



ҚАЗАҚСТАН
ТЕМІР
ЖОЛЫ

2014 ANNUAL REPORT

Combining Kazakhstan Bringing the World





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SPEECH OF THE CHAIRMAN OF THE BOARD OF DIRECTORS OF THE NC KTZ SC

DEAR COLLEAGUES, PARTNERS, CLIENTS!



The year 2014 confirmed the propriety of the strategy of the NC KTZ SC in the implementation of large-scale projects, development of new multimodal competencies and improvement of efficiency of its operations.

Nowadays there is the formation of a network of transport logistics centers and terminals in the centers of tonnage origination and consolidation of cargo flows, their shift to transit routes through the territory of Kazakhstan.

The strategic hubs are Lianyungang, Hong Kong, Chongqing, Wuhan, port of Bandar Abbas, ports in the Baltic region, Khorgos-Eastern Gate SEZ and a number of transport logistics centers in Kazakhstan.

In other words, all activities of the NC KTZ SC are aimed at implementing the key tasks set by the Head of State in his Address Nurly Zhol for the development of transport and logistics infrastructure, the formation of the Company, as a transport and logistics holding company, which plays a key role in the transportation system in the Eurasian continent.

The center-piece of the new economic policy, announced by the Head of State, is a Plan of infrastructural development. A key role in its implementation assigned to the transport sector, large-scale infrastructural projects, which are being implemented by the NC KTZ SC.

In 2014, the company made a significant contribution to the completion of the first five-year plan of the State program of forced industrial-innovative development, in particular, a new branch of railway engineering was created, the production of high-tech diesel locomotives, electric locomotives, carriages and freight wagons, switches, large car casting were mastered.

It is important to note, that in 2014 there was celebrated 110 years of railways of Kazakhstan, where regular trains run from the North-Western border of Kazakhstan to Kazalinsk Station since the opening in 1904.

Nowadays the National Company Kazakhstan Temir Zholy is among the ten largest railways of the world and according to indicator of cargo turnover is on the second position in the CIS.

Currently, Kazakhstan Temir Zholy transporting holding company provides railroad and sea transportation, manages motor ways, sea port and airport infrastructure, the network of transport and logistics centers.

I am confident that the results of the year 2014 were the basis for the further development of the Company as a multimodal transport and logistics holding company, providing the infrastructural economic growth of our state.

The detailed results of activity of the NC Kazakhstan Temir Zholy SC for 2014 can be found in the provided Annual Report, which reflects the relevant figures and facts.

Sincere regards,
Chairman of the Board of Directors
of the NC KTZ SC N. Bidauletov

SPEECH OF THE PRESIDENT OF THE NC KTZ SC

DEAR READERS OF THE ANNUAL REPORT, COLLEAGUES, PARTNERS!



In 2014, the adverse external factors had a significant impact on the economic development of Kazakhstan. Traffic volumes decreased as a result of the reduction in demand for the main line of goods of Kazakhstan for export on major international markets. In addition, the decline was caused by geopolitical instability and sanctions policy against Russia, a key trading partner of Kazakhstan and Central Asian countries, which transits flow of commodities through the territory of Kazakhstan.

Despite this, the NC KTZ SC has fulfilled all its commitments to shareholders and other stakeholders.

Timely measures in optimizing costs and attracting additional volumes of transit flow of cargo provided net income, which exceeded planned target for 56% according to the results of 2014.

In recent years, the Company has been conducting intensive work on the development of transit potential of the country by offering new multimodal competencies. By attracting additional container cargo flow and improving commercial structure of transported line of goods, revenue from through transportation increased by 14% in 2014 compared to 2013. As a result, 25% of the Company's revenues were from the through transportation, taking up 13% of total turnover.

The economic effect of the Efficiency improvement program in 2014 amounted to 41 billion tenge. Efficiency improvement of operational work has reduced fuel-consumption rate, which provided savings of 2.3 billion tenge in 2014.

According to key performance indicators we are on the leading position among railways of CIS, but we aim to reach the level of global leaders.

Focusing on international best practices and advanced technologies within the framework of a consistent implementation of the strategy, we have started business transformation and revision of processes in key operating segments in order to implement customer-oriented approaches, improve effectiveness and quality of services, and form an adequate market of corporate culture.

In 2014, work was underway with regard to implementation of modern IT-technologies in the organization of the transportation process, customer service, processes of care and maintenance of infrastructural facility and rolling stock.

We have successfully cooperated with world

leaders for a long time, using their knowledge and experience and implementing transfer of technology, the Company has made a significant contribution to the implementation of the first five-year plan of SPFIID, creating a new cluster of railway machinery with output of 200 billion tenge in 2014.

Despite the negative external economic trends, the Company successfully continued the implementation of the tasks set by the state on global infrastructural integration.

Zhezkazgan-Beineu and Arkalyk-Shubarkol lines, Uzen-Bereket-Gorgan transcontinental highway were commissioned. These lines are significantly shortens the path from China and the Asia-Pacific region through Kazakhstan with access to the Gulf countries and Europe.

The construction of Borzhakty-Ersai railway line started in October 2014. This line will create an infrastructural base for the implementation of industrial projects in the area under construction of a new ferry complex in Kuryk port.

Kazakh-Chinese logistics terminal began operating in Port of Lianyungang and traffic has already gone from this terminal. In 2014, the volume of container flows between China and Europe through Kazakhstan increased more than 3 times in comparison with 2013, when 21.192 containers (TEU) of 226 train sets were sent.

Modernization of the Aktau port and airport infrastructure, development of Khorgos-Eastern Gate SEZ, external and internal network of transport and logistics centers provide an effective synergy among transport modes in the formation of a competitive transport and logistics products.

In the sphere of passenger transportation a running of the new high-speed trains on 4 more routes

was organized: Aktobe-Almaty, Almaty-Oskemen, Astana-Oskemen, Astana-Kyzylorda, a system of tiered pricing for travel on high-speed Talgo trains been introduced, regional routes enhanced, quality service and new advanced services are developing.

In accordance with Corporate ideology and philosophy of business a great attention paid to the achievement of social goals. More than 11 billion tenge spent on the implementation of social programs in 2014.

I express my gratitude to clients and partners for the successful joint activities. I believe that our future cooperation will be efficient and productive as well.

