated to be used in the second or third year of the three-year budget cycle are ring-fenced and are not permitted to be used in the first year on the budget cycle. Procedures regarding budget implementation and cash management are set out by the Ministry of Finance.

In 2014, the projected deficit of the State Budget was KZT 1,182.6 billion, but the actual deficit was KZT 1,086.7 billion, or 2.7% of GDP. The actual State Budget revenues in 2014 amounted to KZT 7,321.3 billion, or 18.5% of GDP, as compared to the budgeted amount of KZT 6,909.3 billion, or 17.4% of the projected GDP (KZT 39,623.7 billion), while actual total expenditure amounted to KZT 8,458.9 billion, or 21.3% of GDP, as compared to the budgeted amount of KZT 7,718.3 billion, or 19.5% of the projected GDP (KZT 39,623.7 billion). Budgeted receipts were predicted to equal to KZT 6,955.7 billion. However, actual receipts were KZT 7,372.2 billion.

In 2015, the State Budget had a fiscal deficit of KZT 915.7 billion, or 2.2% of GDP. Actual State Budget revenues in 2015 amounted to 18.7% of GDP, as compared to the budgeted amount of 17.7% of GDP, while actual total expenditure amounted to 21.1% of GDP, as compared to the budgeted amount of 21.2% of GDP. Budgeted receipts were KZT 7,322 billion, whereas actual receipts were KZT 7,711.2 billion. Key reasons were higher receipts of corporate income tax as a result of the strength of the U.S. dollar relative to the Tenge, which led to higher revenues and profits and higher tax receipts on mineral extraction.

In 2016, the State Budget had a fiscal deficit of KZT 737.7 billion, or 1.6% of GDP. Actual State Budget revenues in 2016 amounted to 19.8% of GDP, as compared to the budgeted amount of 19.6% of GDP, while actual total expenditure amounted to 21.6% of GDP, as compared to the budgeted amount of 21.9% of GDP. Budgeted receipts were KZT 9,289 billion, whereas actual receipts were KZT 9,387.2 billion, as a result, primarily, of higher corporate income tax receipts and higher export customs on oil and VAT on domestic products. In addition, revenues under the Local Budgets were higher than expected.

In 2017, the State Budget had a fiscal deficit of KZT 1,455.3 billion, or 2.7% of GDP. Actual State Budget revenues in 2017 amounted to 21.8% of GDP, in line with the budgeted amount, while actual total expenditure amounted to 24.7% of GDP, as compared to the budgeted amount of 25.5% of GDP. Budgeted receipts were KZT 11,518 billion, whereas actual receipts were KZT 11,674 billion. Both tax revenues and non-tax revenues were higher than budgeted, in particular VAT receipts, export customs duties on oil and distributions from state holdings.

In 2018, the State Budget had a fiscal deficit of KZT 833.1 billion, or 1.4% of GDP. Actual State Budget revenues in 2018 amounted to 18.1% of GDP, as compared to the budgeted amount of 17.8% of GDP, while actual total expenditure amounted to 19.7% of GDP, in line with the budgeted amount. Budgeted receipts were KZT 10,924.7 billion, whereas actual receipts were KZT 10,730.3 billion.

For the six months ended 30 June 2019, State Budget revenues were KZT 6,202.9 billion, representing 102.5% of the target amount for that period. State Budget expenditures were KZT 6,342.3 billion, representing 99.6% of the target amount for that period.



## Fiscal Policy

The Government's fiscal strategy over the medium term focuses on (i) maintaining control over the size of the State Budget deficit, which should not exceed 2.1% of GDP in both 2019 and 2020 and (ii) a decrease in the use of National Fund resources to finance current budget expenditures, which reflects a transition to funding budget expenditures solely from normal budget revenues. See “—*National Fund*”. On the revenue side, the main objective is to provide for a stable environment for economic activity, thereby supporting industrial innovation, promoting non-oil sector development and attracting investments. As part of the Government's initiative to improve the legal environment for the conduct of business in Kazakhstan and improving the tax administration, a new Tax Code was enacted on 25 December 2017 and came into force with effect from 1 January 2018. Among other things, the new Tax Code places the onus of proving a tax violation or tax underpayment on tax authorities, eliminates tax penalties if the taxpayer acted in accordance with the tax authorities' guidelines (whether or not they were subsequently repealed) and states that any uncertainty in tax laws or regulations must be interpreted in favour of the taxpayer. Additionally, the new Tax Code has changed the fiscal policy by abolishing inefficient taxes and tax privileges under the requirements of the WTO, decreasing the tax burden on the financial services sector and aiming to improve taxation of investment projects in special economic zones. Also, the new Tax Code seeks to enhance tax administration by, among other things, decreasing the statute of limitation for tax claims.

The new Tax Code also seeks to encourage exploration activities in the subsoil sector by abolishing, with effect from 2019, tax on exploration activities. Further, corporate income tax on projects relating to certain mineral deposits only becomes payable after the company starts receiving profits. The new Tax Code also allows companies to carry forward losses to subsequent years.

Under the new Tax Code, the company-taxpayer that has made a contract with the tax authority, may submit its proposed tax scheme for approval by the tax authority. Once approved, the tax authority cannot impose taxes and/or penalties in relation to the scheme notwithstanding any subsequent changes of the tax authorities' view on the tax scheme.

Fiscal policy is designed to be countercyclical. During periods of strong economic activity, Government spending will be controlled at a level lower than the nominal rate of GDP growth, while during economic downturns such spending aims to support domestic demand, particularly through public investment. This approach is expected to allow for an appropriate policy response both to a worsening of global economic conditions and to a potential overheating of the economy.

The Eurasian Economic Union Agreement provides that the annual State Budget deficit of an EEU member must be below 3% of GDP, total public debt must not exceed 50% of GDP and inflation must not be more than 5% higher than that of the lowest inflation rate of any other EEU member.

In June 2017, a new budgetary policy was approved to support public debt at a moderate level (in 2020, no more than 27.0% of GDP) with the State budget deficit reduced to 1.0% of GDP from 2018. This target, however, was not achieved in 2018 as the State budget deficit amounted to 1.4% of GDP in that year.

The Government's fiscal policy, and if necessary the budgetary framework, will be adjusted as necessary in order to address or adapt to domestic or international developments.

## 2018 Budget Law

The following table sets forth certain summary information regarding Kazakhstan's Republic Budget for 2019 as provided for in the 2019 Budget Law, as amended in April 2019 and July 2019. Budget figures are forward-looking and subject to change in the future based on a number of factors, including, fluctuations in global commodity prices, specifically the oil price, inflation and the overall condition of the Kazakhstan economy. Actual results of the budget may differ materially from budgeted figures.

<b>Republic Budget</b>			
	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>(KZT millions)</i>	<i>(KZT millions)</i>	<i>(KZT millions)</i>
<b>Tax revenue .....</b>	<b>6,859,679.8</b>	<b>7,237,855.6</b>	<b>7,868,267.1</b>
<i>of which:</i>			
Corporate income taxes .....	2,022,209.1	2,269,786.2	2,545,212.0

	2019 (KZT millions)	2020 (KZT millions)	2021 (KZT millions)
VAT .....	2,877,015.5	2,967,740.4	3,265,985.4
Excise taxes .....	117,985.4	131,600.7	145,048.3
Natural resource extraction tax .....	385,494.4	396,259.7	407,964.5
Other taxes .....	1,842,469.7	1,868,728.3	1,912,021.4
<b>Non-tax revenue .....</b>	<b>119,822.2</b>	<b>120,217.4</b>	<b>129,046.7</b>
<b>Proceeds from sales of fixed assets .....</b>	<b>6,885.0</b>	<b>2,110.0</b>	<b>1,010.8</b>
<b>Transfer receipts<sup>(1)</sup> .....</b>	<b>3,466,157.7</b>	<b>2,602,686.5</b>	<b>2,315,141.2</b>
<b>Total revenue .....</b>	<b>10,452,544.6</b>	<b>9,962,869.5</b>	<b>10,313,465.8</b>
Repayment of budget credits .....	116,027.7	98,491.2	151,467.4
Proceeds from sales of financial assets .....	156,451.5	103,395.3	53,413.8
<b>Total receipts .....</b>	<b>10,568,572.3</b>	<b>10,061,360.6</b>	<b>10,464,933.2</b>
<b>Total expenditure .....</b>	<b>11,933,207.8</b>	<b>11,059,106.2</b>	<b>11,401,650.7</b>
<i>of which:</i>			
State administration .....	490,659.6	434,196.2	399,231.3
Law and order .....	759,092.8	628,760.8	587,423.6
Defence .....	614,206.8	695,951.0	708,083.8
Education .....	641,691.4	724,246.2	799,098.7
Health care .....	1,190,412.6	1,284,025.1	1,338,173.6
Social assistance and social security .....	3,224,196.8	3,156,051.5	3,354,478.0
Housing and communal services .....	370,542.3	139,226.6	82,316.8
Culture, sports, tourism and information media .....	139,891.4	106,821.4	99,556.0
Fuel and energy complex and subsoil assets use ...	115,930.1	80,327.5	49,805.0
Agriculture, forestry, water and fish industries, environmental protection .....	489,046.4	411,003.9	392,629.4
Industry and construction .....	96,100.9	94,854.2	46,867.6
Transport and communications .....	661,436.7	581,101.5	565,053.1
Other expenditure .....	860,878.0	411,078.0	616,071.7
Debt service .....	694,657.7	709,716.4	708,600.4
Transfers .....	1,584,464.4	1,601,745.7	1,654,261.8
<b>Deficit .....</b>	<b>1,364,635.5</b>	<b>997,745.6</b>	<b>936,717.5</b>

Source: 2019 Budget Law

Note:

(1) Includes transfers from the National Fund and transfers from local budgets. See “—National Fund”.

In April 2019, the 2019 Budget Law was amended. Pursuant to the April 2019 amendments to the 2019 Budget Law, the total revenue of the Republic Budget for 2019 was increased from KZT 9.6 trillion to KZT 10.5 trillion and the budget total expenditure for 2019 was increased from KZT 10.3 trillion to KZT 11.5 trillion. The increase in total revenue was due to the KZT 200 billion increase in tax revenue, KZT 250 billion guaranteed transfer from the National Fund and KZT 370 billion targeted transfer from the National Fund. Out of the KZT 1,206.1 billion increase in total expenditures, KZT 481.3 billion were allocated for the implementation of new social initiatives proposed by the President Nazarbayev at the congress of the Nur Otan party, KZT 370 billion were allocated for the creation of direct investment fund, KZT 285.8 billion were allocated for the implementation of various other initiatives proposed by the President Nazarbayev during 2017 and 2018, KZT 43.4 billion were allocated for addressing certain State obligations, KZT 24.6 billion were allocated for funding events related to the Year of Youth and KZT 0.9 billion were allocated for the creation of the Executive Office of the First President of the Republic of Kazakhstan.

In July 2019, the 2019 Budget Law was amended again. This time, there were no changes in the amount of revenues and expenditures of the Republic Budget, but certain expenditures were adjusted. The amount of funds for the creation of a direct investment fund was reduced from KZT 370 billion to KZT 70 billion, and these funds were allocated for (i) financial assistance to certain borrowers unable to repay their debts in the amount of KZT 88.5 billion, (ii) expansion and strengthening of measures to provide employment and support for low-income and large families and young people in the amount of KZT 138.6 billion and (iii) increase the Government reserve in the amount of KZT 72.9 billion

According to the 2019 Budget Law, a transfer of KZT 2,820 billion from the National Fund to the Republic Budget has been approved for 2019.

The 2019 Budget Law provides for a fiscal deficit in the 2019 Republic Budget of KZT 1,364.6 billion representing 2.1% of the estimated nominal GDP. The increase in the fiscal deficit in the 2019 Republic Budget as compared to the 2018 Republic Budget is, in large part, due to significant increases in expenditures on social assistance and social security (by KZT 641.6 billion) and education (by KZT 163.8 billion). The Government intends to seek budget financing in 2019 of KZT 1,364.6 billion from domestic and external borrowings.

## Sources of State Budget Revenues

The following table sets forth information regarding State Budget revenues and receipts (income method) for the years 2014 to 2018 and the six month ended 30 June 2018 and 30 June 2019:

	Years ended 31 December					Six months ended 30 June 2018	Six months ended 30 June 2019
	2014	2015	2016	2017	2018		
	<i>(KZT millions, unless otherwise indicated)</i>						
<b>Tax revenue</b> .....	<b>5,115,743</b>	<b>4,883,913</b>	<b>6,023,263</b>	<b>6,810,851</b>	<b>7,890,048</b>	<b>3,663,479</b>	<b>4,224,894</b>
<i>Of which:</i>							
Corporate income taxes .....	1,169,667	1,224,645	1,437,365	1,538,785	1,687,576	787,783	920,573
VAT .....	1,198,170	944,438	1,495,682	1,664,699	2,034,314	930,354	1,184,936
<i>Of which:</i>							
Domestic VAT .....	408,868	277,034	634,881	646,823	909,355	417,731	591,699
Import VAT .....	789,302	667,404	860,801	1,017,876	1,124,959	512,622	593,237
Excise taxes .....	147,057	60,807	77,844	80,980	95,278	136,011	52,804
Natural resource extraction tax .....	122,909	187,111	159,276	259,183	308,717	153,881	142,607
Other taxes .....	2,477,940	2,466,912	2,853,096	3,267,204	3,764,163	1,655,450	1,923,974
<b>Non-tax revenue</b> .....	<b>179,488</b>	<b>224,766</b>	<b>369,424</b>	<b>273,872</b>	<b>225,988</b>	<b>103,527</b>	<b>102,678</b>
<b>Proceeds from sales of fixed assets</b> .....	<b>71,045</b>	<b>69,709</b>	<b>60,224</b>	<b>68,651</b>	<b>92,536</b>	<b>47,034</b>	<b>51,451</b>
<b>Transfer receipts<sup>(1)</sup></b> .....	<b>1,955,000</b>	<b>2,456,417</b>	<b>2,855,574</b>	<b>4,144,317</b>	<b>2,600,000</b>	<b>1,437,600</b>	<b>1,823,850</b>
<b>Total revenue</b> .....	<b>7,321,277</b>	<b>7,634,805</b>	<b>9,308,485</b>	<b>11,567,691</b>	<b>10,808,573</b>	<b>5,251,640</b>	<b>6,202,874</b>
Repayments of budget loans .....	48,665	68,195	72,768	102,717	110,098	10,287	23,894
Receipts from sales of financial assets .....	2,287	8,229	6,000	3,750	5,997	3,132	3,318
<b>Total receipts</b> .....	<b>7,372,229</b>	<b>7,711,229</b>	<b>9,387,254</b>	<b>11,674,159</b>	<b>10,924,667</b>	<b>5,265,060</b>	<b>6,230,086</b>
<b>GDP (KZT billions)</b> .....	<b>39,675.8</b>	<b>40,884.1</b>	<b>46,971.1</b>	<b>53,101.3</b>	<b>59,613.7<sup>(2)</sup></b>	<b>59,613.7<sup>(2)</sup></b>	<b>65,239.3<sup>(3)</sup></b>

Source: Ministry of Finance

Notes:

(1) Includes transfers from the National Fund. See “—National Fund”.

(2) Preliminary data.

(3) Projected GDP for 2019, which is used here, is calculated on the basis of historical macroeconomic data for four sectors (agriculture, industry, construction and services) and taking into account current investment and budgetary situation and the implementation of Government programmes.

The following table sets forth information regarding State Budget revenues and receipts, as a percentage of total GDP for the years 2014 to 2018 and the six month ended 30 June 2018 and 30 June 2019:

	Years ended 31 December					Six months ended 30 June 2018	Six months ended 30 June 2019
	2014	2015	2016	2017	2018 <sup>(2)</sup>	2018 <sup>(2)</sup>	2019 <sup>(2)(3)</sup>
	<i>(as a % of GDP, unless otherwise indicated)</i>						
<b>Tax revenue</b> .....	<b>12.9</b>	<b>11.9</b>	<b>12.8</b>	<b>12.8</b>	<b>13.2</b>	<b>6.1</b>	<b>6.5</b>
<i>Of which:</i>							
Corporate income taxes .....	2.9	3.0	3.1	2.9	2.8	1.3	1.4
VAT .....	3.0	2.3	3.2	3.1	3.4	1.6	1.8
<i>Of which:</i>							
Domestic VAT .....	1.0	0.7	1.4	1.2	1.5	0.7	0.9
Import VAT .....	2.0	1.6	1.8	1.9	1.9	0.9	0.9
Excise taxes .....	0.4	0.1	0.2	0.2	0.2	0.2	0.1
Natural resource extraction tax .....	0.3	0.5	0.3	0.5	0.5	0.3	0.2
Other taxes .....	6.2	6.0	6.1	6.2	6.3	2.8	2.9
<b>Non-tax revenue</b> .....	<b>0.5</b>	<b>0.5</b>	<b>0.8</b>	<b>0.5</b>	<b>0.4</b>	<b>0.2</b>	<b>0.2</b>
<b>Proceeds from sales of fixed assets</b> .....	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>
<b>Transfer receipts<sup>(1)</sup></b> .....	<b>4.9</b>	<b>6.0</b>	<b>6.1</b>	<b>8.3</b>	<b>4.4</b>	<b>2.4</b>	<b>2.8</b>
<b>Total revenue</b> .....	<b>18.5</b>	<b>18.7</b>	<b>19.8</b>	<b>21.8</b>	<b>18.1</b>	<b>8.8</b>	<b>8.8</b>
Repayments of budget loans .....	0.1	0.2	0.2	0.2	0.2	0.0	0.0
Receipts from sales of financial assets .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0

	2014	Years ended 31 December			2018 <sup>(2)</sup>	Six months ended 30 June 2018 <sup>(2)</sup>	Six months ended 30 June 2019 <sup>(2)(3)</sup>
		2015	2016	2017			
			(as a % of GDP, unless otherwise indicated))				
Total receipts.....	18.6	18.9	20.0	22.6	18.3	8.8	8.8
GDP (KZT billions).....	39,675.8	40,884.1	46,971.1	53,101.3	59,613.7	59,613.7	65,239.3 <sup>(4)</sup>

Source: Ministry of Finance

Notes:

- (1) Includes transfers from the National Fund. See “—National Fund”.
- (2) Preliminary data.
- (3) All percentages in this column are calculated using projected GDP for 2019.
- (4) Projected GDP for 2019 is calculated on the basis of historical macroeconomic data for four sectors (agriculture, industry, construction and services) and taking into account current investment and budgetary situation and the implementation of Government programmes.

## Sources of State Revenue

### Tax Revenue

Taxes are the main source of Kazakhstan’s State Budget revenue. The Code of the Republic of Kazakhstan “On Taxes and Other Obligatory Payments to the Budget” (the “**Tax Code**”) was adopted on 25 December 2017 and came into force as at 1 January 2018. The main taxes imposed by the Kazakhstan tax system are corporate income tax, VAT, personal income tax and subsurface users tax. Kazakhstan has a unified tax system and all taxes are contained in the Tax Code. Most of the taxes and other mandatory payments in the Kazakhstan tax system are revenues to the Republic Budget, with few exceptions. There was an increase in tax revenues for the State Budget for the six months ended 30 June 2019 by 15.3% when compared to the same period in 2018. The following are the principal sources of tax revenue to the State Budget:

- **Corporate income tax.** Corporate income tax accounted for 22.9%, 25.1%, 23.9%, 22.6%, 21.4% and 21.8% of tax revenue in the State Budget in 2014, 2015, 2016, 2017, 2018 and the six months ended 30 June 2019, respectively. The corporate income tax rate is 20%, with certain exceptions, including a reduced rate of 10% on the production, processing and sale of agricultural products. Business-related expenses and charitable contributions are generally deductible for corporate income tax purposes. Certain expenses are deductible within limits (for example, the thin capitalisation rule limiting the deductibility of interest from taxable income, *etc.*). Annual amortisation (depreciation) rates vary from 10% to 40%. Corporate income tax is calculated using an accrual, as opposed to cash, method. Corporate income tax is payable through advance payments, unless the taxpayer is exempt from such advance payments (including, taxpayers whose aggregate annual income less adjustments does not exceed KZT 781.6 million).
- **VAT.** VAT is also a major source of tax-generated State Budget revenue, accounting for 23.4%, 19.3%, 24.8%, 24.4%, 25.8% and 28.0% of tax revenue in 2014, 2015, 2016, 2017, 2018 and the six months ended 30 June 2019, respectively. All VAT payments for domestically-produced and imported goods and services are transferred to the State Budget. The generally applicable rate of VAT is 12%, though certain limited items are exempt from VAT. Taxpayers may voluntarily opt to register for VAT purposes if their taxable turnover does not exceed certain threshold, which is currently KZT 59.46 million; otherwise, such registration is mandatory. Exports of goods and certain other transactions are subject to a 0% rate of VAT. VAT offsets and VAT refunds are generally available following established procedures. Special provisions relating to VAT are applicable to transactions within the Customs Union. VAT revenue in the six months ended 30 June 2019 was 28%, or KZT 254,582 million higher than in the comparable period of the previous year, mainly because of a growth in domestic VAT.
- **Excise taxes.** Excise taxes apply to the sale and import of spirit, alcohol products, tobacco, petrol (excluding aviation fuel), diesel fuel, certain motor transportation vehicles, crude oil and natural gas condensate and medical products which contain spirits and are registered as being a medical product in Kazakhstan. Excise duty rates vary and are subject to frequent changes.
- **Natural resource extraction tax.** Natural resource extraction tax is a tax on the volume of natural resources extracted. It is an important, but fluctuating, source of revenue, due to the volatility of global commodity prices for exported goods, particularly oil and gas. Natural resource extraction tax

accounted for 2.7%, 3.8%, 2.6%, 3.8%, 3.9% and 3.4% of tax revenue to the State Budget in 2014, 2015, 2016, 2017, 2018 and the six months ended 30 June 2019, respectively. Natural resource extraction tax rates for crude oil and gas condensate range from 5% to 18%.

In addition to natural resources extraction tax, subsoil users in Kazakhstan pay all general taxes (such as corporate income tax, rent export tax and VAT), as well as other special subsoil use taxes and payments, including signature bonus in connection with signing contracts, commercial discovery bonus based on value of reserves, payment for historical costs and excess profits tax (which have a maximum tax rate of 60%).

Whilst natural resources extraction tax revenues of non-petroleum industry companies are received in the State Budget, all direct taxes (with the exception of additional local taxes) paid by petroleum industry companies, including natural resource extraction tax, corporate income tax and rent export tax, are accumulated in the National Fund. See “—*National Fund*”. Direct taxes paid by other subsoil users (other than petroleum industry companies) are received in the State Budget similar to the taxes paid by other corporations.

- *Other taxes.* Other taxes include:
  - *International trade and foreign operations taxes.* International trade and foreign operations taxes, consisting of export and import customs duties and revenues from customs control and customs procedures, make a sizable contribution to the State Budget. International trade and foreign operations taxes accounted for 14.4%, 18.0%, 15.8%, 17.6% and 18.0% of total tax revenue in 2014, 2015, 2016, 2017 and 2018, respectively. Since June 2012, duties have not been payable on the export of oil to members of the Customs Union.
  - *Rent export taxes.* Rent export taxes are payable by individuals and legal entities exporting crude oil, gas condensate and coal (other than subsoil users acting under product sharing agreements and certain legal entities specifically listed by the competent authority) and are paid in addition to international trade and foreign operations taxes. Rent export tax revenues from individuals and legal entities exporting coal accrue to the State Budget, whilst rent export tax revenues from petroleum industry companies are accumulated in the National Fund. The current rent export rate for coal is 2.1%. Rent export tax rates for crude oil and gas condensate range from 0% to 32% depending on the volume. See “—*The National Fund*”.
  - *Personal income tax.* Subject to limited exceptions, Kazakhstan imposes a flat individual income tax rate of 10%. Certain types of farming income up to 24 times the minimum wage is exempt from individual income tax. Dividends received by individuals are taxed at 5%.
  - *Social tax.* Social tax is payable by the employer at the rate of 9.5% (a different rate applies to individual entrepreneurs and individual professionals and certain types of agricultural producers).
  - *Property tax.* Property tax for legal entities and individual entrepreneurs is calculated at a rate of 1.5% (subject to certain exceptions) of the average book value of taxable items as determined by the accounting data. Exceptions are granted to, among others, certain types of agricultural producers.
  - *Land tax.* Land tax applies to legal entities and individuals owning or using certain types of land in Kazakhstan. Base tax rates are established in the Tax Code.

#### *Non-Tax Revenue*

Non-tax revenues are mandatory, non-refundable payments to the State budget, set out in the Budget Code and other legislation, and include the proceeds from the sale of fixed assets and other revenues transferred to the budget at no cost, excluding transfer receipts.

## *Transfer Receipts*

State Budget revenues include transfers from the National Fund. See “—*National Fund*”.

## **State Budget Revenue**

In 2014, State Budget revenues amounted to KZT 7,321.3 billion or 18.5% of GDP, which was 6.0% higher than the originally budgeted target (KZT 6,909.3 billion). 2014 State Budget revenues were 14.7% higher than State Budget revenues in 2013 (KZT 6,382.4 billion). In 2014, State Budget tax revenues increased by 7.0% in absolute terms, as compared to 2013, primarily due to an increase in VAT and subsoil use revenues. Transfer receipts amounted to KZT 1,955.0 billion, or 5.1% of GDP, and were attributable to the guaranteed transfer from the National Fund to the State Budget.