In accordance with results of 2014, the net profit exceed planned indicator to 56%.

The Efficiency Enhancement Program ensured conservation of 41 billion tenge.

In terms of key indicators of business we lead among CIS countries Rail-Roads companies, nevertheless still have objective to achieve the level of Global Leaders.

Regards,
President of the NC KTZ SC A.Mamin

ABOUT COMPANY

KAZAKHSTAN TEMIR ZHOLY IN BRIEF

MISSION:

«As strategic infrastructure, we provide an adequate transportation basis for sustainable economic growth and create values for the Sole Shareholder, consumers and society as a whole, by providing high-quality and competitive transport and logistics services for goods, passengers transportation and backbone railway network services»

VISION

Highly efficient national transport corporation of Kazakhstan, which operate in accordance with the best international business practices and meets the requirements of the Sole Shareholder.

STRATEGIC GOALS

By the decision of the Board of Directors of the NC KTZ SC on May 7, 2010 the Development Strategy of the NC KTZ SC until 2020 was approved.

As the main goal, the NC KTZ SC is considering the maximization of the total share capital as an indicator that satisfies the requirements of the Sole Shareholder and assesses performance effectiveness of the Board of Directors and Management of the NC KTZ SC.

All activities of the NC KTZ SC in the strategic and medium term will be aimed at maximizing the total share capital by virtue of profitability growth (net profit).

HISTORY OF ESTABLISHMENT

Kazakhstan Temir Zholy Republican State Enterprise was founded by decree of the Government of the Republic of Kazakhstan dated January 31, 1997 No129 "On reorganization of railways enterprises of the Republic of Kazakhstan" by merging republican state enterprises: the Almaty Railway department, Tselinnaya Railway department and West Kazakhstan Railway department.

By decree of the Government of the Republic of Kazakhstan dated March 15, 2002 No 310 "On creation of the closed joint stock company" the National Company Kazakhstan Temir Zholy was

founded as closed joint stock company of the National Company Kazakhstan Temir Zholy by merging the Kazakhstan Temir Zholy Republican State Enterprise and its subsidiary state enterprises.

In April 2, 2004, in accordance with the Law of the Republic of Kazakhstan on May 13, 2003 «On Stock Companies» the National Company Kazakhstan Temir Zholy closed joint stock company was re-registered as the National Company Kazakhstan Temir Zholy SC (hereinafter – the NC KTZ SC, the Company).

The Sole Shareholder of the NC KTZ SC is the National Welfare Fund Samruk-Kazyna Joint Stock Company (hereinafter - Samruk-Kazyna SC), which solves the issues of improvement the system of corporate governance, increasing the transparency of the processes of strategic and medium-term planning, manages the activities of the NC KTZ SC through the Board of Directors, without interfering in its operational work.

In addition, the activity of the NCKTZSC is controlled by the Ministry of Investment and Development of the Republic of Kazakhstan, which according to

the Law of the Republic of Kazakhstan "On railway transport" of December 8, 2001 No 266-II, as an authorized body implements the state policy in the field of railway transport, coordination, regulation and control of the transport complex of the Republic of Kazakhstan.

STRATEGIC GOALS

Improving the efficiency of production and economic activity of the NC KTZ SC



To ensure the growth of the total share capital, the Company will make the transition from cost-based corporate culture to culture aimed at maximizing effective use of resources and processes.

Moreover, to ensure current operating sustainability and improve the competitiveness of services there will be implemented measures to reduce production and administrative costs in the NC KTZ SC.

Maintaining the leading positions in the market of freight traffic



To ensure planned profitability growth in the freight market the NC KTZ SC should implement

customer-oriented approach in the provision of transport services.

Formation of an effective structure of the portfolio and production assets



State's intention to liberalize the railway sector and related institutional changes will be reflected in the structure of the NC KTZ SC as the sector forming subject of economy. In this regard, the NC KTZ SC has planned the restructuring of the portfolio assets that will form the optimal structure with the corporate and sectoral interests (the concentration of resources on core activities and promotion of the development of industry engineering and repair facilities).

Together with the transformation of the structure of financial assets, there will be improvement in the sphere of production assets as well. There will be a fundamental renewal and modernization of fixed assets of the NC KTZ SC, which will be the part of an industry-wide investment program.

Increasing Activity Manageability



Measures to improve the activity manageability of the NC KTZ SC will affect managerial aspects of its activity. To ensure transparency in governance, increase the level of responsibility, skills, accountability and efficiency in the NC KTZ SC the work on implementation of the process approach to management will be undertaken.

Successful implementation of the Strategy will transform the NC KTZ SC in a highly commercial organization that provides transportation services of high quality at a low cost level.

SHAREHOLDING STRUCTURE

The structure of the portfolio of assets of the NC KTZ SC is the structure of vertically - integrated company organized according to functional lines, with its subsidiaries, associates and jointly controlled organizations realizing core and non-core activities and with a geographical presence throughout the territory of Kazakhstan.



THE NC KTZ SC OWNS:

100% OF ALMATY CAR REPAIR PLANT SC COMMON SHARES.

The main activities of Almaty Car Repair Plant SC include: the provision of services for all types of repair of carriages in the amounts of DR (depot repair), MO-1 (major overhaul of the first volume), the MO-2 (major overhaul of the second volume), CRE (capital repairs with service life extension).

100% OF MILITARIZED RAILWAY GUARD SC COMMON SHARES.

The main activities of Militarized Railway Guard SC include: protection of property of individuals and legal entities, including during transportation, counseling and preparation of recommendations on protection and lawful protection against illegal encroachments, protection of life and health of individuals.

100% OF VOKZAL SERVICE SC COMMON SHARES.

The main activities of Vokzal Service SC include: the organization of proper operation of the stations, providing passenger services at railway stations, rental of technical and commercial premises.

100% OF KAZTRANSERVICE SC COMMON SHARES.

The main activities of Kaztransservice SC include: the provision of container traffic (from ordering to delivery of goods to recipient, the organization of work on accounts and operation of freight wagons and containers), the provision of related services for individual and legal entities (in all communications).

100% OF KAZTEMIRTRANS SC COMMON SHARES.