In 2015, State Budget revenues amounted to KZT 7,634.8 billion or 18.7% of GDP, which was 5.4% higher than the originally budgeted target (KZT 7,246 billion). 2015 State Budget revenues were 4.3% higher than State Budget revenues in 2014 (KZT 7,321.3 billion). In 2015, State Budget tax revenues decreased by 4.5% in absolute terms, as compared to 2014, primarily due to an increase in refunds on turnover VAT taxed at the "zero rate". Transfer receipts amounted to KZT 2,456.4 billion, or 6.0% of GDP, and were attributable to the guaranteed transfer from the National Fund to the State Budget.

In 2016, State Budget revenues amounted to KZT 9,308.5 billion or 19.8% of GDP, which was 1.1% higher than the originally budgeted target (KZT 9,203 billion). 2016 State Budget revenues were 21.9% higher than State Budget revenues in 2015 (KZT 7,635 billion). In 2016, State Budget tax revenues increased by 23.3% in absolute terms, as compared to 2015, primarily due to the improvement of the macroeconomic indicators, including the growth of nominal GVA (gross value added) of the non-oil sector by 2.5% compared to the budgeted volume, and an increase in advance payments. Also, due to increase oil prices, revenues from contracting companies increased. A higher increase of nominal GDP by 2.3% against of the budgeted volume lead to a decrease of VAT refunds. An increase of the volume imports in the KZT lead to an increase in related tax revenues by 17.1%, which was caused by a combination of growth of tenge imports by 33.1% and a change in the tenge's exchange rate against the RUB. In 2015 average rate of KZT to RUB was KZT 3.61 for RUB 1, in 2016 rate was KZT 5.11 for RUB 1. This led to an increase in the taxable base and an increase in income due to the increase in imports of tobacco products imported into the territory of the Member States of the Customs Union. The increase in the price of metals in the second half of 2016 compared to the first half of 2016 also contributed positively (zinc increased by 31.7%, lead by 16.2%, copper by 6.7%, aluminum by 8.1%, gold by 5.8%, and silver by 16.9%). Fees for transportation of vehicles on the territory of the Republic of Kazakhstan amounted to 96.7% of the plan for the reporting period due to a decrease in the number of payers of the collection. Transfer receipts amounted to KZT 2,855.6 billion, or 6.2% of GDP, and were attributable to the guaranteed transfer from the National Fund to the State Budget.

In 2017, State Budget revenues amounted to KZT 11,567.7 billion or 21.8% of GDP, which was 1.4% higher than the originally budgeted target (KZT 11,413 billion). 2017 State Budget revenues were 24.3% higher than State Budget revenues in 2016 (KZT 9,308.5 billion). In 2017, State Budget tax revenues increased by 11.3% in absolute terms, as compared to 2016, primarily due to the increase in the volume of imports and the change in the tenge's exchange rate against the RUB. Other factors included the excise tax on petrol (with the exception of aviation) and diesel fuel imported to the territory of the Republic of Kazakhstan from the territory of the Member States of the Customs Union, higher the tax receipts from mining operations due to the increase in metal prices for January-October compared to the similar period of 2016 (zinc by 41.9%, ferrochrome by 53.9%, lead by 26.7%, copper by 28.2%, aluminum by 23.2%, silver by 1.6%, and gold by 1.0%). Transfer receipts amounted to KZT 4,144.3 billion, or 8.5% of GDP, and were attributable to the guaranteed transfer from the National Fund to the State Budget.

In 2018, State Budget revenues amounted to KZT 10,808.6 billion, or 18.1% of GDP, which was 6.3% higher than the originally budgeted target (KZT 10,168.1 billion). 2018 State Budget revenues were 7.0% lower than State Budget revenues in 2017 (KZT 11,567.7 billion). In 2018, State Budget tax revenues increased by 15.7% in absolute terms, as compared to 2017 primarily due to the improvement in the state of the economy, the increase in price of exported products, the increase in the average monthly price of crude oil and the improvement in tax and customs administration. Transfer receipts amounted to KZT 2,600 billion, or 4.4% of GDP, and were attributable to the guaranteed transfer from the National Fund to the State Budget.

The Government's proceeds from sales of fixed assets, which are treated as revenue, were negligible and accounted for 0.2%, 0.2%, 0.1%, 0.1% and 0.2% of GDP in 2014, 2015, 2016, 2017 and 2018, respectively.

As at 1 January 2014, 2015, 2016, 2017, 2018 and 2019, arrears on taxes and other obligatory payments to the State Budget were KZT 64.0 billion, KZT 214.4 billion, KZT 152.8 billion, KZT 299.3 billion, KZT 283.8 billion and KZT 389.9 billion, respectively. In 2018, the tax authorities collected KZT 375.8 billion through enforcement actions. As at 1 July 2019, arrears on taxes and other obligatory payments to the State Budget were KZT 361.1 billion, which represented a decrease of KZT 28.8 billion, or 7.4%, as compared to 1 January 2019.

On 1 September 2014, the Law "On Amnesty of Citizens of the Republic of Kazakhstan in Connection with Legalisation of Money by Them" became effective. Pursuant to this law, from 1 September 2014 through 31 December 2015, property (including property outside of Kazakhstan) that was not included in Kazakhstan's legal economic turnover because it was concealed from income and/or not registered in accordance with Kazakhstan law or improperly registered may be brought back into the legal economy. The law was intended to help reduce the shadow economy, attract additional funding into the economy and reduce repatriation of offshore income and gains and to significantly increase tax revenue for the State Budget. See "*The Economy of Kazakhstan—Recent Trends in the Economy*". More than 140,000 citizens legalised approximately KZT 5.7 trillion in assets, including KZT 4.1 trillion in cash. Approximately KZT 5.0 trillion of these assets were domestic and approximately KZT 0.7 trillion were offshore assets. The legalisation has had numerous positive effects for the economy of Kazakhstan, several of which will continue long term. Such effects include additional funding available to banks for lending into the economy, available collateral for borrowers and higher domestic consumption.

### State Budget Expenditures

The following table sets forth information regarding State Budget expenditure for the years 2014 to 2018 and the six month ended 30 June 2018 and 30 June 2019:

	2014	Years ended 31 December			2018	Six months ended 30 June 2018	Six months ended 30 June 2019 <sup>(2)</sup>
		2015	2016	2017			
				(KZT millions)			
<b>Total expenditure .....</b>	<b>8,458,899</b>	<b>8,626,934</b>	<b>10,124,972</b>	<b>13,129,479</b>	<b>11,757,740</b>	<b>5,343,939</b>	<b>6,342,314</b>
<b>Debt service.....</b>	232,793	297,327	523,214	458,874	587,663	248,714	318,904
<i>of which:</i>							
Domestic debt service .....	224,244	223,380	260,213	375,696	409,462	168,245	213,385
Foreign debt service .....	8,549	8,549	36,096	147,515	177,555	80,469	105,519
<b>Non-interest expenditure .....</b>	<b>8,226,106</b>	<b>8,329,606</b>	<b>9,601,758</b>	<b>12,670,605</b>	<b>11,170,077</b>	<b>5,095,225</b>	<b>6,023,410</b>
<i>of which:</i>							
State administration.....	484,862	698,322	636,219	664,005	620,768	294,019	352,875
Law and order .....	601,804	557,439	584,170	709,712	795,090	307,807	338,928
Defence .....	441,039	460,668	448,877	462,553	542,129	268,111	298,850
Education .....	1,360,482	1,365,013	1,673,739	1,844,033	1,948,700	993,391	1,134,819
Health care .....	859,829	863,899	1,039,682	1,128,316	1,173,313	577,435	602,225
Social assistance and social security.....	1,569,272	1,723,797	2,008,139	2,309,551	2,754,047	1,312,965	1,627,109
Housing and communal services.....	568,201	512,741	630,666	752,542	795,793	293,276	336,003
Culture, sports, tourism and information media .....	297,795	293,775	326,653	398,540	449,292	212,291	218,277
Fuel and energy complex and subsoil assets use.....	128,856	111,659	100,423	137,939	130,489	55,907	53,086
Agriculture, forestry, water and fish industries, environmental protection.....	422,097	444,750	560,771	598,382	653,882	312,301	369,092
Industry and construction .....	42,538	61,775	46,324	59,791	49,030	11,802	71,874
Transport and communications .....	671,651	718,798	827,482	980,486	879,877	281,074	316,370
Other expenditure <sup>(1)</sup> .....	777,680	515,565	706,809	2,600,161	367,200	165,463	302,628
Transfers .....		1,407	11,804	24,594	10,467	9,383	1,276

Source: Ministry of Finance

Notes:

- (1) Other expenditure includes expenditure relating to the implementation of new Government programmes and initiatives, payments for services and operational costs of certain Government agencies and payments made to the State emergency fund.

(2) Preliminary data.

The following table sets forth information regarding State Budget expenditure, as a percentage of total GDP, for the years 2014 to 2018 and the six month ended 30 June 2018 and 30 June 2019:

	Year ended 31 December					Six months ended 30 June	Six months ended 30 June
	2014	2015	2016	2017	2018 <sup>(2)</sup>	2018 <sup>(2)</sup>	2019 <sup>(2)(3)</sup>
	<i>(% of GDP, unless otherwise indicated)</i>						
<b>Total expenditure</b>	<b>21.3</b>	<b>21.1</b>	<b>21.6</b>	<b>24.7</b>	<b>19.7</b>	<b>9.0</b>	<b>9.0</b>
<b>Debt service</b>	<b>0.6</b>	<b>0.7</b>	<b>1.1</b>	<b>0.9</b>	<b>0.9</b>	<b>0.4</b>	<b>0.5</b>
<i>of which:</i>							
Domestic debt service	0.6	0.6	0.8	0.6	0.7	0.3	0.3
Foreign debt service	0.0	0.1	0.3	0.3	0.3	0.1	0.2
<b>Non-interest expenditure</b>	<b>20.7</b>	<b>20.4</b>	<b>20.4</b>	<b>23.9</b>	<b>18.8</b>	<b>8.6</b>	<b>9.2</b>
<i>of which:</i>							
State administration	1.2	1.7	1.4	1.3	1.0	0.5	0.5
Law and order	1.5	1.4	1.2	1.3	1.3	0.4	0.5
Defence	1.1	1.1	1.0	0.9	0.9	0.5	0.5
Education	3.4	3.3	3.6	3.5	3.3	1.7	1.7
Health care	2.2	2.1	2.2	2.1	2.0	1.0	0.9
Social assistance and social security	4.0	4.2	4.3	4.3	4.6	2.2	2.5
Housing and communal services	1.4	1.3	1.3	1.4	1.3	0.5	0.5
Culture, sports, tourism and information media	0.8	0.7	0.7	0.8	0.8	0.4	0.3
Fuel and energy complex and subsoil assets use	0.3	0.3	0.2	0.3	0.2	0.1	0.1
Agriculture, forestry, water and fish industries, environmental protection	1.1	1.1	1.2	1.1	1.1	0.5	0.6
Industry and construction	0.1	0.2	0.1	0.1	0.1	0.0	0.1
Transport and communications	1.7	1.8	1.8	1.8	1.5	0.5	0.5
Other expenditure <sup>(1)</sup>	2.0	1.3	1.5	4.9	0.6	0.3	0.5
Transfers .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>GDP (KZT billions).....</b>	<b>39,675.8</b>	<b>40,884.1</b>	<b>46,971.1</b>	<b>53,101.3</b>	<b>59,613.7</b>	<b>59,613.7</b>	<b>65,239.3<sup>(4)</sup></b>

Source: Ministry of Finance

Notes:

- (1) Other expenditure includes expenditure relating to the implementation of new Government programmes and initiatives, payments for services and operational costs of certain Government agencies and payments made to the State emergency fund.
- (2) Preliminary data.
- (3) All percentages in this column are calculated using projected GDP for 2019.
- (4) Projected GDP for 2019 is calculated on the basis of historical macroeconomic data for four sectors (agriculture, industry, construction and services) and taking into account current investment and budgetary situation and the implementation of Government programmes.

Total State Budget expenditure was KZT 8,458.9 billion in 2014, KZT 8,626.9 billion in 2015, KZT 10,125 billion in 2016, KZT 13,129.5 billion in 2017 and KZT 11,757.7 billion in 2018. Based on preliminary numbers, total State Budget expenditure in the six months ended 30 June 2019 was KZT 6,342,314 million, compared to KZT 5,343,939 million in the same period of 2018.

Social assistance and social security and education are the largest items of expenditure in the state budget for the period from 2014 to the first half of 2019. Social security and social assistance accounted for 18.6%, 20.0%, 19.8%, 17.6%, 23.4% and 25.7% of total expenditures in 2014, 2015, 2016, 2017, 2018 and in the six months ended 30 June 2019, respectively. Education accounted for 16.1%, 15.8%, 16.5%, 14.0%, 16.6% and of total expenses in 2014, 2015, 2016, 2017, 2018 and the six months ended 30 June 2019, respectively.

Total expenditure in 2015 increased by 2.0% as compared to 2014. The expenditure categories which were subject to the largest increases as compared to 2014 related to state administration (an increase of 44.0%) and social security and social aid (9.8%). The largest decreases in expenditure as compared to 2014 related to expenditure in the fuel, energy complex and subsoil assets use (a decrease of 86.7%) and housing and communal services (90.2%).

Total expenditure in 2016 increased by 17.4% as compared to 2015. The expenditure categories which were subject to the largest increases as compared to 2015 related to state education (22.6%) and social aid and social security (16.5%). The largest decreases in expenditure as compared to 2015 related to construction (75.0%) and state administration (91.1%).



Total expenditure in 2017 increased by 29.7% as compared to 2016. The expenditure categories which were subject to the largest increases as compared to 2016 related to social security and social aid (16.0%), education (10.2%) and housing and communal services (19.3%).

Total expenditure in 2018 decreased by 10.4% as compared to 2017. The expenditure category, which was subject to the largest decrease as compared to 2017 related to “other expenditure” (KZT 2,233 billion, or 85.9%). The reason for this decrease was that, in 2017, there was a transfer in the amount of KZT 2,092 billion for the purpose of improving the state of the banking sector.

Total expenses in the six months ended 30 June 2019 compared to the same period in 2018 increased by 18.7%, or by KZT 998.4 billion. The categories of expenses that were subject to the largest increases compared to the six months ended 30 June 2018 were social assistance and social security (KZT 314.1 billion, or 23.9%) and education (KZT 141.4 billion, or 14.2%).

The share of non-interest expenses in the State Budget expenditures decreased from 97.2% of total expenditures in 2014 to 95.0% in the six months ended 30 June 2019 due to an increase in debt servicing costs. Debt service (including payments on discounts and interest on government debt) increased from 0.6% of GDP 2014 to 1.0% of GDP in 2018.

In the six months ended 30 June 2019, the volume of general transfers from the Republic Budget to local governments amounted to KZT 815.4 billion, or 14.9% of total expenditures of the Republic Budget.

### State Budget Deficit Financing

The State Budget deficit is financed by Government borrowing. See “*Public Debt—Debt Management Policy*”.

In each year from 2014 to 2018, the State Budget registered a deficit. The State Budget’s deficit was 2.7% of GDP in 2014, 2.2% in 2015, 1.6% in 2016, 2.7% in 2017 and 1.4% of GDP in 2018.

The following table sets out information on the State Budget deficit, net external borrowing and net domestic borrowing for the years presented, in each case as a percentage of GDP.

	2014	2015	2016	2017	2018
	(% of GDP)				
State Budget deficit .....	2.7	2.2	1.6	2.7	1.4
Net external borrowing.....	1.2	2.4	1.5	(0.1)	0.6
Net domestic borrowing .....	1.6	(0.2)	0.0	2.9	0.8

### State-Local Fiscal Relationship

The Kazakhstan budget system includes the Republic Budget and local budgets, which consist of all regional budgets, the budgets of the cities which have ‘cities of the republican status’ (Nur-Sultan, Almaty and Shymkent) and district budgets (budgets of the cities of regional significance).

Local budgets that cover a three-year period are prepared by local governments. Local budgets are approved by the respective local parliaments. Local budgets are intended to finance the operations of local government and fund any State policy that is required to be implemented in Kazakhstan’s regions. Revenues contributing to the local budgets include tax revenues and non-tax revenues as defined in the Budget Code.

The State Budget includes the Republic Budget and all local budgets after elimination of interbudgetary transactions. The allocation of all revenues received by the Government, among the Republic Budget, local budgets and the National Fund, is carried out on a daily basis by the Ministry of Finance, in accordance with the Budget Code. Firstly, the allocation of revenues is carried out on the basis of a table of allocation of budget revenues (covering the Republic Budget and local budgets) approved by the Ministry of the National Economy and following this, on a local level, the allocation of revenues will be carried out in accordance with the rules of allocation of revenues among the various local budgets and municipal budgets (which are approved by the local parliaments). Generally, revenues received from fixed tax and non-tax revenues, which provide stable revenues and are independent of external factors, are allocated to local budgets. Revenues from taxes that are redistributive in nature, and are dependent on external factors are allocated to the Republic Budget.

In addition to tax revenues and non-tax revenues, revenues are also received via transfers from higher level budgets. Local budgets are legally required to be balanced, and the Republic Budget takes into account any amounts required to be transferred from or to local authorities in order to balance local budgets. Budgetary transfers are either in the form of cash transfers or regulated loans. Transfers are categorised as general, special transfers or special development transfers. General transfers are set out in the Budget Law and are aimed at ensuring that all regions receive equal funding and that all regions are able to provide certain services that are guaranteed by the central Government in accordance with the Budget Code (*i.e.*, to complement any budgetary gap). General transfers are defined as the difference between projected revenues (not including transfers) and the projected costs of the relevant local budget. When determining the amount of general transfers, the projected amount of tax revenues of a region, the numbers of users of public services in the region and the specific factors that may affect the cost of providing public services within that region are taken into account. General transfer amounts are fixed for a three year period and are divided into (i) yearly scheduled transfers from the Republic Budget to the local budgets (as determined by law) and (ii) yearly scheduled transfers from the local areas to municipalities (as determined by acts of the local parliaments).

As general transfer amounts are fixed for a three-year period and are not amended, special transfers are subsequently used during the three-year period to target regions that require additional funding. Alternatively, if actual revenues are higher than projected revenues, amounts that have been transferred from the higher level budgets are withdrawn. Additional budget loans can also be provided from the Republic Budget to local budgets, where additional funding is required to implement specific investment projects, to satisfy any additional liabilities resulting from the State social policy or where a cash deficit in the local budget is forecast. Special transfers and budget loans are utilised by local governments in accordance with a purpose defined in the respective budget programme.

## **National Fund**

The National Fund of Kazakhstan was established in August 2000 by Decree No. 402 of the President of Kazakhstan. According to the Budget Code, the National Fund represents State assets in the form of financial assets held in the Government's account with the NBK, as well as in other forms except for intangible assets.

The National Fund was established in order to facilitate a stable socio-economic development of the nation, accumulate financial resources for future generations (the saving function) and reduce the impact on the economy from adverse external factors (the stabilising function). According to the Concept of Funding and Utilisation of the National Fund approved by Decree No. 962 dated 2 April 2010 of the President (the “**Concept**”), the main goal of the National Fund is the accumulation of financial resources for the benefit of future generations and making the Republic Budget less dependent on the situation in the global commodity market.

The functions of the National Fund are divided between a saving function and stabilising function. The saving function is performed by investing in long-term instruments with a moderate risk level in order to ensure the accumulation of financial assets and other property (except for intangible property) and revenue from such assets. The stabilising function is intended to maintain the appropriate level of liquidity in order to fund guaranteed transfers from the National Fund to the Republic Budget. The assets of the National Fund may be invested into permitted financial instruments, as specified by the Government.

To enable the saving and stabilising functions, the assets of the National Fund are structured within three portfolios: a saving portfolio (a fixed income portfolio and an equity portfolio); stabilising portfolios; and a gold portfolio.

### *Assets of the National Fund*

As at 31 December 2018, the net assets of the National Fund amounted (net of accounts payable in tenge) to KZT 23,673.8 billion, or 39.7% of GDP. As at 30 June 2019, the net assets of the National Fund amounted to KZT 24,196.3 billion, or 40.6% of GDP. The net assets consist of foreign currency reserve assets held in the Government's account with the NBK.

As at 31 December 2018, the total market value of assets of the National Fund was equal to U.S.\$61.6 billion, including a U.S.\$58.0 billion (94.1%) currency portfolio, a U.S.\$1.8 billion (2.9%) portfolio of bonds denominated in Tenge and U.S.\$1.8 billion (3.0%) in a bank account denominated in Tenge. The market value of assets in the saving portfolio of the National Fund amounted to U.S.\$48.8 billion, or 84.2% of the market

value of the saving and stabilisation portfolios combined, while the market value of assets in the stabilisation portfolio of the National Fund amounted to U.S.\$9.2 billion, or 15.8% of the combined market value of the two portfolios.

As at 30 June 2019, the total market value of assets of the National Fund was equal to U.S.\$63.6 billion, including a U.S.\$59.9 billion (94.3%) currency portfolio, a U.S.\$1.9 billion (3.0%) portfolio of bonds denominated in Tenge and U.S.\$1.8 billion (2.8%) in a bank account denominated in Tenge. The market value of assets in the saving portfolio of the National Fund amounted to U.S.\$51.3 billion, or 85.5% of the market value of the saving and stabilisation portfolios combined, while the market value of assets in the stabilisation portfolio of the National Fund amounted to U.S.\$8.7 billion, or 14.5% of the combined market value of the two portfolios.

#### *Funding and Utilisation of the National Fund*

The following table sets out information on the funding and utilisation of the National Fund for the years or periods indicated:

	Years ended 31 December						Six months ended 30 June 2019 <sup>(1)</sup>
	2014	2015	2016	2017	2018	2019 (Planned)	
	(KZT millions)						
<b>Opening balance as at 1 January .....</b>	<b>13,026,107</b>	<b>16,429,299</b>	<b>25,754,359</b>	<b>23,865,624</b>	<b>22,924,525</b>	<b>26,062,038</b>	<b>26,062,038</b>
<b>Revenues including investment income .....</b>	<b>5,366,851</b>	<b>11,793,631</b>	<b>985,648</b>	<b>3,479,812</b>	<b>5,755,588</b>	<b>5,124,303</b>	<b>1,951,926<sup>(2)</sup></b>
<i>Of which:</i>							
Investment income .....	1,862,204	10,162,626	(155,071)	1,429,000	2,522,316	2,522,316	405,573 <sup>(2)</sup>
Corporate income taxes .....	1,307,632	567,063	438,009	782,798	1,374,260	1,134,843	645,287
Excess profit tax .....	81,445	65,546	35,560	50,604	56,554	105,800	107,416
Bonuses .....	30,031	32,249	136,604	5,084	9,066	5,000	4,863
Natural resources extraction tax/royalty .....	956,090	459,942	278,597	626,350	464,652	400,363	166,218
Rent export tax .....	734,720	227,320	118,889	250,408	487,066	365,506	176,607
Revenues under production sharing agreements .....	357,477	261,033	122,398	285,893	725,105	550,725	369,615
Additional subsoil user payment .....	0	0	0	0	84,111	-	46,494
Administrative fines, penalties, sanctions .....	12,742	4,621	650	4,812	7,585	-	8,315
Other fines, penalties, sanctions, collections .....	57	3,140	446	300	1,496	-	2,725
Money from subsoil users under claims .....	23,083	8,912	6,772	27,251	1,678	1,517	802
Other non-tax revenues .....	0	4	0	5	2	-	0
Revenues from privatization of state assets ....	0	0	0	7,427	12,989	13,200	14,518
Revenues from sale of agricultural land plots .....	1,369	1,175	834	444	262	33	130
Return of the targeted transfer from the Republic Budget .....	0	0	421	9,436	8,446	-	316
Other receipts and income not forbidden by the legislation of the republic of Kazakhstan .....	0	0	1,537	0	0	-	3,046
<b>Utilisation .....</b>	<b>1,963,659</b>	<b>2,468,571</b>	<b>2,874,383</b>	<b>4,420,911</b>	<b>2,618,074</b>	<b>2,838,074</b>	<b>1,829,554</b>
<i>Of which:</i>							
Guaranteed transfers .....	1,480,000	1,702,000	2,110,000	2,880,000	2,600,000	2,450,000	1,453,850
Targeted transfers .....	475,000	754,417	745,574	1,534,317	0	370,000	370,000
Costs of audit administration and management of the National Fund .....	8,659	12,154	18,809	6,594	18,074	18,074	5,704
<b>Closing balances at period end .....</b>	<b>16,429,299</b>	<b>25,754,359</b>	<b>23,865,624</b>	<b>22,924,525</b>	<b>26,062,038</b>	<b>28,348,267</b>	<b>26,184,411<sup>(2)</sup></b>

Source: Ministry of Finance

Notes:

- (1) Preliminary data.
- (2) Taking into account investment income for the first quarter of 2019 in accordance with the adopted report of the NBK for the first quarter of 2019 with respect to trust management of the National Fund.

The primary sources of revenues for the National Fund are:

- direct taxes paid by petroleum industry companies (other than tax revenues to local budgets), including corporate income tax, excess profit tax, natural resource extraction tax, bonuses (including signing bonuses and discovery bonuses), rent export tax and other payments;
- other revenues from operations carried out by petroleum industry companies (other than revenues to local budgets) including payments resulting from breach of oil contracts (other than revenues to local budgets);
- revenues from privatisation of State property pertaining to the mining and processing industries;
- revenues from the sale of agricultural lands;

Petroleum industry companies include legal entities that produce or sell crude oil and/or gas condensate or that have entered into crude oil and/or gas condensate exploration contracts.

According to the Budget Code, funds in the National Fund may be utilised for making guaranteed transfers to the Republic Budget; for making targeted transfers to the Republic Budget for such purposes as the President of Kazakhstan may identify; and to cover the costs of an audit of the National Fund. If funds in the National Fund are insufficient to make a transfer to the Republic Budget under this requirement, the amount of the guaranteed and/or targeted transfer will be reduced accordingly. A guaranteed transfer from the National Fund becomes non-refundable revenues to the Republic Budget from the National Fund for funding the implementation of development programmes. The saving function of the National Fund is guaranteed by its minimum required balance, being equal to 30% of the projected GDP for the relevant budget year. Therefore, should a guaranteed transfer or targeted transfer from the National Fund jeopardise the minimum required balance for the saving function, such transfer will be reduced accordingly or not be made at all, if necessary.

The saving function is being performed by placement of funds into permitted financial instruments. Investment of funds is done with a long-term perspective under moderate risk with the principal purpose of protecting the assets of the National Fund and accumulating financial resources for future generations.

In accordance with the 2018 Budget Law, a total of KZT 2,600 billion was transferred from the National Fund to the Republic Budget in 2018 in the form of a guaranteed transfer to fund expenditures of current budget programmes and budgeted development programmes. The amount transferred was equal to the budgeted amount of the transfer. In accordance with the 2019 Budget Law, KZT 2,450 billion is budgeted to be transferred from the National Fund to the Republic Budget in the form of a guaranteed transfer and another KZT 370 billion is budgeted to be transferred from the National Fund to the Republic Budget in the form of targeted transfers in 2019.

### **State Social Insurance Fund**

The State Social Insurance Fund is an extrabudgetary fund that was established in 2004. The SSIF is funded by mandatory social insurance contributions made by employers in respect of their employees. The SSIF collects payments from and makes payments to participants in the mandatory social insurance system. The SSIF may invest its assets in financial instruments via the NBK. The revenues and expenditures of the SSIF are not included within the Consolidated Budget. See *“The Economy of Kazakhstan—Social Benefits and Expenditure”*.

## PUBLIC DEBT

### Debt Management Policy

The Budget Code establishes the current legal framework for various types of State borrowing, including direct State borrowing by the Government, the NBK and local executive authorities, as well as Government guaranteed borrowing. The Budget Code defines clear procedures for State borrowing and the granting of State guarantees and contains a number of important provisions including limits on the level of State indebtedness. Under this legislation, the Ministry of Finance (after being authorised by the Government) may undertake external borrowing via loans or through the issuance of debt securities, provided it is within the permitted limit on State indebtedness, as specified in the State Budget for the relevant year as at the end of such year. The limit on Government debt (including internal and external debt, but not including debt of the NBK) as at 31 December 2015 was set at KZT 8,200 billion, as at 31 December 2016 at KZT 9,570 billion, as at 31 December 2017 at KZT 11,000 billion, as at 31 December 2018 at KZT 12,000 billion and as at 31 December 2019 at KZT 13,000 billion. The limits on the issuance of new Government guarantees were set at KZT 120 billion for 2015 and KZT 1,500 billion for 2016, 2017 and 2018.

The Government aims to adopt best international practices in debt management in order to ensure the appropriate management of risk exposure and to minimise debt-servicing costs while meeting their fund raising targets. The primary reason for the incurrence of debt by the Government is to finance the deficit of the Republic's Budget. Additionally, the Government endeavours to use its debt policy to advance Kazakhstan's social and economic development. As such, a majority of the money raised via external debt, is used to fund investment projects in such areas as industrial and agricultural development, social projects and innovation technologies. The purpose of domestic borrowing through the issue of government bonds issued by the Ministry of Finance ("**Government Bonds**") is to fund the deficit of the Republic's Budget. The monitoring of the profitability of both domestic and external capital markets, and these Government Bonds is carried out as part of internal debt management. When increased liquidity is required, repeated auctions are conducted as part of the Government Bonds strategy, which helps to increase the number of Government Bonds in circulation and promote a reduction in the number of issues of Government Bonds. With respect to access to international capital markets, the first and subsequent issues of Eurobonds by the Republic of Kazakhstan set benchmarks, which helped Kazakhstani banks and corporate issuers to gain access to the international capital markets. The Kazakhstani authorities also aim to improve the system for monitoring the foreign borrowing of State-owned and private companies.

In 2012, a medium-term strategy for debt management was approved by the Ministry of Finance, the Ministry of Economy and Budget Planning and the NBK, and has since been updated in 2018. The main aims of the strategy are the stable and timely supply of financial resources required to meet the Government's payment and financial obligations, minimising debt service obligations and potential costs associated with debt servicing, developing the domestic market for debt instruments and supporting the pension system through the issuance of long-term inflation-indexed treasury bonds.

As at 31 December 2018, Kazakhstan's total public debt (including guarantees and sureties provided by the State) was U.S.\$41.8 billion or 26.9% of GDP, as compared to 26.3%, 24.9% and 22.6% as at 31 December 2017, 2016 and 2015, respectively. As at 30 June 2019, Kazakhstan's total public debt (including guarantees and sureties provided by the State) was U.S.\$42.5 billion, or 24.8% of GDP (based on projected annual GDP for 2019). Public debt as at 30 June 2019 included direct State borrowing by the Government of U.S.\$31.8 billion, the NBK of U.S.\$8.3 billion and local executive authorities of U.S.\$0.6 billion, as well as Government guaranteed borrowing in the amount of U.S.\$1.8 billion. It does not include borrowings by or guarantees issued by State-owned companies.

As at 30 June 2019, Kazakhstan's public external debt (including the debt guaranteed by the Government) was U.S.\$16.1 billion or 9.4% of GDP (based on projected annual GDP for 2019) as compared to U.S.\$16.3 billion or 10.5% of GDP as at 31 December 2018, U.S.\$15.1 billion or 9.4% of GDP as at 31 December 2017, U.S.\$14.7 billion or 10.4% of GDP as at 31 December 2016, U.S.\$13.4 billion or 11.1% of GDP as at 31 December 2015.

### Public External Debt

As at 30 June 2019, the total outstanding public external debt of Kazakhstan, including direct Government external debt ("**General Government External Debt**") and external debt which has been guaranteed by the

The following table sets forth information with respect to external debt as at 31 December 2014, 2015, 2016, 2017 and 2018 and as at 30 June 2018 and 2019:

	As at 31 December					As at 30 June	As at 30 June
	2014	2015	2016	2017	2018	2018	2019
	(U.S.\$ millions)						
General Government							
External Debt <sup>(1)</sup> .....	7,870	12,715	13,864	13,748	14,683	13,593	14,311
External debt guaranteed by the Government.....	416	666	828	1,314	1,590	1,507	1,746
<b>Total public external debt.....</b>	<b>8,286</b>	<b>13,380</b>	<b>14,692</b>	<b>15,062</b>	<b>16,273</b>	<b>15,100</b>	<b>16,057</b>
Percentage of GDP (%) .....	3.9	11.1	10.4	9.4	10.5 <sup>(2)</sup>	9.0 <sup>(2)(3)</sup>	9.4 <sup>(4)</sup>

Notes:

- The following table sets forth information with respect to the General Government External Debt and Government guaranteed external debt by creditor as at 31 December 2014, 2015, 2016, 2017 and 2018 and as at 30 June 2018 and 2019:

	As at 31 December					As at 30 June	As at 30 June
	2014	2015	2016	2017	2018	2018	2019
	(U.S.\$ millions)						
<b>Total General Government external</b>							
<b>Debt</b> .....	<b>7,870</b>	<b>12,715</b>	<b>13,864</b>	<b>13,748</b>	<b>14,683</b>	<b>13,593</b>	<b>14,311</b>
<i>Of which:</i>							
Multilateral creditors .....	4,565	5,456	6,629	6,537	6,307	6,395	5,951
World Bank .....	3,187	3,041	4,118	4,016	3,835	3,917	3,746
Other .....	1,378	2,416	2,511	2,521	2,472	2,479	2,205
Official creditors .....	605	558	535	512	477	497	465
Commercial creditors .....	2,700	6,700	6,700	6,700	7,901	6,700	7,895
<b>Total external debt guaranteed by the</b>							
<b>Government</b> .....	<b>416</b>	<b>666</b>	<b>828</b>	<b>1,314</b>	<b>1,590</b>	<b>1,507</b>	<b>1,746</b>
<i>Of which:</i>							
Multilateral creditors .....	375	491	547	389	389	416	323
World Bank .....	242	242	195	169	169	156	129
Other .....	133	251	352	220	220	260	194
Official creditors .....	42	39	281	925	1,201	1,091	1,423

Note:

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Since 2001, the level of Kazakhstan's General Government External Debt and Government guaranteed external debt has been increasing. As at 31 December 2014, total external debt reached U.S.\$8.3 billion. During 2014 and 2015, Kazakhstan placed several issuances of sovereign U.S. dollar-denominated bonds in the total amount of U.S.\$6.5 billion. During 2015 and 2016, Kazakhstan borrowed funds from the ADB and IBRD in the total amount of U.S.\$2.0 billion to cover the budget deficit. In November 2018, Kazakhstan issued sovereign euro-denominated bonds in the total amount of EUR 1.05 billion. As a result, Kazakhstan's public external debt increased to U.S.\$13.4 billion as at 31 December 2015, U.S.\$14.7 billion as at 31 December 2016, U.S.\$15.1 billion as at 31 December 2017, U.S.\$16.3 billion as at 31 December 2018 and then decreased slightly to U.S.\$16.1 as at 30 June 2019. Proceeds of the borrowings were used primarily for implementation of major investment projects as well as to fund increased social costs. General Government External Debt for the period from 30 June 2018 to 30 June 2019 increased by U.S.\$0.7 billion, principally due to the issuance of sovereign euro-denominated bonds in the total amount of EUR 1.05 billion in November 2018. Over the same period, Government guaranteed external debt increased by U.S.\$0.2 billion, the main share of which falls on debt to official creditors.

## External Debt Service

The following table sets forth historical long-term General Government External Debt and Government guaranteed external debt service payments for the years 2014 to 2018 and the six months ended 30 June 2018 and 2019:

		As at 31 December				As at 31 June	As at 31 June
	2014	2015	2016	2017	2018	2018	2019
				(U.S.\$ millions)			
Principal repayments .....	459.8	338.9	419.9	549.5	585.1	216.3	552.5
Interest payments and charges .....	61.2	168.7	444.8	514.5	563.1	266.5	310.5
<b>Total<sup>(1)</sup> .....</b>	<b>521.0</b>	<b>507.6</b>	<b>864.7</b>	<b>1,064.0</b>	<b>1,148.2</b>	<b>482.7</b>	<b>863.0</b>

Source: Ministry of Finance

Note:

- (1) Interest payments and principal repayments of Government guaranteed debt are made from the State Budget and own funds of borrowers.

Kazakhstan has never defaulted on any payment of principal of, or premium or interest on, any public external debt. Kazakhstan is not currently in default of any of its public external debt.

In 2014, Kazakhstan issued 4.875% notes in a principal amount of U.S.\$1.0 billion with a term of 30 years and 3.875% notes in a principal amount of U.S.\$1.5 billion with a term of 10 years. In 2015, Kazakhstan issued 5.125% notes in a principal amount of U.S.\$2.5 billion with a term of 10 years and 6.5% notes in the principal amount of U.S.\$1.5 billion with a term of 30 years. In November 2018, Kazakhstan issued 1.55% notes in a principal amount of EUR 525 million with a term of five years and 2.375% notes in the principal amount of EUR 525 million with a term of 10 years.

In 2000, Kazakhstan EXIM Bank, a bank which at the time was wholly owned by the Government, failed to make a payment of interest when due on a U.S.\$9 million loan facility guaranteed by the Government and pursuant to this default, the Government fulfilled its payment obligations under the guarantee.

The following table sets forth a projection of the Government's contractual public external debt service from 2019 to 2028, with respect to principal and interest payable on all external debt outstanding as at 31 December 2018, on the basis of the exchange rates and interest rates as at 31 December 2018. This table does not reflect the external debt service (i) on any borrowings by, or on behalf of the Government, since 1 January 2019, (ii) on any new drawdowns on existing borrowings by, or on behalf of the Government, from 1 January 2019 to 31 December 2028 or (iii) on any Notes being offered as drawdowns under the Programme following the date of this Base Prospectus.

### Public External Debt Service Projections

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	<i>(U.S.\$ millions)</i>									
Principal repayments .....	940	943	481	521	1,113	2,012	3,192	728	723	1,309
Interest payments and charges .....	598	599	586	596	607	606	549	410	397	384
<b>Total .....</b>	<b>1,537</b>	<b>1,542</b>	<b>1,068</b>	<b>1,116</b>	<b>1,720</b>	<b>2,618</b>	<b>3,741</b>	<b>1,138</b>	<b>1,120</b>	<b>1,691</b>

Source: Ministry of Finance

### Internal Public Debt

Internal public debt consists primarily of notes issued by the NBK (“**NBK notes**”) and Government securities, some of which are denominated in U.S. dollars although payable in Tenge. See “*Monetary and Financial System—Capital Markets—Government Securities*”. The following table sets forth the internal public debt of Kazakhstan as at 31 December 2014, 2015, 2016, 2017 and 2018 and as at 30 June 2018 and 2019:

	As at 31 December					As at 30 June	As at 30 June
	2014	2015	2016	2017	2018	2018	2019
	<i>(U.S.\$ millions)</i>						
NBK notes.....	147	1,043	7,557	9,579	9,166	10,696	8,273
Government Bonds.....	22,912	12,813	12,772	16,924	15,702	16,929	17,518
Local executive authorities	85	7	122	384	498	440	596
Internal Government guarantees <sup>(1)</sup> .....	40	36	32	28	24	26	23
<b>Total internal debt.....</b>	<b>23,185</b>	<b>13,899</b>	<b>20,483</b>	<b>26,886</b>	<b>25,390</b>	<b>29,091.3</b>	<b>26,410</b>
Percentage of GDP (%) .....	10.5	7.5	14.9	16.8	16.4 <sup>(2)</sup>	16.7 <sup>(2)(3)</sup>	15.4 <sup>(4)</sup>

Source: Ministry of Finance

Notes:

- (1) Does not include internal sureties granted by the Government, the aggregate outstanding amount of which was U.S.\$80.5 million as at 30 June 2019.
- (2) Preliminary data.
- (3) Calculated based on annual GDP for 2018.
- (4) Calculated based on projected annual GDP for 2019.

The Ministry of Finance issues Government Bonds with maturities ranging from one year to 30 years and having both fixed and index-linked coupon rates. As at 30 June 2019, the majority of Government Bonds in circulation were long-term Government Bonds and long-term index-linked Government Bonds, representing 69% and 20% of total Government Bonds in circulation, 10% were medium-term Government Bonds. The main holders of Government Bonds are the UAPF, banks and other securities market entities, which held 49%, 28% and 23%, respectively, of all outstanding Government Bonds as at 30 June 2019.

The volume of short-term notes issued in 2016 was KZT 41,438.3 billion, in 2017 it was KZT 63,307.9 billion, in 2018 it was KZT 63,513.5 billion, and for the first half of 2019 it was KZT 23,639.2 billion. Such relatively high volume of short-term notes issued is connected with persisting liquidity surplus in the banking system, as well as the demand for short-term notes of the NBK from foreign investors due to relatively high interest rates.

### Government Internal Debt Service

The service of the government’s internal public debt accounted for 0.1%, 0.6%, 0.8%, 0.6%, 0.7% and 0.3% of GDP for the years ended 31 December 2014, 2015, 2016, 2017, 2018 and for the six months ended 30 June 2019 (based on the preliminary GDP data for the six months ended 30 June 2019), respectively.



### ***Government Internal Public Debt Policy***

The Ministry of Finance takes into account the following factors when considering its policy regarding the planning and issuing of internal public debt:

- maintaining a sufficient level of bonds in circulation in order to provide an appropriate reference for the stock exchange;
- expansion and diversification of the investor base;
- development of alternative debt instruments including the issuance of revenue-yielding bonds in order to meet the needs of market participants; and
- improvement of the operations of the primary market for bonds.

Further development of the Kazakhstan debt securities market is one of the key medium-term priorities of Kazakhstan's internal public debt policy.

### ***Other Public Sector Domestic Debt***

Kazakhstan's internal public sector debt includes the debt of local governments in the form of municipal bonds issued in the internal market for the financing of local governments' budget deficits and loans from the central Government. The Government is not legally responsible for the debts of local governments. The aggregate principal amount of debt of local governments outstanding at 30 June 2019 is estimated to be KZT 834.5 billion, or 1.3% of GDP (based on projected annual GDP for 2019).

### ***Relations with International Financial Institutions***

Since its independence, Kazakhstan has taken an active part in cooperating with various international and foreign public organisations and agencies, as well as foreign non-governmental public organisations and funds. Such cooperation primarily takes the form of joint projects and the implementation of programmes funded through the raising of financial and technical aid. Kazakhstan is a member of the IMF, the IBRD, the IFC, the IDA, the Multilateral Investment Guarantee Agency, the International Center for Settlement of Investment Disputes, the EBRD, the ADB and the IDB.

### ***IMF***

In 1994, Kazakhstan initially agreed an economic stabilisation programme with the IMF supported by a one-year stand-by arrangement signed in January 1994. In June 1995, the IMF granted Kazakhstan a stand-by arrangement in the amount of Special Drawing Rights of 185.6 million, all of which was fully drawn. In July 1996, Kazakhstan entered into an EFF under which Special Drawing Rights of 309.4 million was available for borrowing. Kazakhstan borrowed certain amounts under this arrangement in 1996. In December 1999, the Government and the IMF signed a new three-year extended EFF in the amount of Special Drawing Rights of 329.1 million. In 2000, Kazakhstan became the first former Soviet Union republic to repay all of its debt to the IMF, seven years ahead of schedule. Kazakhstan currently has no outstanding borrowings with the IMF. In March 2003, Kazakhstan became the 53rd subscriber to the IMF's Special Data Dissemination Standard.

### ***World Bank***

Kazakhstan became a member of the World Bank group entities International Bank for Reconstruction and Development and the International Development Association (the "IDA") in July 1992 and a member of the International Finance Corporation (the "IFC"), also a World Bank Group entity, in September 1993. In 2010 Kazakhstan became an IDA donor under the IDA 16 replenishment. Kazakhstan is the largest client of the IFC in Central Asia.

## ***IBRD***

Kazakhstan has been provided with a total of 42 loans from the IBRD amounting to over U.S.\$7.7 billion. For the period from 2014 to 2018 and during the six months ended 30 June 2019 the IBRD provided 8 loans to Kazakhstan. The current portfolio of the IBRD in Kazakhstan includes 21 projects with a total value of U.S.\$6.1 billion, of which U.S.\$4.8 billion has already been disbursed. Over 90% of the IBRD's current portfolio is concentrated in road development projects. Other projects focus on the development of certain sectors including education, healthcare, environmental protection and the public sector. Kazakhstan's public external debt to the IBRD as at 31 March 2015 was U.S.\$3.2 billion, as at 31 March 2016 was U.S.\$3.0 billion, as at 31 March 2017 was U.S.\$4.1 billion and as at 31 March 2018 was U.S.\$4.0 billion. As at 30 June 2019, Kazakhstan's public external debt to the IBRD was KZT 1,425.4 billion, or U.S.\$3.7 billion.

## ***IFC***

Kazakhstan became a member of the IFC in 1993. The IFC started its operations in Kazakhstan by initially providing consultancy services aimed at private sector development. Since the commencement of its investment operations in 1997, the IFC has invested over U.S.\$1.25 billion in private enterprises in Kazakhstan to support 61 private sector projects across various industries, including agribusiness, financial services, infrastructure, manufacturing and oil and gas. The IFC promotes the development of the private sector through investments and advisory services that foster the diversification and competitiveness of the economy. IFC's strategy in Kazakhstan is focused on strengthening the financial sector, improving access to infrastructure and promoting the development of small and medium enterprises, particularly in the agribusiness, manufacturing, and service sectors. As at 30 June 2019, Kazakhstan had no outstanding external public sector debt to the IFC.

## ***EBRD***

Kazakhstan has been a member of EBRD since 1993. The annual meeting of the Board of Governors of the EBRD was held in Astana in 2011. The EBRD has signed a total of 262 projects in Kazakhstan (including 26 projects in 2018, 25 projects in 2017, 33 projects in 2016, 30 projects in 2015 and 19 projects in 2014) with a cumulative investment value of EUR 8,047 million since initiating operations in Kazakhstan in 1991. Of the total current EBRD portfolio (as at 1 August 2019) in the amount of EUR 2,653 million (which includes undisbursed commitments), 31% is allocated to projects involving financial institutions and 65% is allocated to the so-called the sustainable infrastructure sector that consists of municipal infrastructure projects and projects in the energy/natural resources sectors.

The EBRD is the largest investor outside of the oil and gas sector in Kazakhstan. Since the beginning of its operations in Kazakhstan, the EBRD has taken an active role in implementing projects in both the private and public sectors. The EBRD also assists with the promotion of economic diversification and the transition to a more stable model of financial development. The EBRD's portfolio includes borrowed funds and its own capital, credit for private companies not covered by governmental guarantees and credit for public sector enterprises.

As at 30 June 2019, Kazakhstan's public external debt to the EBRD was KZT 67.4 billion, or U.S.\$177 million.

## ***ADB***

Kazakhstan has been a member of the ADB since 1994. In 2013, Astana was chosen as a venue for the ADB's 47th Annual Meeting, which was held in May 2014. Up to 5,000 participants attended the meeting, including managers from the ADB member countries, finance ministers, heads of major international banks and financial institutions and leading officials of governmental, non-governmental and other organisations. Currently, a country strategy of the ADB Partnership for Kazakhstan for 2017-2021 is in force. ADB designed this latest country partnership strategy to meet three main objectives. First, to help lessen Kazakhstan's dependency on commodity exports, ADB will support economic diversification by promoting private sector development and improving access to finance. Second, to help reduce inequalities, ADB will help Kazakhstan realise quality infrastructure and improve the quality of public and social services. Third, to lessen vulnerabilities associated with climate change, ADB will support achieving sustainable growth in line with Kazakhstan's greenhouse gas mitigation targets and commitments to improve resilience to climate change.

ADB began supporting Kazakhstan in 1994. From 1994 to 1 July 2019, ADB has approved over U.S.\$5 billion in sovereign loans, non-sovereign loans and guarantees in support of Kazakhstan's development. Cumulative loan disbursements to Kazakhstan amounted to U.S.\$4.1 billion.

Following the global financial crisis in 2007-2008, the Government of Kazakhstan requested access to concessional resources to support its programmes. ADB provided a countercyclical loan of U.S.\$500 million. In 2015, ADB disbursed another countercyclical loan of U.S.\$1 billion to help Kazakhstan respond to a steep decline in oil prices and the economic slowdown in its major trading partners, including the Russian Federation, European Union member countries and the People's Republic of China. The loan has helped the Government modernise infrastructure and foster job creation, deliver social services, support low-income households and develop the private sector. In 2018, ADB provided a local currency loan equivalent to U.S.\$120 million to Samruk-Energy, Kazakhstan's largest power generation company, to support its overall business restructuring and transformation plan.

Kazakhstan's public external debt to the ADB as at 30 June 2019 was U.S.\$1,903 million.

### ***Japan International Cooperation Agency***

Kazakhstan has cooperated with the Japan International Cooperation Agency (the "JICA") and its predecessor institutions (the International Foundation for Economic Cooperation and the Eximbank of Japan) since 1994. The JICA provides assistance and support to developing countries in its capacity as the executive body of the Japanese official development assistance programme. The JICA has provided Kazakhstan with loans totalling U.S.\$1.2 billion. Loan proceeds were used to finance transport infrastructure and urban development projects and to carry out economic reforms. Kazakhstan's outstanding public sector debt to the JICA as at 30 June 2019 was U.S.\$447.7 million.

### **Debt Ratings**

On 8 March 2019, S&P confirmed Kazakhstan's sovereign credit rating at "BBB-" (outlook stable). On 22 March 2019, Fitch Ratings agency confirmed Kazakhstan's sovereign credit rating at the level of "BBB" (outlook stable). On 22 August 2019, Moody's confirmed Kazakhstan's sovereign credit rating at "Baa3" and changed Kazakhstan's outlook on the rating from stable to positive.

A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

## MONETARY AND FINANCIAL SYSTEM

### The NBK

The National Bank of Kazakhstan is the central bank of Kazakhstan. Although it is an independent institution, it is subordinate to the President of Kazakhstan. The President of Kazakhstan has the power, among other things, to appoint (for a term of up to six years) and dismiss the NBK's Governor (upon consent by the Senate), to appoint (for a term of up to six years) and dismiss the NBK's Deputy Governor upon the proposal of the Governor of the NBK, to approve the annual report of the NBK, to approve the concept of the design of the national currency, and to request information from the NBK. Mr Erbolat Dossaeu was appointed as Governor of the NBK in February 2019.