The main activities of Kaztemirtrans SC include: freight, including oversized cargo, particular-type load, military impedimenta and dangerous cargo, railway vehicles, management of car fleet, keeping track on cars, which belong to the Company located on the territory of the Republic of Kazakhstan and abroad.

100% OF PASSENGER TRANSPORTATION SC COMMON SHARES.

The main activities of Passenger transportation SC include: the organization and provision of passenger rail services, luggage, cargo-luggage and mail transportation in international, inter-

provincial, inter-district and home communications, organization of services, repair and maintenance of fleet of passenger cars, providing quality and culture of services for passengers, provision of safety of passenger trains, life and health of passengers and safety of transported luggage, cargo-luggage and mailing.

100% OF REMLOKOMOTIV SC COMMON SHARES.

The main activities of Remlokomotiv SC include: the organization and execution of work on the production, modernization, overhaul repair, technical maintenance of rolling stock; restoration, repair and production of spare parts, tools, components, parts and assemblies.

100% OF LOCOMOTIVE SERVICE CENTER SC COMMON SHARES.

The main activities of Locomotive service center SC include: the provision of services to ensure good technical condition and stable operation of the locomotives in operation, organisation of locomotive crews rest, locomotive servicing with oil, water and sand, the implementation of the repair and maintenance of traction rolling stock.

100% OF LOCOMOTIVE SC COMMON SHARES.

The main activities of Locomotive SC include: meeting requirements of transporters in the services of traction rolling stock in the main and shunting movements and meeting requirements of the main railway network operator in the services of traction rolling stock in shunting movement.

100% OF KTZ EXPRESS SC COMMON SHARES.

The main activities of KTZ Express SC include: the provision of freight forwarding services, logistics, provision of transportation of goods by vehicles, railway, sea, river, air transport, coordination of freight cars, container fleet and rolling stock, handling and storing of goods.

100% OF TEMIRZHOLSU SC COMMON SHARES.

The main activities of Temirzholsu SC include: timely and qualitative meeting of requirements of railway transport organizations and the public supply of drinking and service water, waste water collection, treatment and discharge, maintenance of water supply system and sanitation facilities. ►

100% OF TRANSTELECOM SC COMMON SHARES.

The main activities of TransTeleCom SC include: the provision of domestic, long distance and international communications, audioconferencing and/or videoconferencing, Internet access, communication channel lease, interconnection of networks and traffic transmission of mobile telephone communications, mobile communication, the creation and operation of satellite and microwave telecommunications systems, with a consent of transmission system operator, in the ROW of railway transport and in any other permitted areas of fiber optic and copper cable networks.

100% OF CENTER OF TRANSPORT SERVICE SC COMMON SHARES.

The main activities of Center of Transport Services SC include: the provision of railroad sidings facilities to legal and physical entities. The Center does not carry out production activities and is in the process of liquidation.

100% OF KHORGOS INTERNATIONAL CENTER OF BOUNDARY COOPERATION SC COMMON SHARES IN TRUST.

The main activities of the Khorgos International Center of Boundary Cooperation SC include: the creation, development and maintenance of infrastructure of Kazakhstani part of Khorgos International Center of Boundary Cooperation, interaction with state bodies and economic entities operating on the Kazakhstani part of the Centre, in order to achieve the objectives of its creation, participation in the development and implementation of the ongoing, long-term programs of the Center.

100% OF NATIONAL COMPANY AKTAU INTERNATIONAL COMMERCIAL SEA PORT SC COMMON SHARES IN TRUST.

The main activities of National Company Aktau International Commercial Sea Port SC include: cargo handling operations and maintenance of vessels of the CIS and other foreign countries, freight forwarding and warehousing operations with cargo and transfer of cargo to marine transport form and to other modes of transport, maintenance and transportation of goods and passengers on ships in the port of coastal and international voyages, bunkering operations, ensuring the safety of marine navigation in the harbor waters, maintenance and repair of ships and other marine vehicles and equipment.

100% OF AKZHAYIK-ZAPAD 2006 LLP COMMON SHARES.

Akzhayik-Zapad 2006 LLP does not perform operational activity and is under liquidation.

100% OF LESOZASHITA LLP SHARES.

The main activities of Lesozashita LLP include: the protection of railways against the adverse natural phenomena by creating and further maintenance of protective forests, maintenance of natural and artificial afforestation, the greenery against snow, wind and sand on ROW mainline railway network.

100% OF KAMKOR REPAIR CORPORATION LLP SHARES.

The principal activities of Kamkor Repair Corporation LLP include: subsidiaries management, which participatory interest belong to the LLP on the right of ownership, construction and repair of railway lines, repair, modernization and construction of railway rolling stock, repair of special rolling stock,

maintenance of railway rolling stock, design, construction, installation, maintenance service of signaling arrangement, centralization and blocking (SCB) of radio and connection.

100% OF SCIENTIFIC RESEARCH INSTITUTE OF TRANSPORT LLP SHARES.

The main activities of Scientific Research Institute of Transport LLP include: research, design and experimental, planning and surveying activities.

65% OF KAZAKH ACADEMY OF TRANSPORT AND COMMUNICATIONS SC COMMON SHARES.

The main activities of Kazakh Academy of Transport and Communications SC include: training of workers for the railway sector, as well as for urban electric transport, metro and motor transport, experts in information technologies and telecommunications.

50% OF LOCOMOTIVE KURASTYRU ZAUITY SC COMMON SHARES.

The main activities of Locomotive Kurastyru Zauity SC include: the production of locomotives, production of spare parts for locomotives.

50% OF LOGISTIC SYSTEM MANAGEMENT BV (LSM B.V.) SHARES.

Logistic System Management B.V. (LSM BV) performs a holding operation.

46.016% OF DOSZHAN TEMIR ZHOLY SC COMMON SHARES.

The main activities of Doszhan Temir Zholy SC include: to ensure the implementation of the concession agreement for the construction and

operation of the new railway line Shar Station – Ust-Kamenogorsk, the organization of operation of the railway line Shar Station – Ust-Kamenogorsk and other objects of the railway infrastructure, transmission railways to state property at the end of operating life in accordance with the concession agreement.

23.43% OF TEMIRZHOL ZHONDEU SC COMMON SHARES.