The primary goal of the NBK is to ensure price stability in Kazakhstan. To accomplish this goal, the NBK develops and implements Kazakhstan's monetary policy; ensures the functionality of the payment systems; implements foreign exchange regulation and foreign exchange controls; promotes the stability of the financial system; regulates, controls and supervises the financial markets and financial institutions and also other parties, within its areas of responsibility; ensures protection of the rights and legitimate interests of consumers of financial services; and carries out statistics activities in the areas of the monetary system and external sector.

The principal governing bodies of the NBK are the Executive Board and the Board of Directors. The Executive Board, the highest governing body of the NBK, consists of nine members, including the Governor of the NBK, five other representatives of the NBK, a representative of the President of Kazakhstan and two representatives of the Government of Kazakhstan.

The NBK is responsible for most of the supervisory and regulatory functions in the Kazakhstan financial sector. These functions were previously undertaken by the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organisations (the "FMSA"), an independent entity that reported directly to the President, from January 2004 until April 2011, when they were transferred to the NBK on the basis of a presidential decree. From April 2011, the NBK's functions in respect of the control and supervision of the financial sector were performed by the NBK's Committee for the Control and Supervision of the Financial Market and Financial Organisations (the "FMSC"). In January 2014, the FMSC was dissolved and its functions are now performed by the NBK and is one of the NBK's core activities.

The NBK has the authority to regulate and supervise Kazakhstan's banking and insurance sectors, as well as the activities of accumulated pension funds, investment funds, credit bureaus and the securities market in Kazakhstan. In this respect, the NBK grants licences to financial institutions, monitors the activities of such institutions, applies necessary sanctions and participates in the liquidation of financial institutions.

While the Committee for Regulation of Natural Monopolies and Protection of Competition of the MNE (the "**Competition Authority**") administers anti-monopoly legislation in Kazakhstan with respect to the banking sector, certain issues of anti-monopoly regulation are under the jurisdiction of both the Competition Authority and the NBK. For example, certain transactions with a value exceeding certain thresholds require the prior consent of the Competition Authority, and the thresholds that are applicable to regulated financial organisations are established jointly by the Competition Authority and the NBK.

Following the pension reforms that were introduced by the Pension Law in June 2013, the NBK now manages the UAPF on behalf of the Government, on the basis of a trust management agreement between the NBK and the Government. See "*The Economy of Kazakhstan—Pensions and Pension Reform*".

From January 2020, a new independent regulatory body (created through reorganisation of the NBK) will take charge of financial markets control and development and consumer rights protection. The new regulator will take over the functions of regulation and development of the financial sector (banks, participants in the insurance market, securities market, microfinance and mortgage organisations, credit partnerships, pawnshops, online creditors, collection agencies and credit bureaus), control and supervision, resolution procedures, liquidation of financial organisations and cybersecurity of the financial sector.

The NBK will retain the functions related to collection and processing of financial reports of organisations in the financial sector, control and/or supervision and resolution procedures with respect to payment organisations,

non-banking foreign exchange offices and collection organisations. The NBK will also continue to oversee monetary policy and inflation control.

To enhance financial stability, the NBK and the new regulator of the financial markets will be required to coordinate their activities and will have mutual representation in their governing bodies. They will also share key information related to the financial markets with each other. A unified database of statistical and regulatory information will be created with equal access from the NBK and the new regulator of the financial markets.

## **Monetary Policy**

The NBK is responsible for implementing monetary policy. Since August 2015, the NBK has been implementing monetary policy in accordance with the principles of inflation targeting, according to which the emphasis is placed on the interest rate policy under the free-floating exchange rate. The previous policy aimed at maintaining a stable exchange rate led to imbalances in the economy in the face of the negative impact of external shocks. In September 2015, the National Bank began the practice of setting the base rate as the main monetary policy tool.

During 2016, the NBK introduced and improved the main components of inflation targeting in its practice in order to affect the monetary conditions in the economy. In February 2016, the National Bank resumed the practice of setting the base rate.

In 2017, the measures of the NBK, including the interest rate policy, were aimed at achieving the inflation target at the end of 2017, which was set within the target band of 6.0% to 8.0%. As a result of the moderate-tight monetary policy, inflation was in the middle of the target band by the end of 2017.

The NBK's monetary policy for 2018 was aimed at ensuring price stability to secure sustainable long-term economic growth and the development of the Kazakhstani economy. The key goal was to keep the annual inflation rate within the 5.0% to 7.0% band at the end of 2018.

In 2019, the monetary policy will be implemented in accordance with the inflation targeting principles. In accordance with the Agreement on Coordination of Macroeconomic Policy Measures for 2019 between the Government and the NBK, the inflation target is set within the band of 4.0% to 6.0% till the end of 2021.

In the decision-making regarding the monetary policy, the NBK will be performing risk assessments, both for the existing and future inflation and will be monitoring the dynamics of a broad range of external and internal factors. If risks of unfavourable shocks, which may translate into significant deviation of forecasted inflation from the target, increase, the NBK is ready to implement a tighter monetary policy.

The exchange rate will be determined by free-floating principles. However, given specific structure of the economy, high dependence on imports and insufficiently developed financial markets, the NBK retained the right to intervene in the foreign exchange market in order to prevent sharp destabilising changes in the exchange rate (including those caused by the impact of non-fundamental factors), not aiming at distorting the formation of a general market trend. NBK interventions do not contradict the principles of inflation targeting regime.

In May 2015, solely in respect of Tenge-denominated personal term deposits and current accounts, the guarantee coverage provided under the deposit guarantee scheme was increased to a maximum amount of KZT 10 million per customer at each bank participating in the deposit guarantee scheme. The guarantee amount on deposits in foreign currency was kept at the previous level – KZT 5 million. The recommended maximum interest rates for foreign currency deposits range from 1% to 2%. Since October 2018, a new instrument has been introduced - a savings deposit with a high level of profitability (up to 13.5%) and guarantees up to KZT 15 million. These measures were a part of the Government's and the NBK's plans to reduce the level of dollarisation of the economy.

## **Instruments of Monetary Policy**

Currently, the NBK implements monetary policy through open market operations (NBK notes, deposit auctions) and standing facilities (repos and currency swaps on KASE, overnight deposits).

### Monetary Policy Instruments

Purpose	Type of Instrument	Instrument	Collateral	Frequency	Provision / withdrawal duration
liquidity provision	standing facilities	KASE currency swap	U.S. dollars	upon request from commercial banks	1 day
		KASE reverse repo	Government bonds	upon request from commercial banks	1 day
	open market operations	NBK auction for the purchase of securities with the reverse sale	Lombard list	as needed	7 days
liquidity withdrawal		NBK notes auction	-	in accordance with the schedule of issuance of notes	28, 91, 182, 364 days
		NBK deposit auction	-	daily	7 days
	standing facilities	KASE currency swap	U.S. dollars	upon request from commercial banks	1 day
KASE direct repo		Government bonds	upon request from commercial banks	1 day	
NBK deposits		no collateral	upon request from commercial banks	1 day	

Minimum reserve requirements have an effect on the reserved assets of the banks and, thus, their borrowing policy. Minimum reserve requirements remain an additional tool on regulating liquidity of banks and interest rates on the money market.

Between January 2013 and September 2015, the main interest rate set by the National Bank was the official refinancing rate, which was set at 5.5% per annum. After switching to the inflation-targeting regime in 2015, the NBK's basic tool of monetary policy is setting the base rate, which took the following values between September 2015 and the date of this Base Prospectus:

Date of setting the rate (s)	Rate, %	Corridor of base rate, %
02.09.2015	12.0	7.0 - 17.0
02.10.2015	16.0	15.0 - 17.0
02.02.2016	17.0	15.0 - 19.0
15.03.2016	17.0	15.0 - 19.0
06.05.2016	15.0	14.0 - 16.0
07.06.2016	15.0	14.0 - 16.0
12.07.2016	13.0	12.0 - 14.0
16.08.2016	13.0	12.0 - 14.0
04.10.2016	12.5	11.5 - 13.5
15.11.2016	12.0	11.0 - 13.0
10.01.2017	12.0	11.0 - 13.0
21.02.2017	11.0	10.0 - 12.0
11.04.2017	11.0	10.0 - 12.0
06.06.2017	10.5	9.5 - 11.5
18.07.2017	10.5	9.5 - 11.5
22.08.2017	10.25	9.25 - 11.25
10.10.2017	10.25	9.25 - 11.25
28.11.2017	10.25	9.25 - 11.25
16.01.2018	9.75	8.75 - 10.75
06.03.2018	9.5	8.5 - 10.5
17.04.2018	9.25	8.25 - 10.25
05.06.2018	9.00	8.00 - 10.00

10.07.2018	9.00	8.00 – 10.00
04.09.2018	9.00	8.00 - 10.00
16.10.2018	9.25	8.25 – 10.25
05.12.2018	9.25	8.25 – 10.25
15.01.2019	9.25	8.25 – 10.25
05.03.2019	9.25	8.25 – 10.25
16.04.2019	9.00	8.00 – 10.00
04.06.2019	9.00	8.00 – 10.00
16.07.2019	9.00	8.00 – 10.00
10.09.2019	9.25	8.25 – 10.25

In reviewing the effectiveness of its monetary policy instruments, the NBK came to a conclusion that its short-term notes do not immobilise liquidity to the full extent since they tend to convert into cash quickly, given the fact that they are highly-liquid financial instruments. To address this issue, starting from 18 February 2019, the 7-day short-term notes have been replaced with the deposit auctions with the same maturity. In contrast with notes, deposits cannot be used as collateral, so launch of this instrument allowed the NBK to tie up excess liquidity and, moreover, to improve the efficiency of the interest channel of the transmission mechanism. Short-term notes with maturities of one, three, six and 12 months continue to be issued. As for standing facilities, seven-day deposits are not taken any more, while one-day deposits are attracted as before.

In July 2019, the NBK changed the rules on minimum reserve requirements for banks in Kazakhstan. The changes aimed to encourage banks to raise Tenge-denominated financing. From 16 July 2019, minimum reserve requirements are set on the basis of currency and term of liabilities. Instead of the previous eight separate categories of reserve requirements, there are currently just four categories:

- for short-term and long-term liabilities in national currency - 2% and 0%, respectively; and
- for short-term and long-term liabilities in foreign currency - 3% and 1%, respectively.

In addition, the NBK introduced a limit on the use of cash as a reserve asset in the amount of not more than 50% of the minimum reserve requirements (there were no limits on the use of cash previously). The remaining reserve assets have to consist of balances on correspondent accounts of banks in the NBK.

The weighted average rate for all bank loans extended in 2014 to 2018 and during the six months ended 30 June 2019 inclusive was 13.9%. The average weighted bank loan rate was 12.1% in 2014, 14.3%; in 2015, 15.4% in 2016, 14.3% in 2017, 13.5% in 2018 and 13.9% in the six months ended 30 June 2019.

The new measures undertaken by the NBK are aimed at reducing the dollarisation of the economy, stabilising volatile interest rates and preventing speculation in the money market. It is intended that these measures will result in an increase in the flexibility and efficiency of liquidity regulation and monetary policy implementation.

## Money Supply

The following table sets forth information concerning Kazakhstan's money supply as at the dates indicated:

A10.4.1(e)

	As at 31 December					As at 30 June
	2014	2015	2016	2017	2018	2019
	<i>(KZT billions)</i>					
Net foreign assets .....	20,806	30,772	31,036	30,866	35,420	34,579
Net domestic assets .....	(6,510)	(10,355)	(7,944)	(7,622)	(9,665)	(10,953)
Domestic credit .....	15,636	18,903	18,699	18,532	19,509	20,121
Net claims on central Government .....	579	167	53	1,155	1,199	1,026
Net claims on other government .....	5	0	0	13	13	0
Credit to the private sector <sup>(1)</sup> .....	10,850	14,316	14,350	12,580	12,794	13,073
Other claims on the economy <sup>(2)</sup> .....	4,201	4,420	4,296	4,784	5,503	6,022
Other items, net .....	(9,067)	(9,745)	(9,405)	(10,218)	(11,129)	(12,352)
Broad money (M3) .....	12,801	17,126	19,799	19,456	20,813	19,537
Currency in circulation (M0) .....	1,122	1,237	1,749	1,946	2,260	2,231
Total deposits .....	11,679	15,889	18,050	17,510	18,553	17,306
Domestic currency deposits .....	5,195	4,950	8,220	9,161	9,569	10,099
Foreign currency deposits .....	6,484	10,939	9,830	8,349	8,984	7,207
Nonliquid liabilities .....	—	—	—	—	—	—
Monetary base (broad definition) <sup>(3)</sup> .....	3,414	4,751	5,163	5,537	6,651	6,346
Money supply (M2) (national definition) <sup>(4)</sup> ..	7,964	8,598	12,566	13,514	14,467	14,549

Velocity of M2 .....	4.98	4.76	3.74	3.85	4.12	4.19
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Source: NBK

Notes:

- (1) Includes claims on other financial corporations, public and other nonfinancial corporations, non-profit institutions.
- (2) Includes claims on households.
- (3) Comprises cash outside of the NBK, correspondent account balances, deposit account balances and reserves of commercial banks maintained at the NBK and NBK notes held by such banks.
- (4) M2 is defined as total cash in circulation (outside of banks) and transferable deposits in the domestic currency on accounts of non-bank organisations and individuals plus other deposits in the domestic currency and transferable deposits in the foreign currency on accounts of non-bank resident organisations and individuals.

The analysis set out below on monetary reserves does not take into account the assets held by the National Fund.

The data above is presented in accordance with the IMF's "Monetary and Financial Statistics Manual".

From 31 December 2013 to 31 December 2018, monetary base expanded by 135.4%. On average, each year, monetary base increased by 15.6%, money supply increased by 12.5% and the volume of cash in circulation increased by 8.7% annually. During this period, the money supply growth was driven by the overall increase in net foreign assets in the banking system as a result of the increase of gold in the net foreign assets of the NBK. Net foreign assets of banks had multidirectional dynamics.

From 31 December 2013 to 31 December 2014, monetary base expanded by 20.8%, money supply (M3) increased by 10.4% and the volume of cash in circulation decreased by 25.8%. The main reason for the increase in money supply was the growth in the net foreign assets of the NBK and in the claims to private non-financial institutions. In 2014, net foreign assets of the NBK increased, whereas net foreign assets of banks decreased as a result of a decrease in liabilities owed by non-residents to the banks and growth in bank liabilities owed to non-residents. In 2014, domestic assets of banks increased, whereas domestic assets of the NBK decreased. The growth in domestic assets of banks was mainly caused by an increase in banks' reserves together with an increase of liabilities owed by the private sector to banks and an increase in other net domestic assets.

From 31 December 2014 to 31 December 2015, monetary base expanded by 39.2%, money supply (M3) increased by 33.8% and the volume of cash in circulation increased by 10.2%. The monetary base expansion and growth of the money supply and the volume of cash in circulation were the result of the devaluation of the Tenge after transition to a freely floating exchange rate in 2015. Money supply increased due to an increase in domestic assets within the banking system. In 2015, net foreign assets of the NBK and net foreign assets of banks increased as a result of the alignment of their own foreign currency positions. In 2015, the domestic assets of banks and the NBK increased. The growth in domestic assets of banks was mainly caused by the increase of the provision of bank financing in the economy.

From 31 December 2015 to 31 December 2016, monetary base expanded by 8.7%, money supply (M3) increased by 15.6% and the volume of cash in circulation increased by 41.4%. Monetary base and money supply increased at a slower rate than in 2015 due to the reduction of the floating exchange rate transition impact. The growth in money supply was the result of the growth in net foreign assets and monetary resources of the National Fund transferred to the Republic Budget.

From 31 December 2016 to 31 December 2017, monetary base expanded by 7.3%, money supply (M3) decreased by 1.7% and the volume of cash in circulation increased by 11.3%. The decline of the money supply was mainly driven by decrease of the claims to non-bank financial institutions and in the other net domestic assets. This negative contribution was partly offset by positive contribution from the increase in net claims on the general Government and claims to households.

From 31 December 2017 to 31 December 2018, monetary base expanded by 20.1%, money supply (M3) increased by 7.0% and the volume of cash in circulation increased by 16.1%. The main positive contribution to the money supply was observed from the net foreign assets as a result of growth in NBK's gold and NBK's transferable deposit growth in the net foreign assets. The positive contribution was also observed from the claims to households and claims to non-bank financial institutions.

From 31 December 2018 to 30 June 2019, monetary base contracted by 4.6%, the money supply (M3) decreased by 6.1% and the volume of cash in circulation decreased by 1.3%. The main negative contribution to the monetary base was observed from the net foreign assets as a result of reduction of the banks correspondent



accounts in NBK. This factor was also the reason of the money supply reduction, which was supplemented by decrease in the net claims to the central Government, in the claims to private non-financial institutions and by the decrease in other net domestic assets.

## Inflation

The NBK's target from 2015 to 2017 was to keep inflation within the target range of 6.0 to 8.0% under any scenario in the development of Kazakhstan's economy. In 2018, the NBK decreased its target inflation corridor to 5.0% to 7.0% and then, in 2019, it further decreased its target inflation corridor to 4.0% to 6.0%.

The following table sets forth the rates of consumer price inflation and producer price inflation for the years and periods indicated:

	2014	2015	2016	2017	2018	Six months ended 30 June 2019
Inflation, consumer prices (annual %, end of year) .....	7.4	13.6	8.5	7.1	5.3	5.4
Inflation, consumer prices (annual %, year average) .....	6.7	6.6	14.6	7.4	6.0	5.1
Inflation, producer prices (annual %, end of year) .....	(1.6)	(4.8)	15.5	17.6	12.4	8.2
Inflation, producer prices (annual %, year average) .....	9.5	(20.5)	16.8	15.3	19.0	10.2

Source: MNE

In 2014, the annual inflation rate was 7.4%, mainly due to the adjustment of the exchange rate and increases in the price of gasoline and diesel fuel in August 2014. In addition, the increase of tariffs on services was another significant factor contributing to the increase of the inflation rate. The rate of inflation (producer prices) in 2014 was negative 1.6% due to the decrease in prices of energy resources.

In 2015, the annual inflation rate was 13.6%, mainly due to a significant adjustment of the exchange rate in August and September 2015. The rate of inflation (producer prices) was negative 4.8% due to a decrease in oil prices.

In 2016, the annual inflation rate was 8.5%, exceeding the NBK's target of 6 to 8%, mainly due to shocks in the aggregate supply of vegetables, fuel and lubricants in the fourth quarter of 2016. In general, 2016 saw a slowdown in inflation and a gradual levelling of the effect of the transfer of the Tenge exchange rate to the level of prices in Kazakhstan, as well as reducing inflationary expectations. A weak consumer sentiment, a decrease in real incomes and a slow recovery in lending were the main drivers of the slowdown in inflation. The rate of inflation (producer prices) was 15.5% due to the increased cost of purchased resources and the increased world prices of raw materials.

In 2017, the annual inflation rate was 7.1%, which was in line with the NBK's target. The slowdown in inflation was due to the weakening of the external inflation background, stability in the world raw and food markets and market conditions in the domestic agricultural markets. In addition, the limited expansion of aggregate demand due to the negative dynamics of real incomes of the population has become a deterrent to inflationary processes. The rate of inflation (producer prices) was 17.6% due to the rise in the cost of investment goods and the recovery of world oil prices.

In 2018, the annual inflation rate was 5.3%, which was in line with the NBK's target of 5.0% to 7.0%. The decrease in inflation was driven by supply factors, which helped to bring down the prices of vegetables and energy resources, as well as a significant reduction in the tariffs of regulated services.

At the end of June 2019, year-on-year inflation was 5.4%, largely due to rising prices in the food industry and agriculture. Inflationary processes were supported by the continuing expansion of consumer demand amidst the recovering real income of the population as well as by positive growth rates of the consumer lending. Significant decrease of regulated tariffs at the beginning of the year was a constraining factor with respect to inflation.

## International Reserves

The following table sets out the international reserves of Kazakhstan and the foreign currency reserve assets of the National Fund as at the dates indicated:

	As at 31 December <sup>(1)</sup>				As at 30 June <sup>(3)</sup>	
	2014	2015	2016	2017	2018	2019
	(U.S.\$ billions)					
Official international reserves (excluding gold)	21.8	20.3	20.1	18.5	16.5	11.2
of which:						
SDRs.....	0.5	0.5	0.7	0.8	0.8	0.8
Foreign exchange.....	21.3	19.8	19.4	17.7	15.8	10.4
Official gold reserves <sup>(2)</sup> .....	7.4	7.6	9.6	12.5	14.4	17.1
Total official international reserves (including gold)	29.2	27.9	29.7	31.0	30.9	28.2
National Fund foreign currency reserve assets	73.2	63.4	61.2	58.3	58.0	59.9
Total official international reserves and National Fund foreign currency reserve assets.....	102.4	91.3	90.9	89.3	88.9	88.1
Total official international reserves and National Fund foreign currency reserve assets (% of GDP).	46.2	49.5	66.2	54.8	52.1 <sup>(3)</sup>	59.9 <sup>(4)</sup>

Source: NBK

Notes:

- (1) Finalised data, except for 2018, which excludes final turnover.
- (2) Includes refined gold held by the NBK and other deposits of gold.
- (3) Preliminary data.
- (4) Calculated based on projected annual GDP for 2019.

Official international reserves include gold and foreign currency reserves of the NBK. The foreign currency assets of the National Fund are funds of the Government and are held in the account of the Ministry of Finance at the NBK. See “*Public Finance—National Fund*” for more information on the National Fund.

As at 31 December 2014, Kazakhstan’s total international reserves including gold and the National Fund’s foreign currency reserves were U.S.\$102.4 billion (of which assets of the National Fund amounted to U.S.\$73.2 billion), an increase of 7.2% as compared to 31 December 2013. Official international reserves represented approximately six months of import coverage and, together with National Fund foreign currency reserves, represented more than 21 months of import coverage.

As at 31 December 2015, Kazakhstan’s total international reserves including gold and the National Fund’s foreign currency reserves, were U.S.\$91.3 billion (of which assets of the National Fund amounted to U.S.\$63.4 billion), a decrease of 10.9%, as compared to 31 December 2014. Official international reserves represented approximately 7.6 months of import coverage and, together with National Fund foreign currency reserves, represented more than 24 months of import coverage.

As at 31 December 2016, Kazakhstan’s total international reserves including gold and the National Fund’s foreign currency reserves, were U.S.\$90.9 billion (of which assets of the National Fund amounted to U.S.\$61.2 billion), a decrease of 0.4%, as compared to 31 December 2015. Official international reserves represented 9.9 months of import coverage and, together with National Fund foreign currency reserves, represented about 30 months of import coverage.

As at 31 December 2017, Kazakhstan’s total international reserves including gold and the National Fund’s foreign currency reserves, were U.S.\$89.3 billion (of which assets of the National Fund amounted to U.S.\$58.3 billion), a decrease of 1.8%, as compared to 31 December 2016. Official international reserves represented 9.1 months of import coverage and, together with National Fund foreign currency reserves, represented more than 26 months of import coverage.

As at 31 December 2018, Kazakhstan’s total international reserves including gold and the National Fund’s foreign currency reserves, were U.S.\$88.9 billion (of which assets of the National Fund amounted to U.S.\$58.0 billion), a decrease of 0.5%, as compared to 31 December 2017. Official international reserves represented 8.2

months of import coverage and, together with National Fund foreign currency reserves, represented more than 23 months of import coverage.

As at 30 June 2019, according to preliminary data, Kazakhstan's total official international reserves, including gold and the National Fund's foreign currency reserves, amounted to U.S.\$88.1 billion (a decrease of 0.9% as compared to 31 December 2018), of which U.S.\$59.9 billion were foreign currency assets of the National Fund.

As a result of Kazakhstan's significant international reserves, the State is a net creditor from a global perspective.

## Interest Rates

The following table sets out key interest rates for the periods indicated:

	Year ended 31 December					Six months ended 30 June
	2014	2015	2016	2017	2018	2019
	<i>(Period average, %)</i>					
NBK refinancing rate (%, period-end) .....	5.5	5.5	5.5	10.25	9.25	9.0
<b>Tenge deposit rates</b>						
Deposits of legal entities (KZT) .....	5.5	12.6	12.7	8.6	7.2	7.2
Deposits of legal entities (hard currency) .....	2.0	1.7	0.1	0.6	1.1	0.9
Deposits of individuals (KZT) .....	7.3	7.9	11.6	11.6	9.9	9.3
Deposits of individuals (hard currency) .....	3.8	3.3	2.8	2.2	1.7	1.3
Demand deposits (KZT and hard currency) ..	2.6	2.2	2.6	3.1	2.1	0.5
Time deposits (KZT and hard currency) .....	5.0	8.9	10.0	7.9	6.9	6.7
<b>Tenge lending rates</b>						
Loans to legal entities (KZT) .....	14.4	18.1	14.5	13.2	12.4	12.0
Loans to legal entities (hard currency) .....	8.1	7.7	6.5	5.8	5.4	5.5
Loans to individuals (KZT) .....	18.7	18.5	18.4	19.2	18.5	18.0
Loans to individuals (hard currency) .....	6.1	10.5	11.5	7.3	14.0	16.3
Average Consumer Price Index inflation .....	6.7	6.6	14.6	7.4	6.0	5.1

Source: NBK

## Exchange Rates

The currency of Kazakhstan is the Tenge, which was introduced in November 1993.

From late 1999 to October 2007, the exchange rate regime was a managed float with no preannounced path, and the value of the Tenge fluctuated significantly during this period. Since October 2007, the Tenge was maintained within a narrow range against the U.S. dollar.

In February 2009 a trading band of KZT 150: U.S.\$1.00 +/- 3% was established.

In February 2010, the trading band was widened and set at an asymmetric KZT 150/U.S.\$1.00 +10/-15%. During 2010, the Tenge to U.S. dollar exchange rate remained within the given band with minimal involvement of the NBK in the domestic foreign exchange market. The existence of the currency exchange rate band in 2010 did not have a significant effect on the exchange rate.

At the end of February 2011, the NBK switched to a managed floating exchange rate regime for the Tenge, officially abolished the trading band, and the formal exchange rate arrangement was changed from a pegged exchange rate within horizontal bands to a managed floating exchange rate regime. The new regime generally allowed the NBK to intervene when necessary to support the Tenge, without any reference to a formal fluctuation corridor or specific parameters.

The official exchange rate was determined on the basis of foreign exchange auctions that were held daily. Auctions were held for U.S. dollars and official rates were quoted for over 30 currencies on the basis of cross-rates. In mid-2011, the volatility of the exchange rate increased, as a result of destabilisation in the global markets and decreased global oil prices.

During 2012, market sentiment toward the Tenge shifted repeatedly in line with exchange rate movements in Russia. The real effective exchange rate appreciated by 3.5% year-on-year in 2012 as compared to 2011.

In July 2013, the NBK reaffirmed its commitment to its exchange-rate policy of a managed float of the Tenge and, from September 2013, started to publish the value of a multi-currency basket, including U.S. dollars, euros and Russian roubles.

Beginning in February 2014, the NBK decided to refrain from supporting the Tenge exchange rate at its then current level and to reduce the volumes of its currency interventions. As a result, on 11 February 2014, the NBK effectively devalued the Tenge against the U.S. Dollar by 18.9% by announcing that it will set an exchange rate band of the Tenge versus the U.S. dollar with a new rate of KZT 185 per U.S.\$1.00 plus/minus 3 Tenge (the official exchange rate was KZT 155.56 per U.S.\$1.00 on 11 February 2014 prior to that announcement). In addition to the above factors, other causes of the devaluation included a flow of capital from developing countries to developed countries that resulted in increased pressure on currencies of developing countries such as Kazakhstan; volatility in the international financial markets; and high devaluation expectations in Kazakhstan and related intensive speculative transactions. The NBK's decision to allow the devaluation was driven by the need to restore the external competitiveness of the Tenge exchange rate and the external balance of the economy of Kazakhstan and in order to maintain the competitiveness of domestic companies. See “—*Monetary Policy*” above. In September 2014, the NBK re-established the trading band at KZT 170-188 to U.S.\$1.00.

On 20 August 2015, the NBK allowed the Tenge to freely float. As a result, the Tenge depreciated against the U.S. dollar by 80% by the end of 2015. The Tenge largely stabilised from mid-2016. Tenge appreciated against the U.S. dollar by 0.3% in 2017 (from KZT 333.29 per U.S.\$1.00 at 31 December 2016 to KZT 332.33 per U.S.\$1.00 at 31 December 2017), depreciated against the U.S. dollar by 15.6% in 2018 (from KZT 332.33 per U.S.\$1.00 at 31 December 2017 to KZT 384.2 per U.S.\$1.00 at 31 December 2018) and appreciated against the U.S. dollar by 1.0% in the six months ended 30 June 2019 (from KZT 384.2 per U.S.\$1.00 at 31 December 2018 to KZT 380.53 per U.S.\$1.00 at 30 June 2019). The significant depreciation of Tenge against the U.S. dollar in 2018 was mainly due to significant deterioration of external factors, such as depreciation of the Russian ruble and the decrease in crude oil prices (starting from October 2018) due to increased oil reserves and oil production by principal exporters.

On 30 June 2019, the official KZT/U.S.\$ exchange rate quoted on the KASE, as reported by the NBK, was U.S.\$1.00 to KZT 380.53. On 16 September 2019, the official KZT/U.S.\$ exchange rate quoted on the KASE, as reported by the NBK, was U.S.\$1.00 to KZT 386.71. See “*Exchange Rates*” for information on the Tenge/U.S. dollar exchange rates reported by the NBK.

The exchange system is free from restrictions on payments and transfers for current international transactions, although the Tenge is not fully convertible for capital account transactions outside of Kazakhstan. See “—*Foreign Exchange Regulations*” below.

## **Kazakhstan's Banking Industry**

### ***Structure of the Kazakhstan Banking System***

Kazakhstan has a two-tier banking system with the NBK comprising the first tier and the commercial banks comprising the second tier (with the exception of the DBK, which as a state development bank has a special status and belongs to neither tier). All credit institutions in Kazakhstan are required to be licensed and regulated by the NBK. Prior to 2004, these functions were carried out by the NBK. From 2004 until April 2011, these functions were carried out by the FMSA, from April 2011 to January 2014, by the FMSC and, since January 2014, by the NBK.

According to data published by the NBK, as of 1 July 2019, there were 28 commercial banks in Kazakhstan (excluding DBK and the NBK), among which 14 were foreign banks, including 12 subsidiary banks.

There has been recent consolidation in the banking sector. In particular, JSC BTA Bank (“**BTA Bank**”) was acquired by JSC Kazkommertsbank (“**Kazkommertsbank**”) in July 2014, and JSC ForteBank (“**ForteBank**”), JSC Alliance Bank (“**Alliance Bank**”) and JSC Temirbank (“**Temirbank**”) merged in February 2015. In March 2015, Samruk Kazyna sold its 0.01% of all issued common shares and 51% of all issued preferred shares in ForteBank to one of ForteBank’s shareholders. In July 2018, JSC Halyk Savings Bank of Kazakhstan (“**Halyk Bank**”), already the largest bank in Kazakhstan, completed the assumption of all property, rights and obligations of Kazkommertsbank as a result of a merger of Kazkommertsbank into Halyk Bank. Approximately 758.7 million shares in Halyk Bank were issued to shareholders of Kazkommertsbank (excluding Halyk Bank) in exchange for common shares in Kazkommertsbank. Further consolidation is expected as a result of annual increases in minimum capital requirements under Basel III and is encouraged by the NBK as a means to enhance the competitiveness of the banking sector. See “—Banking Supervision and Regulation—Capital Adequacy”.

As at 30 June 2019, Samruk Kazyna did not own any shares in banks except for 0.000003% of the share capital of Halyk Bank.

### *Financial Condition of the Banking Sector*

The following table sets out aggregate balance sheet information and key related ratios on the Kazakhstan banking system (including restructured banks) as at the dates indicated:

	As at 31 December					As at 30 June
	2014	2015	2016	2017	2018	2019
	<i>(KZT billions, except ratios)</i>					
<b>Total assets</b> .....	<b>18,238.9</b>	<b>23,780.3</b>	<b>25,556.8</b>	<b>24,157.9</b>	<b>25,244.0</b>	<b>25,350.0</b>
<i>of which:</i>						
Correspondent accounts .....	1,948.2	3,396.3	2,984.5	3,039.6	3,146.5	2,887.9
Deposits with NBK .....	15.5	18.1	323.5	351.9	625.3	1,074.3
Deposits in other banks .....	364.8	673.7	839.1	595.2	637.6	834.5
Loans to customers.....	10,373.5	13,759.2	13,659.3	10,991.6	11,632.3	10,991.2
Accumulated interest income .....	1,266.2	1,225.6	1,444.4	1,251.1	916.0	903.6
Other assets .....	4,270.7	4,707.3	6,306.2	7,928.5	8,286.3	8,658.4
<b>Total liabilities</b> .....	<b>15,873.2</b>	<b>21,290.2</b>	<b>22,716.2</b>	<b>21,128.2</b>	<b>22,222.3</b>	<b>22,221.6</b>
<i>of which:</i>						
Amounts due to other banks .....	425.2	792.8	929.4	576.6	815.2	550.4
Customer deposits .....	11,430.2	15,829.6	17,471.4	16,779.3	17,164.7	16,789.8
Issued securities .....	1,215.1	2,100.9	1,778.1	1,321.1	1,665.1	1,819.9
Other liabilities.....	2,802.8	2,566.9	2,537.3	2,451.3	2,577.3	3,061.1
<b>Total capital</b> .....	<b>2,365.7</b>	<b>2,490.1</b>	<b>2,840.6</b>	<b>3,029.7</b>	<b>3,021.8</b>	<b>3,128.3</b>
<b>Total liabilities and capital</b> .....	<b>18,239.0</b>	<b>23,780.3</b>	<b>25,556.8</b>	<b>24,157.9</b>	<b>25,244.0</b>	<b>25,350.0</b>
Total capital adequacy ratio.....	17.3%	15.9%	16.4%	21.8%	21.9%	22.5%
Tier 1 capital adequacy ratio .....	11.0%	13.1%	14.3%	17.5%	16.8%	17.5%
Total deposits/total liabilities .....	71.5%	73.3%	76.0%	78.9%	76.7%	74.9%
Provisions/total loans .....	25.2%	10.6%	10.6%	15.6%	12.9%	16.5%
Foreign currency loans/total loans.....	37.4%	42.7%	39.9%	26.5%	23.3%	18.4%
Foreign currency deposits/total deposits.....	57.8%	69.3%	53.8%	46.8%	46.8%	43.4%
Interest margin .....	5.4%	5.4%	4.8%	5.1%	5.1%	5.1%
Interest rate spread .....	2.7%	4.4%	4.1%	4.2%	4.0%	3.9%
NPL ratio (90-day basis as % of loan portfolio) .....	23.5%	8.0%	6.7%	9.3%	7.4%	9.4%

Source: NBK

The following table sets out aggregate total loans and total foreign currency loans of the Kazakhstan banking sector as at the dates indicated:

As at	KZT Loans	Foreign Currency Loans	Total Loans
	<i>(KZT millions)</i>		
31 March 2013 .....	7,262,615	2,855,592	10,118,207
30 June 2013 .....	7,550,103	2,994,880	10,544,984
30 September 2013.....	7,694,329	3,241,360	10,935,689
31 December 2013 .....	7,936,659	3,354,890	11,291,548
31 March 2014 .....	7,941,031	4,225,582	12,166,613

As at	KZT Loans	Foreign Currency Loans	Total Loans
		(KZT millions)	
30 June 2014 .....	8,118,143	4,045,181	12,163,324
30 September 2014.....	8,486,300	3,741,985	12,228,285
31 December 2014 .....	8,505,510	3,540,632	12,106,142
31 March 2015 .....	8,420,740	3,624,698	12,045,438
30 June 2015 .....	8,107,612	2,603,840	10,711,452
30 September 2015.....	8,427,330	3,406,763	11,834,094
31 December 2015 .....	8,401,114	4,273,131	12,674,245
31 March 2016 .....	8,108,966	4,377,555	12,486,521
30 June 2016 .....	8,156,392	4,299,548	12,455,940
30 September 2016.....	8,420,873	4,265,259	12,686,132
31 December 2016 .....	8,578,859	4,129,465	12,708,324
31 March 2017 .....	8,738,271	3,767,680	12,505,951
30 June 2017 .....	9,034,747	3,666,859	12,701,607
30 September 2017.....	9,485,320	3,737,208	13,222,528
31 December 2017 .....	9,366,787	3,338,565	12,705,352
31 March 2018 .....	9,409,447	3,156,828	12,566,275
30 June 2018 .....	9,673,127	3,158,004	12,831,131
30 September 2018.....	9,753,808	2,913,791	12,667,599
31 December 2018 .....	10,894,320	2,997,444	13,091,764
31 March 2019 .....	10,012,291	2,460,910	12,473,201
30 June 2019 .....	10,593,172	2,313,661	12,906,832

Source: NBK

The following table sets out certain information, as at the dates presented, on the five banks that as at 30 June 2018 were the five largest banks in Kazakhstan based on total assets:

	As at 31 December					As at 30 June
	2014	2015	2016	2017	2018	2019
	(KZT billions, except ratios)					
<b>JSC “Halyk Savings Bank of Kazakhstan”</b>						
Tier 1 capital ratio (%) .....	-	17.3	19.3	21.5	19.7	19.7
Total capital adequacy ratio (%).....	-	17.3	19.2	21.4	21.6	21.5
Total assets .....	-	4,054	4,890	5,022	8,667	8,730
NPL ratio (%).....	-	9.2	8.6	7.6	9.1	9.1
Total deposits/total liabilities (%).....	-	76.1	80.7	84.1	85.3	81.6
<b>JSC “ForteBank”</b>						
Tier 1 capital ratio (%) .....	-	18.7	20.1	18.8	16.2	15.1
Total capital adequacy ratio (%).....	-	18.7	22.6	20.8	17.8	16.4
Total assets .....	-	1,066	1,218	1,505	1,777	1,986
NPL ratio (%).....	-	9.0	7.5	7.2	6.6	6.7
Total deposits/total liabilities (%).....	-	81.1	83.1	79.0	66.9	64.8
<b>JSC SB “Sberbank”</b>						
Tier 1 capital ratio (%) .....	9.1	9.3	11.5	12.0	11.5	12.6
Total capital adequacy ratio (%).....	12.7	9.3	13.0	12.8	11.6	12.7
Total assets .....	1,283.7	1,597	1,655	1,747	1,892	1,984
NPL ratio (%).....	3.39	9.2	9.2	6.1	5.6	7.5
Total deposits/total liabilities (%).....	75.0	78.2	76.6	81.8	82.9	80.7
<b>JSC “KASPI BANK”</b>						
Tier 1 capital ratio (%) .....	8.2	10.3	11.2	11.0	11.4	11.5
Total capital adequacy ratio (%).....	14.5	19.1	13.6	16.5	15.7	15.3
Total assets .....	991	1,244	1,200	1,470	1,704	1,907
NPL ratio (%).....	11.7	9.1	8.0	8.0	8.1	7.7
Total deposits/total liabilities (%).....	79.4	70.6	75.2	75.5	81.2	82.8
<b>JSC “Bank CenterCredit”</b>						
Tier 1 capital ratio (%) .....	9.9	10.2	12.7	13.3	10.0	9.7
Total capital adequacy ratio (%).....	14.1	15.0	16.6	21.4	17.0	16.1
Total assets .....	1,101	1,440	1,359	1,330	1,517	1,496

NPL ratio (%).....	12.0	14.2	7.8	7.9	6.4	6.4
Total deposits/total liabilities (%).....	75.2	74.2	81.0	78.6	74.6	69.1

Source: NBK

The Kazakhstani banking system has yet to recover fully from the most acute stage of the global financial crisis and remains under stress.

Since the onset of the global financial crisis, the Kazakhstani banking sector has experienced considerable asset quality deterioration, but has since started to recover. NPLs (loans overdue by more than 90 days) in the banking sector increased from 5.1% as at 31 December 2008 to 21.2% as at 31 December 2009 and 31.2% as at 1 January 2014, but have since started the downward trend decreasing to 23.5% as at 1 January 2015, 8.0% as at 1 January 2016 and 6.7% as at 1 January 2017, then rising again to 9.3% as at 1 January 2018, but decreasing to 7.4% as at 1 January 2019. The total amount of NPLs in the banking sector was KZT 1,280.2 billion as at 1 July 2019, or 9.4% of all loans, as compared to KZT 1,016.3 billion as at 1 January 2019 and KZT 1265.2 billion as at 1 January 2018.

As at 30 June 2019, Halyk Bank, JSC SB Sberbank and JSC ForteBank had the highest amount of NPLs, accounting for 28.4%, 8.1% and 3.8% of the NPLs of the entire banking sector. See “—*Effects of Global Financial Crisis and Anti-Crisis Measures*” below.

A further reduction in the share of NPLs is one of the strategic objectives of the NBK with regard to the banking system. The NBK is currently implementing a series of measures aimed at introduction of efficient tools for reducing distressed assets and creating a functional infrastructure for the market for distressed assets. See “—*Banking Supervision and Regulation—Fund for Problem Loans*”.

Total assets of the banking sector were KZT 25,350.1 billion as at 1 July 2019, as compared to KZT 25,244.0 billion as at 1 January 2019, KZT 24,157.9 billion as at 1 January 2018, KZT 25,556.8 billion as at 1 January 2017, KZT 23,780.3 billion as at 1 January 2016 and KZT 18,239.0 as at 1 January 2015.

As at 1 July 2019, the distribution of the aggregate loan portfolio of Kazakhstan’s commercial banking sector, by type of borrower, was corporate loans (27.7%), retail loans (40.5%) and loans to (domestic) SME (29.5%).

Total liabilities of the banking sector were KZT 22,221.6 billion as at 1 July 2019, as compared to KZT 22,222.3 billion as at 1 January 2019, KZT 21,128.2 billion as at 1 January 2018, KZT 22,716.2 billion as at 1 January 2017, KZT 21,290.2 billion as at 1 January 2016 and KZT 15,873 billion as at 1 January 2015. Following the devaluation of the Tenge in February 2014, there was an outflow of retail deposits from the banking sector of approximately KZT 250 billion, which was addressed by various measures taken by the banks involved and the NBK. Approximately 40% of the deposits that had been withdrawn were returned to the banking sector within two months. There have been no deposit outflows on a similar scale since that time.

The total capital of commercial banks in Kazakhstan increased to KZT 3,128.3 billion as at 1 July 2019 from KZT 3,021.7 billion as at 1 January 2019, KZT 3,029.7 billion as at 1 January 2018, KZT 2,840.6 billion as at 1 January 2017, KZT 2,490.1 billion as at 1 January 2016 and KZT 2,365.7 billion as at 1 January 2015. The total capital adequacy ratio of commercial banks in Kazakhstan was 22.5% as at 1 July 2019 as compared to 21.9% as at 1 January 2019, 21.8% as at 1 January 2018, 16.4% as at 1 January 2017, 15.9% as at 1 January 2016 and 17.3% as at 1 January 2015. The total capital of commercial banks in Kazakhstan may not be sufficient to cover losses resulting from a deterioration in asset quality or the effect on their balance sheets and risk weighted capital arising from currency movements.

## Financial Performance of the Banking Sector

The following table sets out aggregate profit and loss statement information and key related ratios on the Kazakhstan banking system (including restructured banks) for the years or periods indicated:

	Year ended 31 December					Period from 1 January to 30 June
	2014 <sup>(1)</sup>	2015	2016	2017	2018	2019
<i>(KZT billions, except ratios)</i>						
Interest income .....	1,518.6	1,685.8	2,165.7	2,338.5	2,090.7	1,072.9
Interest expense .....	753.1	823.7	1,184.4	1,296.1	1,109.0	540.3
<b>Net interest income .....</b>	<b>765.5</b>	<b>862.1</b>	<b>981.3</b>	<b>1,042.4</b>	<b>981.7</b>	<b>532.6</b>
Non-interest income .....	7,965.8	25,619.0	41,161.5	28,792.6	30,687.0	10,882.4
Non-interest expense .....	8,388.3	26,165.2	41,665.1	29,796.8	30,897.9	11,625.8
<b>Net non-interest income/(expense) .....</b>	<b>(422.5)</b>	<b>(546.2)</b>	<b>(503.6)</b>	<b>(1,004.2)</b>	<b>(210.9)</b>	<b>(203.0)</b>
<b>Pre-tax profit/(loss) .....</b>	<b>343.0</b>	<b>315.9</b>	<b>477.7</b>	<b>38.2</b>	<b>770.9</b>	<b>329.6</b>
Income tax expense .....	57.4	93.3	80.1	99.4	128.5	117.9
<b>Net income/(loss) after income tax .....</b>	<b>285.7</b>	<b>222.6</b>	<b>397.6</b>	<b>(62.3)</b>	<b>642.4</b>	<b>211.6</b>
Key ratios						
Return on assets (%) <sup>(2)</sup> .....	1.6	0.9	1.6	(0.3)	2.5	0.8
Return on total capital (%) <sup>(3)</sup> .....	12.1	8.9	14.0	(2.1)	21.3	6.8
Net interest margin (%) .....	5.4	5.5	4.8	5.1	5.1	5.1

Source: NBK

Notes:

- (1) Excluding restructured banks (BTA Bank, Alliance Bank and Temirbank).
- (2) Net income/(loss) after income tax for the period divided by total assets at period end.
- (3) Net income/(loss) after income tax for the period divided by total capital at period end.

Net income after tax for the banking sector amounted to KZT 211.6 billion for the first six months of 2019, KZT 642.4 billion for 2018, KZT 397.6 billion for 2016, KZT 222.6 billion for 2015 and KZT 285.7 billion for 2014. For 2017, the net loss after tax of the banking sector amounted to KZT 62.3 billion. Despite the improvement in profitability, banks' margins are under pressure as funding costs have increased.

### Effects of Global Financial Crisis and Anti-Crisis Measures

Kazakhstan's banking sector was adversely affected by the global financial crisis. Between 2000 and 2007, while the economy was experiencing rapid growth, banks in Kazakhstan incurred high levels of foreign debt in order to fund a rapid expansion of credit, largely concentrated in the construction and real estate sectors. Following the onset of the global financial crisis which began in 2008, credit growth stopped due to the lack of availability of wholesale debt financing, deposits became volatile and property prices significantly decreased. Oil prices significantly declined as well, which had an adverse impact on the Kazakhstan economy. These factors caused significant losses for Kazakhstan banks and a general destabilisation of Kazakhstan's banking sector.

In response to the pressure faced by major banks in 2008 and 2009, new banking legislation related to financial stability and to allow consensual bank restructurings was introduced. See "*Banking Supervision and Regulation*" below.

In 2009, following the discovery of substantial fraud by the former management of BTA Bank and Alliance Bank, such banks were effectively nationalised by the Government. Both BTA Bank and Alliance Bank defaulted on their debt in April 2009 and were subsequently restructured under new legislation following an effective nationalisation of BTA Bank and a major recapitalisation of Alliance Bank, following which both banks were controlled by Samruk Kazyna. Each of the two banks then underwent two restructurings of their respective debts. Temirbank also went through a consensual restructuring with its creditors in 2010, the result of which was that Samruk Kazyna became its controlling shareholder.



The first restructuring of BTA Bank was completed in August 2010, cancelling approximately U.S.\$8.6 billion of BTA Bank's financial indebtedness. In 2012, BTA Bank underwent a second restructuring, in which its financial indebtedness was reduced from U.S.\$11.1 billion to U.S.\$3.3 billion, and its average maturity was extended from three to 12 years. The second restructuring was completed in February 2013. Following this restructuring, Samruk Kazyna owned a 97.26% equity holding in BTA Bank.

The first restructuring of Alliance Bank was completed in April 2010, restructuring and/or cancelling over U.S.\$2.7 billion of financial indebtedness. Alliance Bank completed a second restructuring in January 2015, which involved restructuring approximately U.S.\$1.3 billion of its indebtedness. Pursuant to the terms of the second restructuring, ForteBank (formerly Alliance Bank, re-registered as ForteBank on 10 February 2015) underwent a further reorganisation by means of consolidation (*prisoedinenie*) with Temirbank and ABC Bank (formerly ForteBank) that was completed in December 2016.

In May 2009, JSC Astana Finance defaulted and announced a moratorium on the repayment of its debt. The restructuring of JSC Astana Finance was approved by its creditors on 29 June 2012. JSC Astana Finance completed its restructuring in 2015.

The Government's accumulated capital injections into the Kazakhstan banking sector are estimated to have been the equivalent of 6.4% of Kazakhstan's GDP in 2009, compared, for example, to the United Kingdom and the U.S. where, according to the IMF, capital injections into their banking sectors representing 3.9% and 2.2% of 2009 GDP, respectively, were made.

In 2014, President Nazarbayev instructed Samruk Kazyna to sell its stakes in Kazakhstan's commercial banks so as to withdraw the State from the commercial banking sector. Samruk Kazyna has since sold all of its shares (a 79.90% stake) in Temirbank and part of its shares (a 16.00% stake) in Alliance Bank to Mr Bulat Utemuratov. In January 2015, the restructuring of Alliance Bank was completed and after this Samruk Kazyna sold the remaining shares of Alliance Bank to Mr Bulat Utemuratov. Alliance Bank (re-registered as ForteBank on 10 February 2015) then merged with Temirbank and ABC Bank (formerly ForteBank) and the merged bank retained the name of ForteBank. As at 31 December 2018, Mr Bulat Utemuratov was a holder of 88.47% of the common shares in ForteBank. In 2014, Samruk Kazyna sold a 97.26% stake in BTA Bank to Kazkommertsbank (46.50%) and Mr K. Rakishev (46.50%) and placed its remaining shares (4.26%) in trust under the control of Kazkommertsbank. Later that year, BTA Bank and Kazkommertsbank merged.

The NBK expects to continue to increase and enhance the competitiveness of the banking sector by encouraging further consolidation of banks, the aim being to develop a group of strong banks with desired robust level of capital reserves. It is expected that the group of medium-sized banks will consist of 15 to 20 banks with both local and foreign shareholders.