The main activities of Temirzhol zhondeu SC include: the organization and execution of works on reconstruction, overall and medium repair of lines and other types of work on the trackside, the construction of new railway lines, operation, maintenance and repair of the park of heavy roadway machines, tools and equipment, taping of assembled rails and sleepers, assembling and laying of turnouts, goods traffic, transport of track material and bulky goods by own rolling stock.

13.403% OF KASKOR-TRANSSERVICE SC COMMON SHARES.

The main activities of Kaskor-Transservice SC include: cargo and passenger transportation, freight forwarding services, communication services, repair and construction of railways. ■

THE RESULTS OF THE YEAR 2014

KEY FINANCIAL RESULTS*

The total income of the Company following the results of 2014 amounted to

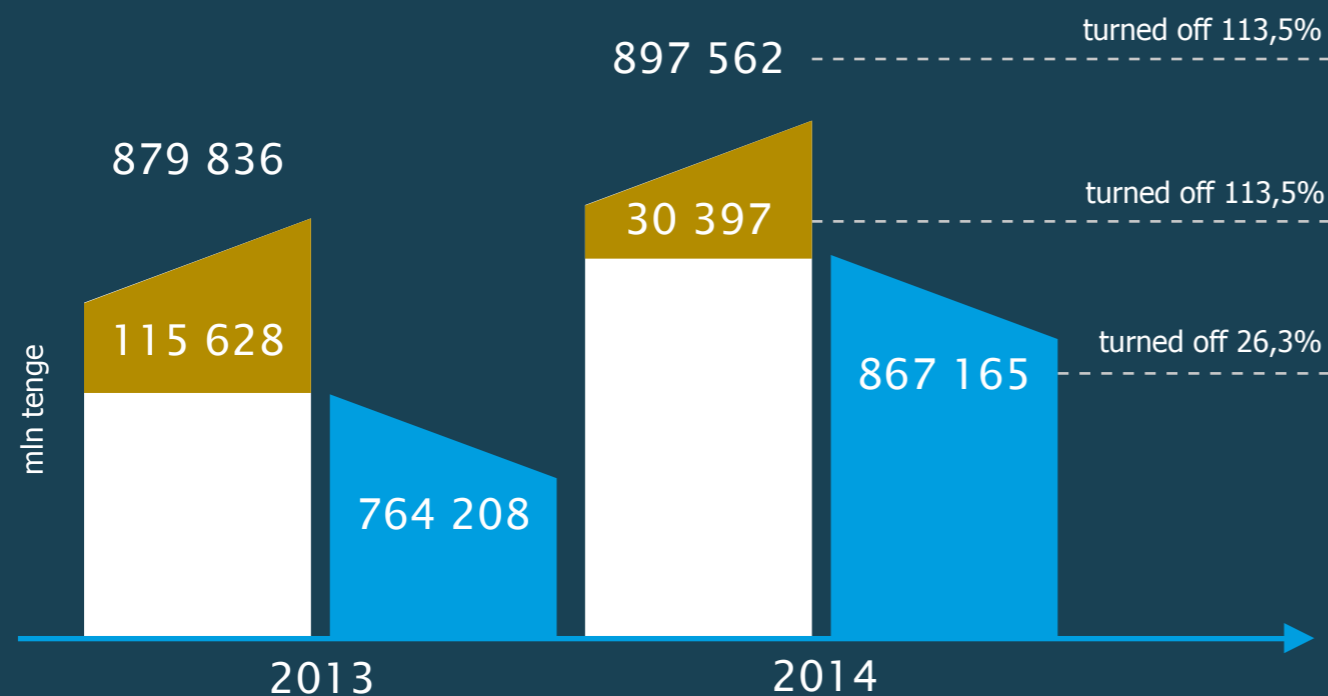
30 397

mln tenge

▲ Revenue, total
 ▲ Expenses, total
 ▲ Total income

REVENUE

The NC KTZ SC Group of Companies' revenue was 897 562 mln tenge, which is higher than the level of 2013 by 2%. Revenue from sales and services amounted to 881 247 mln tenge, which is higher than the level of income in 2013 (870 199 mln tenge) by 1.3%. The increase in revenue is due to the growth of rates in the cargo movement and passenger traffic from January 1, 2014 by 7%, and an increase in revenue from utility-ancillary activities by 13.7% due to the growth in volume of services provided, increase in allocated subsidies by 3.2% and the growth of revenues from fines received by 2 times.



EXPENSES

The NC KTZ SC Group of Companies' expenses were 867 165 mln tenge, which are higher than the same period of 2013 by 13.5%. Cost of sales and services rendered amounted to 634 173 mln tenge. By the same period in 2013 (575 433 mln tenge) cost value increased by 10.2%. Spending spree compared to last year was mainly due to increased costs of pay rise in connection with the increase of wages to employees of Group of Companies from December 1, 2013 (performance of collective agreement conditions for 2012-2014

between the NC KTZ SC and the workforce), pay rise to workers of the production staff from April 1, 2014 to 10%; increasing amounts of electricity for hauling operations, as well as the growth of rates by 10.8%; rising fuel costs by increasing the price of diesel fuel by 10.2%; rising costs for payment of works and services, and the commissioning of new items of fixed assets, as well as an increase in the cost of financing through additional loans.

* - consolidated results

KEY OPERATIONAL RESULTS

Cargo turnover



IN THE STRUCTURE OF THE TRANSPORTATION MODE TURNOVER AMOUNTED:

- ▲ in intra-country mode there was a decline of 0.6% due to a cargo operation decrease of 1.4%;
- ▲ on export there was a decline of 11.0% due to the decline in traffic of 12.8%;
- ▲ on import there was a decline of 18.9% due to a decrease in traffic of 16.3%
- ▲ on transit there was an increase by 1.3% due to growth in the medium-range transport by 1.2%.

Turnover index was of 2014

216 524
mln τ-km

2013 - 231 248 mln τ-km
turned off -6,4%

By the fact of the similar period of 2013 the decrease was 6.4%, which is associated with a decrease in traffic on all types of cargo, with the exception of grain and construction materials traffic.

Embarking

By the fact of 2013 there was a decline of 3.2%, which is associated with a reduction in the embarking of all types of cargo, with the exception of ferrous and building materials.

Embarking amounted to of 2014

247 161
thousand tonnes

2013 - 255 232 thousand tonnes
turned off -3,2%

Cargo performance

By the fact of the similar period of 2013 there was a decrease by 6.2%, mainly due to a decrease in coal haulage, shipment of oil and oil products, iron and non-ferrous ores.

Cargo performance of 2014

275 261
thousand tonnes

2013 - 293 602 thousand tonnes
turned off -6,2%

Passenger miles

Passenger miles (including private carriers) was of 2014

18 317
mln pas-km

2013 - 19 125 mln pas-km
turned off -4,2%

No 335/336 Khudzhand-Saratov form the beginning of the year;
No 397/398 Dushanbe-Bishkek form the beginning of the year.

- ▲ changes in the frequency of such trains as:

No 27/28 Bishkek-Moscow;
No 325/326 Novosibirsk-Almaty-1;
No 371/372 Novokuznetsk-Karaganda;
No 391/392 Barnaul-Leninogorsk;
No 319/320 Dushanbe-Moscow.

- ▲ a decline in the population in through passenger trains due to decrease in demand for passenger transport by rail.

THE DECLINE IS OBSERVED IN THE FORMATION OF TRAINS OF «FOREIGN» RAILWAY ADMINISTRATIONS, PASSING THROUGH THE TERRITORY OF KAZAKHSTAN, WHICH IS DUE TO:

- ▲ the cancellation of such trains as:

No 27/28 Moscow-Bishkek from June 15;
No 329/330 Dushanbe-Moscow from the beginning of the year before the new schedule of passenger trains (before June 3, 2014);

EVENTS OF THE YEAR 2014



JANUARY 21

Meeting on work results of 2013 of the NC KTZ SC and priority tasks for 2014.

FEBRUARY 24

Almaty held XIX International Alpine Skiing Championship of the International Railway Sports Association – USIC.

FEBRUARY 26

Meeting of the Board of Union of Machine Builders of Kazakhstan ALE.

FEBRUARY 26

President of the NC KTZ SC A. Mamin met with Li Qiang, Secretary of Lianyungang Municipal Party Committee of CPC and Bai Liqun, President of Lianyungang Port.

MARCH 3

The fifth anniversary session of the NC KTZ SC corporate youth camp "Who if not you?».».

MAY 12

Signed a contract to supply 50 electric locomotives produced at Electrovoz Kurastyru zauyty SC for Azerbaijan Railways.

MAY 6-7

60th meeting of the Council for Rail Transport of CIS countries, Iran, Finland and Bulgaria held in Astana.

APRIL 17

Seminar on Technical Regulations in the light of the entry into force of the technical regulations of the Customs Union in the field of railway transport.

MARCH 31

There was signed an agreement for delivering second batch of TE33A locomotives of Locomotive Kurastyru zauyty SC to Kyrgyz Temir Zholy State Unitary Enterprise.

MARCH 12

Center of electronic sales of railway tickets was opened at Astana Railway Station.

MARCH 5

Meeting of the General Assembly of KAZLOGISTICS Union of Transport of Kazakhstan.

MAY 20

Opening of the first starting complex of the Kazakhstan-Chinese transport and logistics terminal in the port of Lianyungang with the participation of the President of Kazakhstan Nursultan Nazarbayev.

MAY 30

KAZLOGISTICS Union of Transport of Kazakhstan and the NC KTZ SC held the 1st Youth Forum of transport workers in the building of Kazakh-British University.

JUNE 20

Granting of the keys of the second stage of Saranda Microregion in Astana.

JUNE 25

KTZ Express SC commercial office, the subsidiary of the NC KTZ SC, opened in Hong Kong.

JULY 2

During the nationwide teleconference with the participation of President Nursultan Nazarbayev, the start of construction of a dry port in the territory of Khorgos-Eastern Gate SEZ was launched.

JULY 2

KTZ Express SC and Wuhan HanOu, international logistics company in Wuhan (China), signed a memorandum on cooperation in container block trains Wuhan-Kazakhstan - Europe. ▶



JULY 22

The President of the Republic of Kazakhstan N.A. Nazarbayev, triggered Zhezkazgan-Beineu and Arkalyk-Shubarkol railway lines.



AUGUST 1

The celebration of the 110th anniversary of Kazakhstan Railways.



SEPTEMBER 18

The NCKTZ SC in cooperation with the subsidiaries signed a loan agreement with the EBRD, which granted a loan amounted of up to 30 billion tenge for 10 years.



OCTOBER 1

President of the Republic of Kazakhstan N.A. Nazarbayev, familiarized with Aktau Port expansion project and launched the construction of a new Borzhakty - Ersai railway line.



OCTOBER 7

The NC KTZ SC activity transformation program was presented to Nursultan Nazarbayev, President of the Republic of Kazakhstan, during Transformation Forum.



DECEMBER 15

A solemn meeting devoted to Independence Day of Kazakhstan.



DECEMBER 5

5th National Youth Forum of the NC KTZ SC.



DECEMBER 3

President of Kazakhstan N.Nazarbayev, President of Turkmenistan G.Berdy-mukhamedov and President of Iran H.Ruhani opened Uzen - Bereket - Gorgan cross-border railway line.



NOVEMBER 19

Two agitation trains started their run from Zhambyl Station. The purposes of these trains were promotion and explanation of the President's Address to the Nation Nurly Zhol - The path to the future.



NOVEMBER 6

Regular meeting of the Coordinating Committee on development of the Trans-Caspian international transport route, under the chairmanship of A. Mamin, President of the NC KTZ SC held in Aktau.



OCTOBER 10

II Forum of Mechanical Engineers with participation of Karim Massimov, Prime Minister of Kazakhstan held in the NC KTZ SC.