### ***Foreign Capital in the Banking Sector***

The liberalisation of the Kazakhstan economy in recent years has resulted in a number of foreign companies, including banks, establishing operations in Kazakhstan through direct investment or by participating in the banking and financial services sector. Currently, foreign banks are prohibited from opening branches in Kazakhstan. Accordingly, foreign banks must establish a Kazakhstan subsidiary or joint venture in order to provide banking services in Kazakhstan.

A number of foreign banks have opened representative offices in Kazakhstan, including Bank of TokyoMitsubishi UFJ Ltd, Commerzbank AG, Deutsche Bank AG, ING Bank N.V., JP Morgan Chase Bank, N.A., Landesbank Berlin AG, Société Générale, Standard Chartered Bank and UBS AG. In addition, as at 1 July 2019, there were 14 banks operating in Kazakhstan with foreign shareholders, including VTB Bank (Kazakhstan), Sberbank and Citibank Kazakhstan. Under the relevant legislation, a bank with foreign holding is defined as being a bank with more than one-third foreign ownership. Banks with less than one-third, direct or indirect, foreign ownership are considered to be domestic banks. As at 1 July 2019, the total assets of four Russian banks operating in Kazakhstan (Sberbank, Alfa Bank, VTB Bank (Kazakhstan) and Bank Home Credit) represented KZT 3.0 trillion or 12% of the total assets of the Kazakhstan banking sector.

Throughout 2014 to 2019, certain foreign banks exited the Kazakhstan banking market. On 3 December 2014, Halyk Bank publicly announced that it had completed the acquisition of the entire issued share capital of HSBC Bank Kazakhstan and HSBC Bank Kazakhstan was renamed as JSC "Altyn Bank" (Subsidiary Bank JSC "Halyk Bank"). In June 2015, RBS Kazakhstan's operations in Kazakhstan were acquired by Capital Bank. As

at 1 January 2016, non-resident banking holding Bank Pozitif Kredi ve Kalkinma Bankasi A.S. (Turkey), which had previously owned 100% of issued shares (other than preferred and treasury shares) in JSC BankPositive Kazakhstan (“**BankPositive**”), had ceased to be a shareholder of BankPositive. On 1 July 2016, Mr. Igor Kim (Russia) (“**Mr Kim**”) purchased 100% of the shares in JSC DB RBS (Kazakhstan). As at 1 May 2017, non-resident banking holding Kookmin Bank Co., Ltd. (South Korea), which had previously owned 29.6% of issued shares (other than preferred and treasury shares) in JSC Bank CentreCredit (“**CentreCredit**”), had ceased to be CentreCredit’s shareholder. As at 1 May 2018, Mr Kim, who had previously owned 90% of issued shares (other than preferred and bought out shares) in JSC Bank ExpoCredit (“**ExpoCredit**”), ceased to be ExpoCredit’s shareholder. As at 1 May 2018, non-resident banking holding China Citic Bank Corporation Limited (China) had purchased 50.1% of common shares in JSC Altyn Bank.

## ***Banking Supervision and Regulation***

### *Banking Sector Reforms*

The Government, the NBK and the FMSA have undertaken significant structural reforms in the banking sector, aimed at promoting consolidation in the banking sector and improving the overall stability of the system.

Reform of the banking sector in Kazakhstan started in 1995 with the introduction of international prudential standards, including capital adequacy requirements and liquidity ratios to regulate and protect the banking system, transparency requirements as to the auditing of banks by local and international auditors, harmonisation of local accounting practices with IFRS and personnel training programmes. In addition, to strengthen the banking industry, promote stability and move towards internationally accepted practices, the NBK required commercial banks to adopt recapitalisation and corporate enhancement plans with the aim of enhancing their ability to attract long-term, private investors. In 2000, guidelines were established for bank inspections and for periodic reporting by commercial banks to the NBK, and then to the FMSA. In 2003, all banks were required to develop and install internal risk management systems. The objective of these reforms was to bring supervisory practices closer to international standards to allow for a more transparent view of banks’ levels of capitalisation and exposure to financial risks. As a result of the global financial crisis and its adverse effects on the Kazakhstan banking sector, significant financial stability and restructuring reforms were introduced in 2008 and 2009.

In 2014, the NBK took steps to support the recovery of distressed assets of banks by increasing the efficiency and simplifying the current mechanisms of distressed bank asset management as part of ensuring the stability of the financial sector. Restrictions on banks issuing unsecured consumer loans have been established and capital requirements in respect of consumer lending have been increased. Since 2015, new requirements to calculate capital adequacy have been adopted in accordance with the Basel III recommendation.

The NBK has developed and adopted the Programme for the Improvement of Financial Stability of the Banking Sector. The NBK aims to improve financial stability by means of raising requirements on operational control and risk-oriented supervision. In this respect, in 2018, considerable legislative changes were introduced into the banking regulation. These changes establish enhanced supervision measures in relation to banks’ net capital, corporate governance, internal risk management system, quality of assets, liquidity and liabilities structure. The changes also stipulate additional grounds for supervision and criminal liability for management of banks. The NBK is now authorised to use its “justified judgement” in respect of the banks’ transactions with their affiliates and certain other areas of regulation.

In addition, the NBK has recently initiated an independent asset quality review of the 14 largest banks in the country, which have approximately 87% of banking sector assets. This asset quality review will help to determine the need for capital for participating banks, assess the quality of their loan portfolios and analyse their lending practices. The current plan is to complete the assessment by December 2019. According to the results, the NBK is expected to devise an action plan to adopt corrective measures.

### *Capital Adequacy*

The NBK monitors compliance with capital adequacy standards (in compliance with international standards set by the Basel Committee), current liquidity ratios, maximum credit exposures to single borrowers and related parties, maximum investments in fixed and other non-financial assets and limits on contingent obligations and foreign exchange positions.

The FMSA (then performing the functions that are now performed by the NBK) refined its capital adequacy and credit exposure standards in September 2005, when it set limits and rules for calculating capital adequacy, single party exposure, liquidity ratios and open currency positions. In November 2005, the regulations regarding regulatory capital and risk management came into effect in Kazakhstan. These regulations represented a substantial step towards the implementation of the Basel Accord. In particular, these regulations introduced the concepts of hybrid capital eligible to be included in Tier I and Tier II capital, Tier III capital (qualified subordinated debt) and operational and market risks and included rules for calculating risk with respect to derivatives. In February 2007, to reduce the risks associated with rapid growth in the external debt of Kazakhstani banks, the FMSA introduced amendments to the capital adequacy regulations that imposed limits on levels of foreign borrowings or “external liabilities”, which a bank can incur, as a multiple of such bank’s equity capital as calculated both including and excluding debt securities issued. These amendments mean that banks are not permitted to increase borrowings from non-domestic holders (subject to certain exceptions) to a level in excess of certain multiples of regulatory capital.

From 1 January 2015, new requirements for the calculation of banks’ capital adequacy, Basel III, were introduced. These requirements are aimed at ensuring the stability of the banking sector, achieving more balanced and less risky banking activities and increasing competitiveness on the regional and international markets. The Basel III standards improve the ability of banks to absorb shocks arising out of financial and economic stresses.

The Basel III standards provide for proportional distribution over the capital of banks in time: the norms in the first phase decreased (the general level of capital was reduced from 12% to 7.5%) and then gradually increased until 2017 (the Tier 1 capital from 6% to 6.5%, and the general level of capital from 7.5% to 8%). In addition, the introduction of new capital buffers (conservation, countercyclical and systemic) aimed at strengthening the regulatory policy by macro-prudential oversight. Capital buffers should be formed at the expense of core capital (common shares and retained net income of the bank). A bank’s failure to comply with the requirements to maintain the required level of capital buffers does not result in imposition of sanctions on that bank, but instead imposes restrictions on the use of revenues.

Conservation buffers are created by banks in order to ensure that they build up capital buffers outside periods of stress, which can then be drawn on as and when losses are incurred (a gradual increase in 2015 from 2.5% to 3% in 2017 for ‘systemic’ banks, and from 1% to 2% for other banks). Countercyclical buffers were introduced and this will require banks to create a capital buffer in periods of high growth (date of introduction shall be not less than 12 months before the start date for calculating the buffer, the amount is from 0% to 3%). Systemic buffers shall be required for so called ‘systemic’ banks (created from common shares and retained income) in order to avoid any destabilisation of such banks that could have a serious negative impact on the financial system or the economy (from 1 January 2017, in the amount of 1%). Also, these new measures provide for gradual amortisation from 2016 to 2020 of financial instruments, which are included in capital but do not meet the criteria established under Basel III.

On 6 May 2014, the NBK amended the prudential ratios that are applicable to all commercial banks. As a result of the amendments, the minimum charter capital for a newly founded bank, as well as the net equity amount for an existing bank performing general banking operations, gradually increased to KZT 30 billion from 1 January 2016; to KZT 50 billion from 1 January 2017; to KZT 75 billion from 1 January 2018; and to KZT 100 billion from 1 January 2019. From 1 January 2016, the minimum amount of net equity capital for a bank that performs only limited banking operations is KZT 10 billion.

#### *Fund for Problem Loans*

To address the poor quality of the loan portfolios of banks in Kazakhstan, the NBK has introduced a set of special policy measures, including the establishment of a Fund for Problem Loans in 2012. In October 2014, the President adopted a decree providing for the transfer of KZT 250 billion from the National Fund to the State Budget in order to capitalise the Fund for Problem Loans. In 2017, the Government contributed KZT 2,093 billion to the Fund for Problem Loans.

The Fund for Problem Loans, which, until 2017, was fully owned by the NBK and, since 2017, is owned by the Government, is focused on buying NPLs, excluding real estate and consumer loans, from banks and managing such assets. The latter refers to the development and further implementation of solutions regarding bad debtors (*i.e.*, restructuring their obligations and/or the sale of collateral and the sharing of specific risk-sharing mechanisms between the Fund and banks).

In accordance with the measures approved by the NBK and the Government to improve the financial sustainability of Tsesnabank JSC, the Fund for Problem Loans acquired from Tsesnabank JSC a portfolio of agricultural loans in the amount of KZT 604 billion in February 2019. This was the second purchase of impaired loans from Tsesnabank JSC by the Fund for Problem Loans in less than six months, following a similar, but smaller purchase in September 2018. As a result, it became possible to attract a new investor to the bank's capital. As part of the agreements reached, First Heartland Securities JSC acquired a controlling stake in Tsesnabank JSC.

In addition to the Fund, NPLs can also be transferred by banks to their own subsidiaries or special purpose vehicles which are authorised to manage, sell, restructure and securitise problematic assets. The foregoing mechanisms are supplemented by special terms and conditions for bad debt remission without additional tax liabilities for banks. In addition, since 2013, the NBK has enforced special regulatory thresholds on NPLs to stimulate the process of loan quality improvement by banks. According to these thresholds, as at January 2015, the level of NPLs should not exceed 15%. From January 2016, a new prudential regulation has been introduced, setting the threshold governing the level of NPLs to 10%.

#### *Deposit Guarantee Scheme*

In December 1999, a self-funded domestic deposit guarantee scheme was established. All banks, which hold deposits and current accounts on behalf of individuals, participate in the scheme on obligatory guaranteeing of deposits, except for Islamic banks (currently, JSC "Islamic bank "Al Hilal" and JSC "Islamic Bank "Zaman Bank"). As at 30 June 2019, 26 banks were participating in the scheme.

From May 2015, in respect of Tenge-denominated retail (individuals') deposits and current accounts, the guarantee coverage was increased from KZT 5 million to KZT 10 million per customer. In 2018, a new type of deposit – saving deposit – was introduced. Guarantee coverage of Tenge-denominated saving deposits is KZT 15 million. With respect to retail (individuals') foreign currency deposits and foreign currency current accounts, the guarantee coverage is limited to a maximum amount per customer of KZT 5 million at each participating bank. In a case where a customer has several deposits (of any type or denominated in different currencies) held at a participating bank, such customer's guarantee coverage will be limited to a maximum of KZT 15 million in respect of all the deposits at that particular participating bank. Any claim under the guarantee scheme will be fulfilled by the JSC Kazakhstan Deposit Insurance Fund. Only banks participating in the deposit guarantee scheme are authorised to hold accounts and take deposits from private individuals.

#### *Financial Stability Law*

On 23 October 2008, Law No. 72-IV of the Republic of Kazakhstan on Amendments and Additions to some Legislative Acts of the Republic of Kazakhstan on Financial System Stability (the "**Financial System Stability Law**") was adopted. Under the Financial System Stability Law, in the event of a breach by a bank of capital adequacy or liquidity ratios or two or more breaches by a bank in any 12 month period of any other prudential or other mandatory requirements, the Government may, with the agreement of the NBK, acquire, either directly or through a national management holding company (which are currently Samruk Kazyna, KazAgro and Baiterek) (the "**National Management Holding Company**"), the authorised shares of any bank in Kazakhstan to the extent necessary (but not less than 10% of the total amount of issued and outstanding shares of such bank, including those to be acquired by the Government or the National Management Holding Company) to improve such bank's financial condition and ensure compliance with prudential or other mandatory requirements. The Financial System Stability Law provides that the management and shareholders of an affected bank do not have the right to approve or disapprove any such acquisition, and any shares issued as part of any such acquisition may be issued without granting pre-emptive rights to existing shareholders. Following such an acquisition, the state body authorised to manage state property or the National Management Holding Company is authorised to appoint no more than 30% of the members of the board of directors and the management board of the affected bank. The Government or the National Management Holding Company must sell the acquired shares within one year of their acquisition to a third party investor or investors by way of direct sale or through the stock exchange. However, this term may be extended if the financial condition of the bank shows no sign of improvement.

The main objectives of the Financial System Stability Law were to improve early detection mechanisms for risks in the financial system, provide powers to the Government to acquire shares in commercial banks that face financial problems and improve the overall condition of financial institutions in Kazakhstan. The law also

consolidates authority to oversee Kazakhstan commercial banks and provides additional mechanisms for supervising commitments made by banks and other financial institutions.

### *Restructuring Law*

In response to the pressures faced by major banks in Kazakhstan in 2008 and 2009 following the onset of the global financial crisis, in July 2009, Kazakhstan's Parliament adopted Law No. 185-IV (the "**Restructuring Law**"), which introduced a procedure for restructuring the financial indebtedness of a bank by enabling consensual financial restructurings approved by a majority of creditors and revising the existing framework for good bank/bad bank reorganisations. Prior to the adoption of this law, there was no law in Kazakhstan which allowed for the claims of creditors to be restructured on a basis involving less than 100% consent of the affected creditors. Accordingly, creditors who did not wish to participate in a restructuring had the ability to offset their claims against a bank's assets or bring litigation in any jurisdiction where such assets were located. A second key feature of the Restructuring Law was the amendment to the existing legislative framework allowing for the segregation of the "good" assets from the liabilities of a distressed bank and the transfer of them to another bank (or several banks) or to a specialised stabilisation bank. As at the date of this Base Prospectus, the Restructuring Law has been applied in the restructurings of Alliance Bank, BTA Bank (as referred to above) and Temirbank.

### *Anti-Money Laundering Regulation*

The NBK exercises control over financial institutions' compliance with the relevant anti-money laundering and anti-terrorist financing legislation. In August 2009, the Parliament adopted the Law "On Anti-money Laundering and Combating Financing of Terrorism" (the "**AML Law**"), which came into effect in March 2010 and which identifies various types of transactions subject to financial monitoring, such as exchanges or withdrawals of large sums of cash, large insurance payments and major securities or real estate transactions and establishes thresholds for each of them. Banks, pension funds, insurance and reinsurance companies and certain other financial institutions and individuals are obliged to monitor any such transaction entered into by their clients by conducting diligence as outlined in the AML Law with respect both to the clients and their transactions. In case it is not possible to conduct such diligence, the financial institution cannot establish relations with such clients and a transaction cannot be performed. The AML Law also requires any suspicious transaction to be reported to an authorised state body. Furthermore, in line with the AML Law, the Law "On Banks and Banking Activity" dated 31 August 1995 was amended in 2009 to provide for the possible suspension or revocation of a bank's licence for money-laundering violations.

### **Foreign Exchange Regulations**

In 1996, Kazakhstan accepted the conditions of Article VIII of the IMF Articles of Agreement. The Law "On Foreign Exchange Regulation and Foreign Exchange Control", which was implemented in 1996, defined the list of current currency operations which could be accomplished without restrictions. Particularly, while operations which assumed capital outflow required licensing, registration of capital inflow operations was conducted solely for statistical purposes and was not considered to be a restrictive measure.

By 2002, there was a necessity to develop new approaches for currency liberalisation of the currency exchange regime, which would lead to removal of certain restrictions on conducting currency operations, use of new methods of regulation of currency operations in accordance with demands of time and international experience. As a result, in 2002, the NBK established the concept of foreign exchange regime liberalisation in Kazakhstan, which envisaged step-by-step liberalisation of foreign exchange regime, complete removal of currency restrictions on capital flows and a transition to the full convertibility of the Tenge on current and capital operations by 2007. In accordance with the Foreign Exchange Control Law, further liberalisation of foreign exchange regime was conducted in June 2005. As a result, by 2007, legislative restrictions on the convertibility of the Tenge on current and capital operations were removed, conditions for transition to full convertibility of the Tenge were created. In 2018, new Law "On Foreign Exchange Regulation and Foreign Exchange Control" was introduced. The principal changes in the new law were the acknowledgement of branches of foreign non-financial organisations engaged in business activities in the Republic of Kazakhstan through permanent offices (except those on the specifically established list of non-residents, who have contracts with the Government of Kazakhstan entered into prior to 1 July 2019) as residents of Kazakhstan; clarification of rules for foreign currency circulation in Kazakhstan; registration instead of registration and notification regimes; definition of foreign exchange domestic market; identification of foreign exchange transactions potentially aimed at transferring funds out of Kazakhstan and optimisation of the reports collection from banks on foreign exchange transactions (notification of foreign exchange transactions).

The present foreign exchange regime of Kazakhstan does not contain limitations on capital movement or on commercial activities in the country. Currently, the goal of foreign exchange regulation in Kazakhstan is to support the State policy of accomplishing sustainable economic growth and ensuring economic security of the country. Specifically, the main objective of foreign exchange regulation is maintenance of a database on currency operations and capital flows. From 1 July 2019, there is a single procedure for registering of contracts on capital movements and accounts in foreign banks. When making a payment and/or transferring money under a contract, to which the requirement of obtaining an account number applies, or using an account in a foreign bank, to which an account number is assigned, an authorised bank (its branch) checks the availability of details in the payment document of contract and its account number. Requirement of registration apply to contracts for the capital movement transactions, in which residents are involved (except authorised banks and branches (representative offices) of foreign organisations). Information and data on transactions that are subject for financial monitoring are provided by subjects of financial monitoring to the authorised body responsible for financial monitoring.

In order to ensure the supply of currency on the internal currency market, the foreign exchange legislation of Kazakhstan envisages a requirement for currency repatriation. According to applicable legislation, the time period for currency repatriation is determined solely by the conditions of an external economic contract. There are no limitations on conducting export or import transactions after the repatriation period. The currency repatriation requirement applies only to residents of Kazakhstan (corporate entities and entrepreneurs).

Due to existing risks of external shocks, the Foreign Exchange Control Law envisages a mechanism for the timely reaction to a threat to the economic security of Kazakhstan and the stability of its financial system. In particular, if a problem cannot be resolved by other measures of economic policy, the law envisages the possibility of a temporary (no more than one year) implementation of particular foreign exchange limitations in the framework of a special currency regime, which may be introduced only by the President of Kazakhstan after consultation with the Government and the NBK. To date, Kazakhstan has not applied the special currency regime.

In March 2019, the NBK amended the Rules on Foreign Exchange Operations in Kazakhstan. Pursuant to these amendments, banks in Kazakhstan shall notify the NBK about all transactions, in which the transaction amount exceeds US\$50,000 for the purpose of building a complete information base for all major foreign exchange transactions and capital flows.

## **Foreign Exchange Market**

The largest share of transactions on the currency spot market occurs at KASE. The NBK buys and sells currencies when it acts to influence exchange rates. The major currency traded is the U.S. dollar, with a trading volume of KZT 47 trillion in 2018, accounting for approximately 99.8% of total turnover (including currency swap operations). The second most frequently traded currency is the Russian rouble, with a trading volume of KZT 59.2 billion in 2018, which accounted for 0.13% of total turnover (including currency swap operations).

## **Capital Markets**

### ***KASE***

The principal stock exchange in Kazakhstan, KASE is a commercial organisation. It is located in Almaty and was founded in 1993 as the Kazakhstan Interbank Currency Exchange. The KASE is a universal financial market, which can be conditionally divided into five major sectors: foreign exchange market, government securities market (including bonds of international finance institutions), equity and corporate bonds market, repo transactions market and derivatives market. Presently, the securities traded on the KASE include NBK notes, corporate securities issued by Kazakhstani entities and municipal bonds. In 2018, the total volume of trades on the KASE was U.S.\$372,109.5 million. Of this total volume, the foreign exchange market accounted for U.S.\$39,065 million, money market (including currency swap transactions) accounted for U.S.\$319,180.3 million, trading in government securities accounted for U.S.\$4,722.3 million, trading in non-government securities accounted for U.S.\$8,273.9 million and trading in derivatives accounted for U.S.\$868 million.

Since 1 June 2017, KASE has operated three platforms: "Primary" platform for securities of large companies, "Alternative" platform for securities of medium and small companies and "Mixed" platform for less widespread and specialist securities (such as derivatives, units in investment funds and government securities). In April 2018, the KASE launched "Startup" platform, aimed at establishing links between start-up companies and

investors. Transactions within the financing of start-up companies by investors will be carried out both with the use of the trade infrastructure of KASE and directly between the parties.

During the first half of 2019, the volume of trades on the KASE was KZT 62,303.4 billion (U.S.\$164,399.9 million). Of this total volume, the foreign exchange market accounted for KZT 5,680.4 billion (U.S.\$14,975.9 million), money market (including currency swap transactions) accounted for KZT 53,526.9 billion (U.S.\$141,274.5 million), trading in government securities accounted for KZT 1,106.6 billion (U.S.\$2,917 million) and trading in non-government securities accounted for KZT 1,989.5 billion (U.S.\$5,232.5 million).

On October 1, 2018, the KASE began operating as a central counterparty in the foreign exchange market, which corresponds to world practice. The KASE also provides insurance coverage of such transactions. The establishment of the central counterparty helps to improve credit risk management seeking to ensure stability in the market and also increasing its attractiveness for foreign participants. Currently, the KASE is in the process of implementing rules for becoming the central counterparty in the internal securities market.

The KASE has implemented a number of projects aimed at attracting investors and increasing market liquidity. These include the establishment of a deferred settlement cycle (T+2) for transactions in securities, partial prepayment and a risk management system. The new settlement scheme provides market participants with additional opportunities for effective management of assets/liquidity between the trading day and the settlement day; utilise clearing and settlement systems that adhere to international best practice; and reduce the volume of settlement transactions and delivery instructions. KASE has already introduced new requirements for broker-dealers who offer direct market access (“DMA”) services to their clients and new requirements regarding DMA systems used for these services. The DMA project allows DMA clients to avoid the risks involved in using intermediary services, which may be unreliable.

#### *Astana International Financial Centre (AIFC)*

On 19 May 2015, President Nazarbayev adopted a decree on the establishment of the AIFC as an important component of country-wide economic and institutional reform playing a key role at enhancing economic growth. The AIFC was established the following year. The establishment of the AIFC and the related legal framework was aimed at improving conditions for investors including having dealings between participants of the AIFC governed by English law, use of the English language in the AIFC, having the AIFC meet standards of leading world financial centres and the establishment of a court (with participation of common law judges) for settlement of disputes, including investment disputes. The AIFC is now a full-fledged financial centre with its own legal and regulatory framework. The AIFC operates within a special legal regime based on common law, which regulates the legal relationships between AIFC participants and third parties and is aimed at the development of the financial market. The Constitutional Law of the Republic of Kazakhstan “On the Astana International Financial Centre” of 7 December 2015 (the “**AIFC Framework Law**”), lies at the core of the AIFC legal framework. The institutional framework established under the AIFC Framework Law includes the AIFC Management Council, the AIFC Authority, the Astana Financial Services Authority, the AIFC Court and the International Arbitration Centre, the Bureau for Continuing Professional Development, the Expat Centre and the FinTech Hub.

Under the AIFC Framework Law, AIFC’s participants are exempt from corporate income tax on income received in the territory of the AIFC for 50 years. Profits realized from the capital gain and dividends on the securities in the official list of the AIX are exempt from income tax. The AIFC Framework Law also provides for simplified visa and labour regimes for the AIFC entities and participants.

The aims of the AIFC include (i) becoming one of the main financial centres for countries in Central Asia, the Caucasus, the EEU and the Middle East; (ii) developing a specialisation in financial matters combined with a deep regional expertise in asset management (including private banking) and Islamic finance; and (iii) engaging highly qualified finance professionals to live and work in Nursultan. Pursuant to the Development Strategy adopted by the AIFC Management Council in May 2016, the AIFC focuses on enhancing economic growth primarily in the capital markets, asset management, financial technology, Islamic finance, private banking and green finance. The newly built high-tech and innovative platform of the Astana International Exchange (the “**AIX**”) allows trading in government and corporate securities, commodities, derivative financial instruments, funds, Islamic securities and green finance products. Among other things, the AIX is intended to participate in Kazakhstan’s large-scaled privatisation programme.