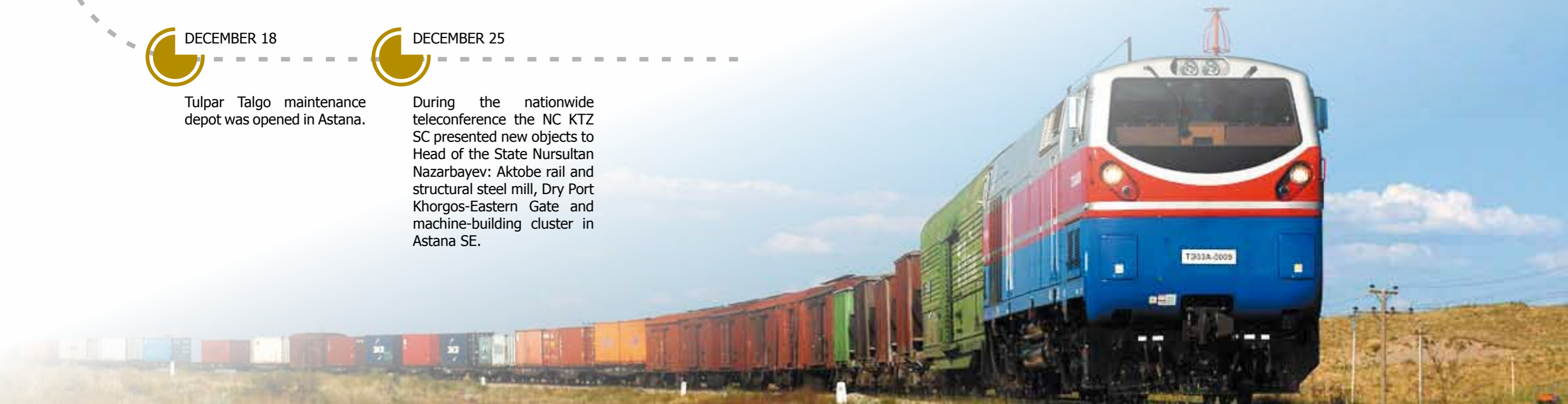
DECEMBER 18

Tulpar Talgo maintenance depot was opened in Astana.



DECEMBER 25

During the nationwide teleconference the NC KTZ SC presented new objects to Head of the State Nursultan Nazarbayev: Aktobe rail and structural steel mill, Dry Port Khorgos-Eastern Gate and machine-building cluster in Astana SE.



OPERATING ACTIVITIES

INFORMATION ON SAFE RAILWAY OPERATION

During 12 months of 2014 throughout the NC KTZ SC was reduced the number of deficiencies on

13%

in the 10 cases in relation to 2013 from 75 to 65 or 13%, 1 railroad wreck and 1 railroad accident were took place.



Measures carried out in 2014 reduced the total number of the train accidents.

Safe railway operations	2013 (quantity)	2014 (quantity)
crashes	1	1
accident	0	1
marriage work	75	65

INVESTMENT ACTIVITIES

Investment activity of the NC KTZ SC focused on implementing a set of measures to ensure the sustainable operation of rail transport, to improve the quality and safety of transport services.

Development spending plan of the NC KTZ SC Group of Companies for 2014 approved by the Board of Directors of the NC KTZ SC (minutes No 9 of September 15, 2014) in the amount of 471 103 million tenge, including capital investments - 451 720 million tenge.

Actual execution of the Expenditure on the development for 2014 was 419 276 million tenge with the plan 471 103 million tenge (89% of the plan), including:

the actual execution of the plan of capital investments was

404 972

million tenge

with the plan 451 720 million tenge (90% of the plan), or 86% over the same period of 2013.

OVER THE REPORTING PERIOD, THE NEXT MAJOR PROJECTS WERE IMPLEMENTED:

1. The continuation of work on railway lines:

- ▲ Zhezkazgan-Beineu earned investment value was 120 977 million tenge with the plan 120 780 million tenge (100% of the plan);
- ▲ Arkalyk-Shubarkol earned investment value was 23 341 million tenge with the plan 29 096 million tenge (80% of the plan).

The lag was due to a delay which connected to the necessity to make changes in project design estimates, in terms of the partial exception of work on the biological reclamation of land (it was decided to implement design decisions only in part, where technical restoration of disturbed land should be done, with planning and flattening surface of subgrade formation) and changes in design solutions for the production of snow protection fences and identifying the places to install them according to the high snow drift areas during the winter 2013-2014 and difficult terrain of the route of the constructing railway line;

2. The implementation of Automated Control System project on Energodispatcherskaya traction was continued, earned investment value was 9 466 million tenge with plan 8 393 million tenge (113% of the plan). Expenditure within the estimated cost;

3. Development of railway hub at Astana Station, including the construction of the railway station, earned investment value was 12 340 million tenge with the plan 11 721 million tenge (105% of the plan). Expenditure within the estimated cost;

4. The implementation of the project on the Construction of a multifunctional ice palace was continued, earned investment value was 11 723 million tenge with the plan 12 142 million tenge (97% of the plan);

5. Locomotives fleet renewal: execution was 37 846 million tenge (46 unit) with the plan 34 790 million tenge (42 unit) or 109% of the plan including 33

units of locomotives were purchased (17 units of Evolution series) and 13 units of locomotives were repaired;

6. Wagon fleet renewal: execution was 11 920 million tenge (1 365 units) with planned 27 644 million tenge (2 454 units) or 43% of the plan, there were purchased 742 units of wagon and 623 units of wagons were overhauled.

The delay was due to the improper performance of contractual obligations by the contracting organization (ICC);

7. Passenger cars renewal: execution was 28 656 million tenge (216 units) with the plan 47 399 million tenge (354 units) or 60% of the plan, there were purchased 163 units of the passenger cars, 53 units passenger cars were overhauled.

The delay is due to the improper performance of contractual obligations by the contracting organization (Tulpar-Talgo);

8. Overhaul of track bed structure: execution was 45 425 million tenge with the plan 43 367 million tenge (105% of the plan), adopted in accordance with completion certificate on the 644 km of the way;

9. Infrastructure renewal and rehabilitation: execution was 99 193 million tenge with plan 111 218 million tenge (89% of the plan).

Non-fulfillment of obligations due to the delay of the work schedule on specific investment projects, including Creating and integrated development of Khorgos-Eastern Gate SEZ (dry port SEZ), Refrigerated Containers, The acquisition of 2 dry cargo vessels.

10. Improvement of the administrative and social conditions of workers: execution was 4 085 million tenge with the plan 5 170 million tenge (79% of the plan).