The plan for establishing the AIFC foresees that, by 2025, the overall cumulative direct and indirect contribution of the AIFC to Kazakhstan's GDP would be approximately U.S.\$40 billion. Out of these U.S.\$40 billion, U.S.\$12.1 billion would be as a result of a direct contribution to GDP and approximately U.S.\$8 billion of GDP contribution would result from servicing foreign clients. Additional indirect contribution to GDP is expected to come from the acceleration of the growth of the real economy, which would benefit from increased access to financing and capital. The AIFC is also expected to result in the creation of jobs for 2,000 professionals. There can be no assurance that such objectives in fact will be achieved.

In July 2019, AIX and Nasdaq Dubai signed an agreement to establish a close operational relationship between the central securities depositories (“**CSDs**”) of both markets. Astana International Exchange Central Security Depository Ltd. is in the process of establishing a direct central securities depository link (“**CSD Link**”) with Nasdaq Dubai, the international financial exchange and clearing house in the Middle East. CSD link is an arrangement allowing a CSD to give its clients access to securities maintained in another CSD, without requiring the clients to be direct participants in the other CSD. Thus, CSD links are established with the objective to reduce trade barriers and to facilitate greater market integration. The arrangement is expected to provide market participants with the option to hold securities that are dual traded on both exchanges in their respective CSDs and to trade the securities on either market. This establishment of the CSD Link is expected to be completed by the fourth quarter of 2019.

The AIFC and the Ministry of Finance of the Republic of Kazakhstan jointly with Euroclear Bank are currently involved in the International Link project (“**I-Link**”). I-Link is an international multi-functional platform developed by Euroclear Bank. Since May 2018, the AIFC together with the Ministry of Finance of the Republic of Kazakhstan has been working on the implementation of the I-Link platform. At the moment, AIX CSD is a direct participant of the Euroclear system and has already successfully opened a custody account with Euroclear Bank. The I-Link project is expected to significantly simplify access to Kazakhstan's local-currency debt market to foreign investors. Such improved access by foreign investors could lower the country's borrowing costs and help to diversify its investor base.

### ***Regulation of the Securities Market***

The NBK is responsible for the state policy on the functioning of the domestic securities market (excluding the AIFC jurisdiction), the development of its infrastructure and the protection of rights and interests of investors. One of the NBK's functions is securities market regulation, control and supervision. The functions of the NBK in this regard include registration of securities issues, maintenance of a register of all securities issued and circulating in Kazakhstan, licensing of professional activities in the securities markets and overseeing compliance with Kazakhstan's securities law.

The Astana Financial Services Authority (the AFSA) is responsible for regulating and supervising capital markets in the AIFC, including securities market and market participants. In its regulatory and supervisory capacity, the AFSA is independent from the NBK or other Kazakhstan government authorities.

The self-regulatory organisation that was established in 1999, the Financial Institutions Association of Kazakhstan, also plays a role in the regulation of the securities market.

Starting from 1 January 2020, an independent authority for regulation and development of financial sector (Agency of the Republic of Kazakhstan for Regulation and Development of Financial Markets) will be created through the reorganisation of the NBK. For more information on the split of functions between this new agency and the NBK, see “—*The NBK*”.

### ***Pension Funds***

As at 1 July 2019, the total pension assets in Kazakhstan were KZT 9,992.3 billion. Since March 2014, all pension assets in Kazakhstan are held by the UAPF. See “*The Economy of Kazakhstan—Pensions and Pension Reform*”.

The growing demand of the pension funds for quality investment outlets has contributed to the rapid development of the Kazakhstani debt securities market. A substantial portion of pension fund capital is invested in corporate bonds and Kazakhstan Government Bonds. As at 1 July 2019, 40.3% of all pension assets were invested in domestic and international Government bonds, 13.7% were invested in domestic and international



bonds of quasi-public organisations of the Republic of Kazakhstan and 13.0% were invested in domestic and international corporate bonds.

The recent reform of the Kazakhstan pension system, whereby private pension funds have been replaced by the UAPF, is expected to have certain adverse effects on the development of the domestic capital markets because of the prominent role previously played by private pension funds in the domestic capital markets. The consolidation of pension accounts into the UAPF was completed in March 2014. See *“The Economy of Kazakhstan—Pensions and Pension Reform”*.

### ***Government Securities***

The market for KZT-denominated government securities comprises KZT-denominated Government Bonds, NBK notes and bonds issued by local government authorities. Secondary trading in NBK notes takes place on KASE and on the interbank market. As at 30 June 2019, the outstanding par value of all government KZT-denominated bonds was approximately KZT 9,959.6 billion (U.S.\$26,172.9 million, based on the 30 June 2019 official exchange rate), of which KZT 6,664.2 billion (U.S.\$17,513 million) were Government Bonds and KZT 3,295.4 billion (U.S.\$8,660.1 million) were NBK notes. See *“Public Debt—Internal Public Debt”*.

During January to June 2019, NBK notes were issued in the total amount of KZT 23,443 billion (U.S.\$61,605 million), with the maturities of 7 days (KZT 11,255 billion), 28 days (KZT 10,070 billion), 91 days (KZT 661.6 billion), 182 days (KZT 830 billion) and 364 days (KZT 625.6 billion). In 2018, KZT denominated Government Bonds were issued in a total amount of KZT 748.7 billion, which included KZT denominated Government Bonds with maturities of up to fifteen years in an amount of KZT 705.7 billion and maturities of over fifteen years in an amount of KZT 43 billion. In the six months ended 30 June 2018, KZT denominated Government Bonds were issued in a total amount of KZT 822.5 billion, which included KZT denominated Government Bonds with maturities of up to fifteen years in an amount of KZT 403.6 billion and maturities of over fifteen years in an amount of KZT 418.9 billion.

From October 15, 2018, in order to ensure more effective liquidity management, the NBK started to place its short-term notes under the T+2 system. Such system is in line with the international practice and is standard in transactions with securities in the global financial markets.

The implementation of settlement systems on deferred payments in the securities market helps to improve systems for forecasting the banking sector’s liquidity and creates prerequisites for increasing the foreign capital inflow as part of the international channel launched with Clearstream.

The NBK works on building an adequate yield curve. For this purpose, the NBK and the Ministry of Finance work on consolidation of issuance of Government securities on key maturities in order to create benchmark points for the yield curve.

Additionally, the NBK, together with the Ministry of Finance, is working to include Kazakhstan sovereign bonds in international emerging market indices. This is expected to increase the recognition of Government bonds of Kazakhstan among the global investment community, attract foreign portfolio investments and contribute to the further development of the local stock market.

## SUMMARY OF PROVISIONS RELATING TO NOTES IN GLOBAL FORM

### The Global Notes

Each Series of Notes will be issued in registered form and evidenced on issue by a Global Note.

Notes offered and sold outside the U.S. in reliance on Regulation S will be represented by interests in an Unrestricted Global Note which will be deposited on issue with a Common Depositary for Euroclear and/or Clearstream, Luxembourg and registered in the name of a nominee for a Common Depositary in respect of interests held through Euroclear and Clearstream, Luxembourg.

Notes offered and sold in reliance on Rule 144A will be represented by interests in a Restricted Global Note which, unless otherwise agreed, will be registered in the name of Cede & Co. as nominee for, and deposited with the Custodian for DTC, in respect of interests held through DTC.

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the amended and restated fiscal agency agreement dated 26 October 2018 relating to the Notes (as may be further amended or supplemented from time to time, the “**Fiscal Agency Agreement**”) and, with respect to a Restricted Global Note, as set forth in Rule 144A and the Restricted Notes will bear the legends set forth thereon regarding such restrictions set forth under “*Transfer Restrictions*”

Any beneficial interest in an Unrestricted Global Note that is transferred to a person who takes delivery in the form of an interest in a Restricted Global Note will, upon transfer, cease to be an interest in that Unrestricted Global Note and become an interest in the corresponding Restricted Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in that Restricted Global Note for as long as it remains such an interest. Any beneficial interest in a Restricted Global Note that is transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Note will, upon transfer, cease to be an interest in that Restricted Global Note and become an interest in that Unrestricted Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Unrestricted Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the “**Definitive Note Certificates**”). The Notes are not issuable in bearer form.

### Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effects of the Terms and Conditions of the Notes. The following is a summary of those provisions:

#### *Payments*

Payments of principal and interest in respect of Notes evidenced by a Global Note will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment (the “**Record Date**”), where “**Clearing System Business Day**” means Monday to Friday inclusive, except 25 December and 1 January.

#### *Notices*

So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of the Notes *provided however, that*, so long as the Notes are listed on a stock exchange and its rules so require, notices will also have to be filed in accordance with the rules of such stock exchange.

## *Meetings*

The holder of each Global Note will be treated as being one person for the purposes of any quorum requirements of, or have the right to demand a poll at, a meeting of Noteholders and, at any such meeting, as having one vote in respect of each 1,000 units of the currency in which the relevant Notes are denominated as comprise the principal amount of Notes for which the relevant Global Note may be exchangeable.

## *Purchase and Cancellation*

Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled following its purchase will be effected by reduction in the principal amount of the relevant Global Note.

## **Exchange for Definitive Note Certificates**

### *Exchange*

Notes initially represented by a Restricted Global Note are exchangeable in whole, but not in part, (free of charge to the Holder) for Restricted Definitive Note Certificates (i) if the Restricted Global Note is held by or on behalf of DTC and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Note or ceases to be a “clearing agency” registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC, by the Holder giving notice to the Registrar or a Paying and Transfer Agent, (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 12 (*Taxation*) which would not be suffered were the Notes in definitive form or (iii) an Event of Default occurs. The Issuer shall notify the Noteholders of the occurrence of any of the events specified above as soon as practicable thereafter.

Notes initially represented by an Unrestricted Global Note are exchangeable in whole, but not in part, (free of charge to the Holder) for Unrestricted Definitive Note Certificates (i) if the Unrestricted Global Note is held by or on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the Holder giving notice to the Registrar or a Paying and Transfer Agent, (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 12 (*Taxation*) which would not be suffered were the Notes in definitive form or (iii) an Event of Default occurs. The Issuer shall notify the Noteholders of the occurrence of any of the events specified above as soon as practicable thereafter.

On or after the Exchange Date, the holder of the relevant Global Note may surrender such Global Note to or to the order of the Registrar. In exchange for the relevant Global Note, as provided in the Fiscal Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Note Certificates in or substantially in the form set out in the relevant schedule to the Fiscal Agency Agreement.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Note Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

“**Exchange Date**” means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or a Paying and Transfer Agent is located.

### *Delivery of Definitive Note Certificates*

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Note Certificates and the Issuer will, at the cost of the Issuer (but against such indemnity and/or security as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with a written order containing instructions and such other information as the

Issuer and the Registrar may require to complete, execute and deliver such Notes and, in the case of a Restricted Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Definitive Note Certificates issued in exchange for a beneficial interest in a Restricted Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under “*Transfer Restrictions*”.

### ***Legends***

The holder of a Definitive Note Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Paying and Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Restricted Definitive Note Certificate bearing the legend referred to under “*Transfer Restrictions*”, or upon specific request for removal of the legend on a Restricted Definitive Note Certificate, the Issuer will deliver only Restricted Definitive Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer and the Registrar that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

## CLEARING AND SETTLEMENT

### Book Entry Procedures for the Global Notes

For each Series of Notes evidenced by a Restricted Global Note which is held by or on behalf of DTC, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross market transfers of the Notes associated with secondary market trading. See “—Book Entry Ownership” and “—Settlement and Transfer of Notes”.

### *Euroclear and Clearstream, Luxembourg*

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (“**Direct Participants**”) or indirectly (“**Indirect Participants**”) and together with Direct Participants, “**Participants**”) through organisations which are accountholders therein.

### *DTC*

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organisation” under the laws of the State of New York, a member of the U.S. 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 was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Restricted Global Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Restricted Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under “*Exchange for Definitive Note Certificates*”, DTC will surrender the relevant Restricted Global Notes for exchange for individual Restricted Definitive Note Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

## **Book Entry Ownership**

### ***Euroclear and Clearstream, Luxembourg***

The Unrestricted Global Note representing Unrestricted Notes of a Series will have an ISIN and a Common Code and will, unless otherwise agreed, be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B 1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L 1855 Luxembourg.

### ***DTC***

The Restricted Global Note representing Restricted Notes of any Series, unless otherwise agreed, will have a CUSIP number and will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system.

## **Relationship of Participants with Clearing Systems**

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg, DTC or any other clearing system as the holder of a Note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg, DTC or such clearing system (as the case may be) for its share of each payment made by the Issuer to the holder of the Global Notes, and in relation to all other rights arising under the Global Notes, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, DTC or such clearing system (as the case may be).

The Issuer expects that, upon receipt of a payment in respect of Notes evidenced by a Global Note, the Common Depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of the beneficial interests in any Global Note held through such Direct Participant in any clearing system will be governed by standing instructions and customary practices.

Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and such obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note, in respect of each amount so paid. None of the Issuer, the Fiscal Agent or any Paying Agent will have responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

## **Settlement and Transfer of Notes**

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within a clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Note Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Restricted Global Note which is held by or on behalf of DTC to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

#### ***Trading Between Euroclear and Clearstream, Luxembourg Participants***

Secondary market sales of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

#### ***Trading Between DTC Participants***

Secondary market sales of book entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to U.S. corporate debt obligations in DTC's Same Day Funds Settlement system in same day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. 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 book entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Restricted Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in an Unrestricted Global Note (subject to the certification procedures provided in the Fiscal Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12:00 noon, New York time, 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, the custodian of the Restricted Global Note will instruct the Registrar to decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note of the relevant class and increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note. Book entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

#### ***Trading Between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser***

When book entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Restricted Global Note (subject to the certification procedures provided in the Fiscal Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Restricted Global Note who will in turn deliver such book entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct

the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by an Unrestricted Global Note and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Restricted Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Fiscal Agent or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

### **Pre Issue Trades Settlement**

It is expected that the delivery of Notes will be made against payment therefor on the relevant closing date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the U.S. secondary market generally are required to settle within two business days (T+2), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the U.S. on the date of pricing or the next succeeding business days until two days prior to the relevant closing date will be required, by virtue of the fact that the Notes initially will settle beyond T+2, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant closing date should consult their own advisers.

### **Payment, Settlement And Transfer in the AIX and the AIX CSD**

Notes offering will be made through the book-building platform of the trading system of the AIX in accordance with the AIX Market Rules and relevant AIX Market Notice. The payment and settlement will be made through the settlement system of the AIX CSD (as defined below) in accordance with the rules and regulations of the AIX CSD (the “**AIX CSD Rules**”), in particular delivery of the Notes through the system of the AIX CSD and the account of AIX CSD at Euroclear, on or about relevant closing date.

In order to participate in the offering of Notes, take delivery of Notes and trade Notes on the AIX, investors are required to have an account opened with a brokerage company admitted as an AIX Trading Member and an AIX CSD Participant. Notes will be held on behalf of investors in the relevant AIX Trading Member’s custodial account at AIX CSD.

The Issuer expects that custodial and depository links have been established between Euroclear and the AIX CSD to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading.

### ***Initial Settlement***

Euroclear and Clearstream, Luxembourg are expected to accept the Notes for settlement in their respective book-entry settlement systems. The Issuer expects that delivery of the Notes will be made through the facilities of Euroclear and Clearstream, Luxembourg on or about the relevant closing date. Except as set forth herein, investors may hold beneficial interests in and transfer the Notes only through Euroclear or Clearstream, Luxembourg and their direct and indirect participants, including AIX CSD. Transfers within Euroclear and Clearstream, Luxembourg and AIX CSD will be in accordance with the usual rules and operating procedures of the relevant system.

The Issuer will not impose any fees in respect of the Notes; however, holders of book-entry interests in the Notes may incur fees normally payable in respect of the maintenance and operation of accounts in AIX CSD, Euroclear, Clearstream, Luxembourg.



## ***AIX CSD***

AIX CSD holds securities for AIX Trading Members and their clients and facilitates the clearance and settlement of securities transactions between these participants through electronic book entry changes in accounts of such participants. AIX CSD provides, among other things, services for safekeeping, administration, clearance and settlement of traded securities and securities lending and borrowing. AIX CSD has established a direct electronic linkage to Euroclear to facilitate the transfer of securities between AIX CSD and the Euroclear system.

Distributions of coupons and other payments with respect to book entry interests in the Notes held through AIX CSD will be credited to the cash accounts of AIX Trading Members in accordance with the relevant system's rules and procedures.

AIX maintains an account with a participant of the Euroclear system ("**AIX CSD**"). Direct access to Euroclear is available to AIX CSD. Upon settlement of the Notes in accordance with the Notes Terms and Conditions, the AIX CSD will receive the Notes allocated to the AIX Trading Members through the book-build process and transfer the same into the AIX CSD nominee account at Euroclear. Upon receipt, AIX CSD will create the total number of Notes allocated to AIX Trading Members' accounts in AIX CSD and allocate the same to the investor nominee or custodial account of an AIX Trading member as instructed by the AIX Bookrunner.

### ***Trading between AIX CSD Participants***

Secondary market sales of book entry interests in the Notes held through AIX CSD to purchasers of book entry interests in the Notes held through the AIX will be conducted in accordance with the rules and operating procedures of AIX and AIX CSD.

### ***Distributions of Coupon***

Coupon and other payments with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Common Depositary, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures. This includes holders of book entry interests in Notes at AIX CSD, where the coupon and other payments will be credited to AIX CSD.

Upon receipt, coupons and other payments with respect to book entry interests in the Notes held through AIX CSD will be credited to the cash accounts of the AIX Trading Members nominee or account at AIX CSD in accordance with AIX CSD Rules.

## TAXATION

*The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.*

### U.S. Federal Income Taxation

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership, disposition and retirement of Notes by a holder thereof. This summary does not address the U.S. federal income tax consequences of every type of Note which may be issued under the Programme (including Notes with a maturity of 30 years or longer) and only applies to Notes held as capital assets for U.S. federal income tax purposes (generally, held for investment). It does not address any aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, tax exempt entities, retirement plans, former citizens or long-term residents of the U.S., dealers or traders in securities or currencies or to holders that will hold a Note as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes or that have a functional currency other than the U.S. dollar. Moreover, this summary does not address the U.S. federal estate and gift tax, Medicare contribution tax or alternative minimum tax consequences of the acquisition, ownership or retirement of Notes and does not address the U.S. federal income tax treatment of holders that do not acquire Notes as part of the initial distribution at their initial "issue price," as defined in "*U.S. Holders—Original Issue Discount*" below.

This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), existing and proposed U.S. Treasury Regulations, administrative pronouncements and judicial decisions, each as at the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations, which could affect the tax consequences described herein. Any special U.S. federal income tax considerations relevant to a particular issue of the Notes will be provided in the relevant Pricing Supplement.

For purposes of this description, a U.S. Holder is a beneficial owner of the Notes who for U.S. federal income tax purposes is (i) an individual citizen or resident of the U.S.; (ii) a corporation (or entity treated as a corporation for U.S. federal income tax purposes) created or organised in or under the laws of the U.S. or any State thereof, including the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust (1) that has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person for U.S. federal income tax purposes or (2)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more U.S. persons have the authority to control.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax adviser as to the consequences of acquiring, owning or disposing of Notes.

A Non-U.S. Holder is a beneficial owner of the Notes other than a U.S. Holder or a partnership (or an entity treated as a partnership for U.S. federal income tax purposes).

Prospective investors should consult their own tax advisers with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning or disposing of Notes.

## ***U.S. Holders***

### ***Accelerated Accrual***

U.S. Holders that use an accrual method of accounting for tax purposes may be required to accrue income no later than such income is reported on “applicable financial statements”, which could be significantly earlier than would be the case under the general tax rules described below. U.S. Holders that use an accrual method of accounting should consult with their own tax advisers regarding the potential application of this legislation to their particular situation.

### ***Interest***

Except as set forth below, interest (including “qualified stated interest” as defined under “—*Original Issue Discount*” below) paid on a Note, whether payable in U.S. dollars or a currency, composite currency or basket of currencies other than U.S. dollars (a “foreign currency”), including any additional amounts, will be includible in a U.S. Holder’s gross income as ordinary interest income in accordance with the U.S. Holder’s usual method of tax accounting. In addition, interest on the Notes will generally be treated as foreign source income for U.S. federal income tax purposes. Prospective purchasers of Notes should consult their own tax advisers concerning the applicability of foreign tax credit and source of income rules attributable to the Notes.

### ***Foreign Currency Denominated Stated Interest***

Any interest paid in a foreign currency will be included in the gross income of a U.S. Holder in an amount equal to the U.S. dollar value of the foreign currency, including the amount of any applicable withholding tax thereon, regardless of whether the foreign currency is converted into U.S. dollars. Generally, a U.S. Holder that uses the cash method of tax accounting will determine such U.S. dollar value using the spot rate of exchange on the date of receipt. Generally, a U.S. Holder that uses the accrual method of tax accounting will determine the U.S. dollar value of accrued interest income using the average rate of exchange for the accrual period (or in the case of an accrual period that spans two taxable years of the U.S. Holder, the part of the period within each taxable year), at the U.S. Holder’s election, at the spot rate of exchange on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within each taxable year) or, for an electing accrual basis U.S. Holder, the spot rate on the date of receipt, if that date is within five days of the last day of the accrual period. Any such selection will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the Internal Revenue Service. A U.S. Holder that uses the accrual method of accounting for tax purposes will recognise foreign currency gain or loss on the receipt of an interest payment if the exchange rate in effect on the date payment is received differs from the rate applicable to an accrual of that interest.

### ***Original Issue Discount***

U.S. Holders of Notes issued with original issue discount (“**OID**”) will be subject to special tax accounting rules, as described in greater detail below. U.S. Holders of Notes issued with OID (including cash basis taxpayers) should be aware that, as described in greater detail below, they generally must include OID in income for U.S. federal income tax purposes on an economic accrual basis, in advance of the receipt of cash attributable to that income. However, U.S. Holders of such Notes generally will not be required to include separately in income cash payments received on the Notes, even if denominated as interest, to the extent such payments do not constitute qualified stated interest (as defined below). Notes issued with OID will be referred to as “Original Issue Discount Notes.” Solely for the purposes of determining for U.S. federal income tax purposes whether a Note has OID and the yield and maturity of a Note, the Issuer may, under certain circumstances, be deemed to exercise any call option that has the effect of decreasing the yield on the Note and the U.S. Holder may, under certain circumstances, be deemed to exercise any put option that has the effect of increasing the yield on the Note. The relevant Final Terms will so state when the Issuer determines that a particular Note will be an Original Issue Discount Note.

The following discussion does not address the U.S. federal income tax consequences of an investment in contingent payment debt instruments. In the event the Issuer issues contingent payment debt instruments the relevant Final Terms or a supplement to this Base Prospectus will describe the material U.S. federal income tax consequences thereof.

Additional rules applicable to Original Issue Discount Notes that are denominated in or determined by reference to a currency other than the U.S. dollar are described in “—*Foreign Currency Discount Notes*” below.

For U.S. federal income tax purposes, a Note, other than a Note with a term of one year or less, will be treated as an Original Issue Discount Note if the excess of the Note’s “stated redemption price at maturity” over its “issue price” equals or exceeds a *de minimis* amount (*i.e.*, 0.25 per cent of the Note’s stated redemption price at maturity multiplied by the number of complete years to its maturity (or, in the case of a Note that provides for payments other than qualified stated interest before maturity, its weighted average maturity)). The “stated redemption price at maturity” of a Note is the sum of all payments required to be made on such Note other than “qualified stated interest” payments. The “issue price” of each Note in a particular offering will be the first price at which a substantial amount of that particular offering is sold (other than to an underwriter, broker, agent or wholesaler). The term “qualified stated interest” means stated interest that is unconditionally payable in cash or in property (other than debt instruments of the issuer) at least annually at a single fixed rate or, subject to certain conditions, based on one or more interest indices. Interest is payable at a single fixed rate only if the rate appropriately takes into account the length of the interval between payments. Notice will be given in the relevant Pricing Supplement when it is determined that a particular Note will bear interest that is not qualified stated interest.

In the case of a Note issued with *de minimis* OID, the U.S. Holder generally must include such *de minimis* OID in income as stated principal payments on the Notes made in proportion to the stated principal amount of the Note. Any amount of *de minimis* OID that has been included in income will be treated as capital gain.

U.S. Holders of Original Issue Discount Notes with a maturity upon issuance of more than one year must, in general, include OID in income in advance of the receipt of some or all of the related cash payments. The amount of OID includible in income by the initial U.S. Holder of an Original Issue Discount Note is the sum of the “daily portions” of OID with respect to the Note for each day during the taxable year or portion of the taxable year in which such U.S. Holder held such Note (“accrued OID”). The daily portion is determined by allocating to each day in any “accrual period” a *pro rata* portion of the OID allocable to that accrual period. The “accrual period” for an Original Issue Discount Note may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of (a) the product of the Note’s adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of any qualified stated interest allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The “adjusted issue price” of a Note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period (determined without regard to the amortisation of any acquisition or bond premium, as described below) and reduced by any payments made on such Note (other than qualified stated interest) on or before the first day of the accrual period. Under these rules, a U.S. Holder will have to include in income increasingly greater amounts of OID in successive accrual periods.

In the case of an Original Issue Discount Note that is a Floating Rate Note, both the “yield to maturity” and “qualified stated interest” will be determined solely for purposes of calculating the accrual of OID as though the Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the Note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the Note. Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index or if the principal amount of the Note is indexed in any manner. Persons considering the purchase of Floating Rate Notes should carefully examine the relevant Final Terms and should consult their own tax advisers regarding the U.S. federal income tax consequences of the holding and disposition of such Notes.

#### *Election to Treat All Interest as OID*

U.S. Holders may elect to treat all interest on any Note as OID and calculate the amount includible in gross income under the constant yield method described above. For the purposes of this election, interest includes stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium or acquisition premium. U.S. Holders should consult their own tax advisers about this election.

Certain of the Notes may be redeemed prior to their maturity. Original Issue Discount Notes containing such features may be subject to rules that differ from the general rules discussed herein. Persons considering the purchase of Original Issue Discount Notes with such features should carefully examine the relevant Final Terms and should consult their own tax advisers with respect to such features since the tax consequences with respect to OID will depend, in part, on the particular terms and features of the Notes.

#### *Short-Term Notes*

In the case of Notes having a term of one year or less (“**Short-Term Notes**”), all payments (including all stated interest) will be included in the stated redemption price at maturity and, thus, U.S. Holders generally will be taxable on the discount in lieu of any stated interest. The discount will be equal to the excess of the stated redemption price at maturity over the issue price of a Short-Term Note, unless the U.S. Holder elects to compute this discount using tax basis instead of issue price. In general, individuals and certain other cash method U.S. Holders of a Short-Term Note are not required to include accrued discount in their income currently unless they elect to do so (but will be required to include any stated interest in income as it is received). U.S. Holders that report income for U.S. federal income tax purposes on the accrual method and certain other U.S. Holders are required to accrue discount on such Short-Term Notes (as ordinary income) on a straight line basis, unless an election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a U.S. Holder that is not required, and does not elect, to include discount in income currently, any gain realised on the sale, exchange or retirement of the Short-Term Note will generally be ordinary income to the extent of the discount accrued through the date of sale, exchange or retirement. In addition, a U.S. Holder that does not elect to include currently accrued discount in income may be required to defer deductions for a portion of the U.S. Holder’s interest expense with respect to any indebtedness incurred or continued to purchase or carry such Notes.

#### *Notes Purchased at a Premium*

A U.S. Holder that purchases a Note for an amount in excess of the sum of all amounts payable on the Note after the purchase date other than qualified stated interest will be considered to have purchased the Note at a “premium.” A U.S. Holder generally may elect to amortise the premium over the remaining term of the Note on a constant yield method as an offset to interest when includible in income under the U.S. Holder’s regular accounting method for U.S. federal income tax purposes. In the case of a Note that is denominated in, or determined by reference to, a foreign currency, bond premium will be computed in units of foreign currency and amortisable bond premium will reduce interest income in units of the foreign currency. At the time amortised bond premium offsets interest income, foreign currency gain or loss (taxable as ordinary income or loss) is measured by the difference between exchange rates at that time and at the time of the acquisition of the Notes. Any election to amortise bond premium shall apply to all bonds (other than bonds the interest on which is excludable from gross income) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the Internal Revenue Service. Bond premium on a Note held by a U.S. Holder that does not make such an election will decrease the gain or increase the loss otherwise recognised on disposition of the Note.

#### *Foreign Currency Discount Notes*

OID for any accrual period on an Original Issue Discount Note that is denominated in, or determined by reference to, a foreign currency will be determined for any accrual period in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described under “—*Foreign Currency Denominated Stated Interest*” above. Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale or retirement of a Note), a U.S. Holder will recognise foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

#### *Sale, Exchange or Retirement*

A U.S. Holder’s tax basis in a Note generally will be its U.S. dollar cost (as defined herein) increased by the amount of any OID included in the U.S. Holder’s income with respect to the Note and reduced by (i) the amount of any payments on the Note that are not qualified stated interest and (ii) the amount of any amortisable bond premium applied to reduce interest on the Note. The U.S. dollar cost of a Note purchased with a foreign currency generally will be the U.S. dollar value of the purchase price on the date of purchase or, in the case of

Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase. A U.S. Holder generally will recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement (less any accrued but unpaid stated interest, which will be taxable as ordinary interest income) and the U.S. Holder's adjusted tax basis of the Note. The amount realised on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of such amount on the date of sale, exchange or retirement or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Gain or loss recognised on the sale, exchange or retirement of a Note (other than gain or loss that is attributable to OID, or to changes in exchange rates, which will be treated as ordinary income or loss) will be capital gain or loss and will be long term capital gain or loss if the Note was held for more than one year. The deductibility of capital losses is subject to limitations. Gain or loss recognised by a U.S. Holder on the sale, exchange or retirement of a Note that is attributable to changes in exchange rates will be treated as ordinary income or loss. A U.S. Holder will recognise foreign currency gain or loss on the principal amount of the Note equal to the difference between (i) the U.S. dollar value of the U.S. Holder's purchase price for such Note determined at the spot rate on the date of sale or other disposition and (ii) the U.S. dollar value of the U.S. Holder's purchase price for the Note determined at the spot rate on the date the U.S. Holder acquired the Note. However, foreign currency gain or loss is taken into account only to the extent of total gain or loss realised on the transaction. Gain or loss recognised by a U.S. Holder on the sale, exchange or retirement of a Note generally will be U.S.-source income or loss. Prospective investors should consult their tax advisers as to the foreign tax credit implications of such sale, exchange or retirement of Notes.

#### *Sale or Other Disposition of Foreign Currency*

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time such interest is received or at the time of such sale or retirement. Foreign currency that is purchased generally will have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be U.S.-source ordinary income or loss.

#### *Multi-Currency Notes*

U.S. Holders of Notes that are denominated in more than one currency or that have one or more non currency contingencies and are denominated in either one foreign currency or more than one currency will be subject to special rules applicable to "multi-currency debt securities." A U.S. Holder generally would be required to apply the "noncontingent bond method" in the multi-currency debt security's denomination currency, which, for this purpose, would be the multi-currency debt security's predominant currency as determined by the Issuer. A description of the principal U.S. federal income tax considerations relevant to holders of multi-currency Notes, including specification of the predominant currency, will be set forth, if required, in the relevant Pricing Supplement.

#### *Other Notes*

A description of the principal U.S. federal income tax considerations relevant to U.S. Holders of any other type of Note that the Issuer may issue under the Programme will be set forth, if required, in the relevant Final Terms or in a supplement to this Base Prospectus.

#### *Reportable Transaction Reporting*

Under certain U.S. Treasury Regulations, U.S. Holders that participate in "reportable transactions" (as defined in the regulations) must attach to their U.S. federal income tax returns a disclosure statement on Internal Revenue Service Form 8886. U.S. Holders should consult their own tax advisers as to the possible obligation to file Internal Revenue Service Form 8886 with respect to the ownership or disposition of the Notes, or any related transaction, including without limitation, the disposition of any foreign currency received as interest or as proceeds from the sale or other disposition of the Notes.

## *Foreign Financial Asset Reporting*

Individuals and, to the extent provided by the U.S. Secretary of Treasury in regulations or other guidance, certain domestic entities that hold an interest in a “specified foreign financial asset” are required to attach certain information regarding such assets to their income tax return for any year in which the aggregate value of all such assets exceeds the relevant threshold. A “specified foreign financial asset” includes any debt or equity of a non-U.S. entity, to the extent not held in an account at a financial institution, though accounts at non-U.S. financial institutions may themselves be “specified foreign financial assets.” Penalties may be imposed for the failure to disclose such information regarding specified foreign financial assets. U.S. Holders are advised to consult their tax advisers regarding the potential reporting requirements that may be imposed on them by this legislation with respect to their ownership of the Notes.

### ***Non-U.S. Holders***

Under U.S. federal income tax law currently in effect, subject to the discussion below under “—*U.S. Backup Withholding and Information Reporting*” payments of interest (including OID) on a Note to a Non-U.S. Holder generally will not be subject to U.S. federal income tax unless such interest is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the U.S.

Subject to the discussion below under “—*U.S. Backup Withholding and Information Reporting*” any gain realised by a Non-U.S. Holder upon the sale, exchange or retirement of a Note generally will not be subject to U.S. federal income tax, unless (i) the gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the U.S. or (ii) in the case of any gain realised by an individual Non-U.S. Holder, such Non-U.S. Holder is present in the U.S. for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met.

### ***U.S. Backup Withholding and Information Reporting***

Information reporting requirements apply to certain payments on the Notes and to proceeds of the sale or redemption of Notes made within the U.S. or through certain U.S. paying agents, U.S. intermediaries or U.S.-related brokers, to certain holders of Notes (other than an exempt recipient). The payor will be required to backup withhold on such payments to a holder of a Note that is a U.S. person, other than an “exempt recipient,” if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments of principal and interest, as well as accruals and payments of OID, as applicable, to a Non-U.S. Holder will not be subject to backup withholding and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certification is incorrect. The backup withholding rate under the current law is 24 per cent.

THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP OF NOTES. PROSPECTIVE PURCHASERS OF NOTES SHOULD CONSULT THEIR OWN TAX ADVISERS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS.

### **Kazakhstan Tax**

Under existing Kazakhstan laws and regulations, payments of principal and interest on the Notes, as well as any capital gain realised on disposal, sale, exchange or transfer thereof is not subject to taxation in Kazakhstan, so no withholding or any other Kazakhstan tax applies to any such payment and gain as at the date hereof. There are no stamp duties or registration or other taxes payable in Kazakhstan in connection with any transfer of the Notes.

### **The Proposed Financial Transactions Tax**

On 14 February 2013, the European Commission has published a proposal (the “**Commission’s Proposal**”) for a Directive for a common financial transaction tax (“**FTT**”) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission's Proposal is very broad in scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution and at least one party is established in a participating Member State. A financial institution may be, or may be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (i) by transacting with a person established in a participating Member State, or (ii) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.



## TRANSFER RESTRICTIONS

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

The Issuer is a foreign government as defined in Rule 405 under the Securities Act and is eligible to register securities on Schedule B of the Securities Act. Therefore the Issuer is not subject to the information provision requirements of Rule 144A(d)(4)(i) under the Securities Act.

The Notes will bear the OID legend as it may be required under the U.S. Treasury Regulations.

### 1. Restricted Notes

Each prospective purchaser of Notes in reliance on Rule 144A (a “**144A Offeree**”), by accepting delivery of this Base Prospectus, will be deemed to have represented, agreed and acknowledged as follows:

- (i) such 144A Offeree acknowledges that this Base Prospectus is personal to such 144A Offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Notes. Distribution of this Base Prospectus, or disclosure of any of its contents to any person other than such 144A Offeree and those persons, if any, retained to advise such 144A Offeree with respect thereto and other persons meeting the requirements of Rule 144A or Regulation S, is unauthorized, and any disclosure of any of its contents, without the prior written consent of the Issuer, is prohibited.
- (ii) such 144A Offeree agrees to make no photocopies of this Base Prospectus or any documents referred to herein.

Each purchaser of Restricted Notes within the U.S., by accepting delivery of this Base Prospectus, will be deemed to have represented, agreed and acknowledged as follows (terms used herein that are defined in Rule 144A or in Regulation S are used herein as defined therein, as applicable):

- (a) the purchaser (i) is a QIB, (ii) is acquiring the Notes for its own account or for the account of a QIB and (iii) is aware that the sale of the Notes to it is being made in reliance on Rule 144A. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account;
- (b) the purchaser understands that such Restricted Notes are being offered only in a transaction not involving any public offering in the U.S. within the meaning of the Securities Act, such Restricted Notes have not been and will not be registered under the Securities Act or any other applicable State securities laws, the purchaser acknowledges that such Restricted Note is a “restricted security” (as defined in Rule 144(a)(3) under the Securities Act) and that (i) if in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Restricted Notes, such Restricted Notes may be offered, sold, pledged or otherwise transferred only (A) in the U.S. to a person that the seller reasonably believes is a QIB purchasing for its own account in a transaction meeting the requirements of Rule 144A whom the seller has notified, in each case, that the offer, resale, pledge or other transfer is being made in reliance on Rule 144A, (B) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (C) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) or (D) to the Issuer or an affiliate of the Issuer (upon redemption thereof or a similar transaction); in each case in accordance with any applicable securities laws of any state of the U.S. and (ii) no representation can be made as to the availability at any time of the exemption provided by Rule 144 for the resale of the Restricted Notes;
- (c) the Restricted Notes offered hereby will bear a legend to the following effect, unless the Issuer determines otherwise in accordance with applicable law:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A “QIB”), THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THE NOTES.

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

- (d) the purchaser understands that Notes offered in reliance on Rule 144A will be represented by the Restricted Global Note. Before any interest in a Note represented by the Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Note, it will be required to provide the Registrar with a written certification (in the form provided in the Fiscal Agency Agreement) as to compliance with applicable securities laws; and
- (e) the Issuer, the Arrangers, the Dealers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

For so long as the Notes of the relevant series are held in global form, Noteholders of such series may not require transfers to be registered during the period beginning on the third business day before the due date for any payment of principal or interest in respect of such Notes.

**Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.**

## **2. Unrestricted Notes**

Each purchaser of Notes pursuant to Regulation S and each subsequent purchaser of such Notes, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the U.S. (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.
- (2) it understands that such Notes have not been and will not be registered under the Securities Act and that, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

- (3) the Issuer, the Registrar, the Arrangers, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.
- (4) it understands that the Notes offered in reliance on Regulation S will be represented by the Unrestricted Global Note before any interest in the Unrestricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Restricted Global Note, it will be required to provide the Registrar with a written certification (in the form provided in the Fiscal Agency Agreement) as to compliance with applicable securities laws.
- (5) none of the Issuer, the Arrangers or the Dealers or any person representing any such entity has made any representation to it with respect to any such entity or the offering or sale of any Notes, other than the information in this Base Prospectus.
- (6) it understands that the Notes, while represented by the Unrestricted Global Note or if issued in exchange for an interest in the Unrestricted Global Note or for Note Certificates, will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”). THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF ANY U.S. PERSON EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

## **SUBSCRIPTION AND SALE**

Subject to the terms and conditions contained in the programme agreement dated 26 October 2018 (as amended or supplemented from time to time, the “**Programme Agreement**”) between the Issuer and the Arrangers and Permanent Dealers, from time to time the Notes will be offered by the Issuer to the Permanent Dealers and the Permanent Dealers may agree to purchase such Notes. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Programme Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arrangers for certain of its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Programme Agreement entitles the Dealers to terminate any agreement that they made to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Certain of the Dealers and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Issuer in the ordinary course of their respective businesses. The Issuer may apply all or part of the proceeds of any Notes issued pursuant to the Programme in repayment of all or part of any such credit facilities.

The Programme Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche.

### ***Selling Restrictions***

#### **United States**

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that except as permitted by the Programme Agreement it will offer the Notes for resale in the U.S. initially only to persons who they reasonably believe to be QIBs in reliance on Rule 144A and outside the U.S. in offshore transactions in reliance on Regulation S. Terms used in this paragraph have the respective meanings given to them by Regulation S.

The Notes are being offered and sold outside the U.S. in accordance with Regulation S. The Programme Agreement provides that Dealers may through their respective U.S. affiliates resell a portion of the Notes within the U.S. only to QIBs in reliance on Rule 144A.

An offer or sale of Notes within the U.S. by a Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A, or another available exemption from registration under the Securities Act.

#### **United Kingdom**

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

- (a) in relation to any Notes which have a maturity of less than a year (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is

reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

## **Kazakhstan**

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell the Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan except in compliance with the laws of Kazakhstan.

A Kazakhstan resident may freely purchase and sell the Notes, subject to compliance with the restrictions set forth in this Base Prospectus, any Final Terms and with applicable laws.

## **Singapore**

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Base Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore, and the Notes will be offered pursuant to exemptions under the SFA (as defined below). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused any Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause any Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Notes, whether directly or indirectly, to persons in Singapore other than: (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA; (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or

- (v) as specified in Regulation 37A of the Securities and Futures (Offer of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

## **General**

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

No representation is made that any action has been or will be taken in any jurisdiction that would, or is intended to, permit a public offering of any of the Notes, or possession or distribution of this Base Prospectus or any other offering materials or any final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed (and each further Dealer appointed under the Programme will be required to agree) that it will, to the best of its knowledge, comply with all relevant laws, regulations and directives in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes this Base Prospectus, any other offering material or any Final Terms (in all cases at its own expense) and neither the Issuer nor any other Dealer shall have responsibility therefor. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, order, sell or deliver Notes or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

## **GENERAL INFORMATION**

### **1. Admission to Trading**

It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of one or more Global Notes in respect of each Tranche. The listing of the Programme in respect of the Notes is expected to be granted on or about 24 September 2019. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions on the Market will normally be effected for delivery on the third working day after the day of the transaction.

The Programme and Tranches of Notes may also be listed and admitted to trading on the AIX.

### **2. Clearing of the Notes**

It is expected that the Notes will be accepted for clearance through Euroclear and Clearstream, Luxembourg, AIX CSD (through Euroclear) and/or DTC. Where relevant, the appropriate common code and the International Securities Identification Number and/or (where applicable) the CUSIP number in relation to each Series of Notes will be specified in the Final Terms relating thereto. The relevant Final Terms will specify any other clearing system as shall have accepted the Notes for clearance together with any further appropriate information.

### **3. Authorisations**

The establishment of the Programme was authorised and approved on 11 August 2014 by the Ministry of Finance of Kazakhstan pursuant to the Order of the Ministry of Finance of the Republic of Kazakhstan “On the issuance of state securities on foreign capital markets in 2014” No. 350, dated 11 August 2014; and on 12 February 2013 by the Government of Kazakhstan pursuant to the Resolution of the Government of the Republic of Kazakhstan “On the issuance of state securities on foreign capital markets” No. 121, dated 12 February 2013. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the update of the Programme and the issue and performance of the Notes.

### **4. Significant/Material Change**

Since 31 December 2018, there has been no significant change in the Issuer’s (a) tax and budgetary systems, (b) gross public debt or the maturity structure or currency of its outstanding debt and debt payment record, (c) foreign trade and balance of payment figures, with the exception of an increase in the current account deficit from U.S.\$51.7 million in 2018 to U.S.\$1,986.1 million in the six months ended 30 June 2019 and a larger decrease in reserve assets of the NBK on balance of payments transactions in the six months ended 30 June 2019 (a decrease of U.S.\$5,367.4 million) as compared to 2018 (a decrease of U.S.\$1,526.2 million), (d) foreign exchange reserves including any potential encumbrances to such foreign exchange reserves as forward contracts or derivatives, (e) financial position and resources including liquid deposits available in domestic currency and (f) income and expenditure figures.

### **5. Litigation**

There are no, nor have there been, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), during the 12 months preceding the date of this Base Prospectus, which may have, or have had in the recent past, significant effects on the financial position of the Issuer.

As at the date of this Base Prospectus, Kazakhstan is a respondent in 14 pending international arbitration proceedings commenced by foreign investors. Kazakhstan is also a party to a number of enforcement and/or asset attachment proceedings outside Kazakhstan relating to investment claims,

including proceedings in which investors seek to enforce a U.S.\$530 million arbitral award against Kazakhstan. Kazakhstan is defending in all those proceedings.

The U.S.\$530 million arbitral award against Kazakhstan was made in December 2013 by a Stockholm-seated arbitral tribunal on a more than U.S.\$2.6 billion claim under the Energy Charter Treaty, in which Moldovan businessman Anatole Stati, his son Gabriel Stati and two companies owned by them (the “**Stati Claimants**”), alleged expropriation by Kazakhstan of their investment in oil fields and a liquefied petroleum gas plant in Kazakhstan. Kazakhstan has not made payment on the award as it maintains that the award was obtained by fraud and Kazakhstan’s due process rights were breached. Kazakhstan’s application to set aside the award has been denied by the courts of the seat of arbitration, Sweden, including the Swedish Supreme Court. Kazakhstan has also challenged enforcement of the award in several jurisdictions including England, the U.S., the Netherlands, Belgium, Luxembourg and Italy. As at the date of this Base Prospectus, enforcement of the award has been granted in the U.S. by the District of Columbia Court of Appeal on 19 April 2019 and in Italy by the Rome Court of Appeal on 27 February 2019. Kazakhstan is appealing those enforcement orders. Kazakhstan does not believe there are any assets in the U.S. or Italy which the Stati arbitral award can be enforced against. In other jurisdictions the enforcement proceedings remain pending, with the exception of England where the enforcement proceedings have been withdrawn. In October 2017, the Belgian court ordered attachment of all assets that The Bank of New York Mellon, Brussels (“**BNYM Brussels**”), held on behalf of Kazakhstan, pursuant to the Stati arbitral award. Pursuant to the order, BNYM Brussels voluntarily agreed to freeze approximately U.S.\$22 billion of the funds of the National Fund held in custody on behalf of the NBK to secure enforcement of the award. On 25 May 2018, the Belgian court made a judgment based on which the BNYM Brussels released the attached assets save for the amount of the award. Kazakhstan expects its appeal on this decision to be heard in December 2019.

In England, the claim for recognition and enforcement of the arbitral award was withdrawn by the Stati claimants in August 2018. Following hearings on the 1-2 July 2019, Kazakhstan was awarded an initial £1.3 million in reimbursement of legal costs (subject to clarification). However, approximately U.S.\$530 million of the National Fund’s assets remain frozen at The Bank of New York Mellon, London branch (“**BNYM London**”) pursuant to the Stati arbitral award. As at the date of this Base Prospectus, Kazakhstan has filed a motion to unfreeze the assets of the National Fund held with BNYM London with hearings expected in March 2020.

A pre-judgment attachment order has also been passed in the Netherlands over shares held by the Kazakh sovereign wealth fund Samruk-Kazyna JSC (“**Samruk-Kazyna**”) in favour of the Stati claimants. Through Samruk Kazyna, Kazakhstan holds approximately 50% of the shares in KMG Kashagan B.V. (“**Kashagan**”) which participates in a consortium that holds a production sharing contract for the Kashagan oilfield. Kashagan manages Kazakhstan’s share of the oilfield’s production. Kazakhstan’s stake in Kashagan, has a value of approximately U.S.\$5.2 billion. On 14 September 2017 a pre-judgment attachment pursuant to the Stati arbitral award was passed in Amsterdam on Samruk-Kazyna’s rights to management of its shareholding in Kashagan. On 7 May 2019 the Amsterdam Court of Appeal upheld the attachment. This decision restricts Samruk-Kazyna’s ability to freely dispose of the assets until the two main pending proceedings of the Stati arbitral award have been resolved in the Netherlands. These pending proceedings concern the recognition and enforcement of the Stati arbitral award by the Dutch judiciary and the legal and factual independence of Samruk-Kazyna from the Kazakh state. The latest hearing on these matters took place on 27 August 2019 with final judgment expected on 28 January 2020. As a result of the attachment, dividends cannot be paid to Samruk-Kazyna. Voting rights in Kashagan and day-to-day management including the fulfilment of payment obligations are unaffected.

Separately, Samruk-Kazyna currently holds 19.37% of shares in Turkish bank Sekerbank which have an approximate value of approximately U.S.\$39 million. In relation to the Stati arbitral award, there is also an attachment in respect of Samruk-Kazyna’s economic interests in these shares. Samruk-Kazyna is not able to sell these shares or obtain dividends. Samruk-Kazyna’s voting rights in Sekerbank are unaffected by the attachment.

The Issuer does not consider that any the above proceedings, either individually or collectively, will ultimately result in a level of liability which may have significant effects on the financial position of the Issuer.



## **6. Documents Available**

Copies of the following documents may be inspected during normal business hours at the offices of the Ministry of Finance of Kazakhstan at Nur-Sultan City, Mangilik Yel Avenue 8, Entrance 4, Kazakhstan for 12 months from the date of this Base Prospectus. For the life of this Base Prospectus, copies of the following documents may be inspected at the specified offices of the Fiscal Agent during normal business hours or be accessed on the website of the Issuer at [http://www.minfin.gov.kz/irj/portal/anonymous?NavigationTarget=ROLES://portal\\_content/mf/kz.ecc.roles/kz.ecc.anonymous/kz.ecc.anonymous/kz.ecc.anonym\\_budgeting/budgeting/state\\_securities\\_fdlr](http://www.minfin.gov.kz/irj/portal/anonymous?NavigationTarget=ROLES://portal_content/mf/kz.ecc.roles/kz.ecc.anonymous/kz.ecc.anonymous/kz.ecc.anonym_budgeting/budgeting/state_securities_fdlr) :

- (a) the Fiscal Agency Agreement;
- (b) the Deed of Covenant; and
- (c) this Base Prospectus and any supplements thereto.

## **7. Third Party Information**

The Issuer confirms that where information included in the Base Prospectus has been sourced from a third party the source is identified, and that information has been accurately reproduced and that as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

## **9. Arrangers and Dealers Transacting with the Issuer**

Certain of the Arrangers, Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer in the ordinary course of business.

**THE ISSUER**  
**The Republic of Kazakhstan,**  
**represented by the Ministry of Finance of the Republic of Kazakhstan**  
**acting upon authorisation of the Government of the Republic of Kazakhstan**  
Nur-Sultan City  
Mangilik Yel Avenue 8  
Entrance 4  
010000  
Kazakhstan

**ARRANGERS AND PERMANENT DEALERS**

**Citigroup Global Markets Limited**

Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
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