Non-fulfillment of obligations due to the optimization of the project Construction of residential complex "key ready" in Astana in the framework of the Action Plan to reduce the cost of the NC Kazakhstan Temir Zholy SC Group of Companies for 2014. In addition, under the project: The acquisition of interests' execution was 14 304 million tenge with the plan 19 383 million tenge (74% of the plan). The delay was due to the the following reasons:
- in connection with the postponement of the plant start-up in 2015 (Astana Diesel Engines B.V.). Execution was 0,000,000 tenge with the plan 2

300 million tenge (0% of the plan);
- due to the fact that the relevant corporate procedures were not carried out on time (Aktobe Rail and Section Works LLP). The development planned in 2015. Execution was 2 828 million tenge with the plan 3 959 million tenge (71% of the plan);
- replenishment of the authorized capital of the joint venture has been postponed for the period of adjustment DED of the project (a joint venture with FTNT about expansion of Aktau sea port). Execution was 1 732 million tenge with the plan 3 375 million tenge (51% of the plan).

FINANCIAL RATING

THE NC KTZ SC HAS A RATING OF THREE MAJOR RATING AGENCIES:

▲ STANDARD&POOR'S

– at the level of GDP-/Negative;

▲ FITCH RATINGS

– at the level of GDP/Stable;

▲ MOODY'S INVESTORS SERVICE

- at the level of Baa3/Stable.

LOANS

The Group of the NC KTZ JSC in order to implement the investment projects for 2014 raised and developed the following large loans:

LOANS FOR THE LOCOMOTIVES PURCHASE FROM HSBC FRANCE under cover of the France export-credit agency Coface for a total amount 95.925

million euros (22 908 million tenge) at a rate of CIRR euro + 0.75/0.9% for 10 years;

loan finding for a total amount of 25 731 million tenge **BORROWING FOR THE PROJECT AUTOMATED CONTROL SYSTEMM ENERGODISPETCHERSKAYA**

TRACTION AND CONSTRUCTION OF FOCL from the Development Bank of Kazakhstan and the Eurasian Development Bank; ►

ISSUE EUROBOND, WHICH DENOMINATED IN SWISS FRANCS FOR THE IMPLEMENTATION OF INVESTMENT PROJECTS:

- ▲ construction of a dry port in the territory of Khorgos-Eastern Gate SEZ ;
- ▲ construction of transport and logistics centers (TLC) in the Republic of Kazakhstan;
- ▲ participation in the construction of a cargo terminal in the port of Lianyungang;
- ▲ the northern extension of the Aktau port for expansion of foreign trade activities through maximum use of the opportunities of the Aktau international sea port.

Aggregate issue volume amounted to

285
million Swiss franc

issued in two tranches in a amount of 100 million Swiss franc with the 5-year maturity at a coupon rate of 2.590% per annum and a total of 185 million Swiss franc with the 8-year maturity at an interest rate 3.638% per annum

LOANS FOR THE ROLLING STOCK RENEWAL FOR RAILWAY PASSENGER WAGONS SUBSIDIARY OF PASSENGER TRANSPORTATION SC in the amount of 9 706 million tenge and 9 226 million tenge from

the National Fund of Kazakhstan through Samruk-Kazyna on the interest rate at a rate of 0.075% and 0.75% per annum until full repayment in 2044 and 2039 respectively;

LOANS FOR IMPLEMENTATION OF INVESTMENT PROJECTS focused on development of transport potential, under the loan agreement dated September 18, 2014 between NC KTZ SC, Locomotive SC, KTZ EXPRESS SC and EBRD for total of 30 000 million tenge, KTZ EXPRESS SC has received 6 222 million tenge, NC KTZ SC - 10 278 million tenge for security in the field of railway

transport and Locomotive SC - 13 500 million tenge to optimize the balance in terms of certain obligations of Locomotive SC, denominated in US dollars, raised from the HSBC Bank plc to finance the purchase of 22 electric locomotives, an interest rate of 7.23% per annum - a fixed rate and valid until 2016, further interest rate for all in cost + 3 % up to 2024.

Fundraising for a total amount of 4 547 million tenge on LOANS FOR FINANCING WORKING

CAPITAL OF KAZAKHSTAN KAMKOR LLP.

INNOVATIVE ACTIVITIES

THE STRATEGY DEFINED FIVE KEY AREAS:

- ▲ innovation in freight and passenger transport;
- ▲ upkeep and maintenance of infrastructure;
- ▲ improvement of the management of innovation;
- ▲ modernization and development of the means of production and repair in accordance with international standards of safety, environment and speed.

On December 25, 2013 the Board of Directors of the Company for solving the problems in the field of construction and development of a corporate innovation system approved the strategy of innovation and technological development of the NC KTZ SC Group of Companies for the period of 2013-2018 (further - the Strategy) which defines a set of principles and tools, with the help of which the Company has made the creation, selection and implementation of innovative solutions.

During the same meeting of the Board of Directors there was a task to undertake a scientific conference with the involvement of partners - large international companies.

On May 2014 in Astana in response to this request in the framework of the 60th anniversary of the railway administrations Council for Rail Transport of the Commonwealth of Independent States there were provided scientific-practical conference on innovation and technological development of the railway industry, which was one of the most important events for the Company.

This conference were attended by Heads of the railway administrations of the Council for Rail Transport of the Commonwealth of Independent States, our foreign partners (Alstom, General Electric, Oliwer Wyman, HP), representative of the manufacturer of the neighbouring countries and beyond, the domestic producers, as well as managers of the companies and experts engaged in innovative activities.

During the conference, participants had the opportunity to familiarize with the achievements and results of the Company's innovation and technology activities, and also with the future plans of the Company.

Strategy implemented within the framework of the annual action plan focused on achieving strategic goals such as reducing wear and wastage of resources; increase productivity; delivery of goods «just in time» and «door to door»; increase economic efficiency; comfort and improvement of the working conditions; reduction of energy use; increase the service life of assets; creation research and experimental base; creation of an intellectual property portfolio; corporate culture focused on results and etc.

The implementation of a number of innovative projects focused on the creation of the new industries in Kazakhstan - railway engineering.

Contract for the acquisition of diesel locomotives series TE33A for 17 units was signed in 2014, which were acquired in full amount. Moreover, in December 2 units of passenger diesel locomotives Series TEP 33A were delivered.

It is known that, from 2011 the construction of a factory for the production of modern electric locomotives started in Astana. Now, second launch facility was put into operation and work continues on the acquisition and installation of process equipment in accordance with signed contracts.

From the 2014, delivery of freight locomotives of Lokomotiv SC was implemented. The plan in 2014 was provided to purchase 22 units. However, due to the devaluation of the tenge the volume decreased by 9 units. There were purchased 13 units for 12 months in 2014.

Also in 2014, with the plan of 40 electric train cars 40 (5 formulations for 8 cars) were delivered. These cars are put and run on suburban routes of the northern region.

Passenger Transportation SC has acquired 71 units of the Tulpar-Talgo passenger cars in 2014.

Also in 2014, it was planned to purchase 1 402 freight wagons, from which 1 400 open wagons, 2 covered wagons. In fact, Kazakhstan car-building company delivered 742 open wagons.

Considering the need of the Republic of Kazakhstan and the CIS countries in the rails for 120 m long, construction of Aktobe Rail and Section Works was started in 2013. The Head of State in a nationwide teleconference «New industrialization of Kazakhstan: results of the first five-year plan SPAIID» launched the first stage of the production line in the production of Rail and Section in Aktobe on December 25, 2014.

One of the main areas of innovation and technological development of the company is innovation in the area of maintenance and service infrastructure. ►

In 2014 according to the arrangements for the transition to a new system service Oliver Wyman Incorporated Company delivered and commissioned 5 units straightening - tamper - straightening - planning - finishing machines for turnouts and ways, of which 2 units sent to PCHM -Shu and 3 units in PCHM-Sorokovaya.

In 2014, the planned supply of LED modules required to replace the lens kit in number of 3 300 units produced in full amount, as well as a new generation of electric switches, produced in collaboration with Alstom (900 units).

Action Plan for implementation of the innovation and technological development of the Strategy also provides project about modernization of the 7 traction substations in Karabas, Bosaga, Shu, Karaganda-Sortirovachnaya, Shokai, Sorokovaya, Astana Stations.

Modernization of ORU- 110 kV made in 2013. In 2014, the works on modernization of ORU-27.5; 35; 10 kV planned to finish in the 1st half of 2015.

Also in 2014, it was scheduled to work on the transition to LED lighting plants by borrowing loans. On December 19, 2013 the loan agreement concluded between the NC SC Kazakhstan Temir Zholy and the European Bank for Reconstruction and Development (EBRD). Until 2017 there was planned modernization of lighting 262 stations in total, also in 2014 was scheduled transition to LED lighting of 44 stations.

On November 5, 2014 by the consultant of EBDR in NC KTZ SC presented a report on the assessment of applications for participation in the tender for the supply of LED lighting fixtures. Concluded agreements: No1491-TSZHS from 30.12.2014 in the amount of – 1 547 million tenge (6 959 million Euro) and No22-TSZHS from 14.01.2015 in the amount of 253.420 million tenge (1, 168 million Euros) with the Incotex Association Group of Companies (Russian Federation) as part of

Incotex-SK LLC, LiderLayt LLC, Display systems LLC. The project postponed to 2015.

For creating services for Information Interaction shippers and consignees, automation of technological processes of operational work systematically introduced automatic and intelligent control systems.

Therefore, for the monitoring and analysis of TER in real-time there was introduced Energodispatcherskaya thrust automated control system (ACS EDT). By the 01.01.2015 there were put into operation:

- ▲ 892 locomotives section (including sections 310 2TE10MK series, 359 series 2TE10 sections, 186 units of TEM ChME 37 units);
- ▲ 997 sections of electric (including sections 955 series VL80, VL40 17 units, 25 units of series KZ4).

In 2014, automation stations put into operation 16 stations GCD Kyzylorda, Mangystau (Kyzylorda, Shieli, Belkul, Zhosaly, Teren-Uzyakov, Zhanakorgan, Kazalinsk, Tyuratam, Aral, Saksaulskaya, Mangystau, Bolashak, Ozen, Aktau Port, Zhetybai, Eralievo) in trial operation on 10 stations GCD Shymkent, Uralsk, Atyrau (Shymkent, Kazy-Kurt Tekesu, Kyzylsai, Tyulkubas, Turkestan, Makhambet, Ganyushkino, Uralsk, Zhilaevo).

In January 2015, ACS put into trial operation at 9 stations GCD Kyzylorda (Departure 26 Talap, Besh-Aryk, Shornak, Zhalagash, Urdazy, Bai Hoja, Kamyshlabash, Chumysh), as well as in the current year is planned to put 10 stations in commercial operation.

In the framework of the ASU Magistral there are conducted research and development work to find possible optimal technological approaches and techniques for the diagnosis and maintenance of working capacity of trunk, station tracks.

The amount of funding of ACS Magistral also will be determined by the results of research and development. According to the work schedule for 2013-2014 all the planned works are performed. There are changes in terms of performance improvement in the technical specifications. According to the minutes No02/33 meeting of the Board of NC KTZ SC implementation period of the contract was extended by 15.07.2015

In the transition to an innovative path of development, the role of scientific and technical information for management decisions increased. From January 1, 2014 the Company implemented automated control system of scientific and technical information of ACS STI, opportunity to use databases which have all structural units and to which are the domain of the Company. In order to create a corporate portal of knowledge for all the 36 technical libraries equipment and automated library information, system «IRBIS-64», which is the main platform for «digital library» was purchased and installed.

The activity rationalization rules of NC KTZ SC introduced amendments and additions to the expansion of the list of nominations for the annual competition for the best technical solution. It is proposed to enter another 7 additional nominations except the existing one.

Improving innovation management system also provides the creation of a portfolio of intellectual property. Currently, the Company's inventory of intellectual property, an expert committee on Intellectual Property, approved a number of regulations governing the management of intellectual property.

In 2014, in response to the letter of expectations of the Sole Shareholder of the Company entrusted to provide the technological audit, as for a subsidiary organizations to develop policy papers on innovative development and to develop the Rules of interaction with operational responsibilities

in terms of research activities, excluding mutual overlap, which is jointly developed by NIIT and KazATC and which approved on 19 September of this year.

It is planned to provide technical audit in pilot mode in NOD Kostanai and Shymkent. There are commercial offers from 2 consulting companies. Currently, there is carried out work on summarizing the open tender for the procurement of consulting services, held on 20 March this year.

Regarding to the development of policy documents by the subsidiaries on innovation development, in 2014 it was approved in a time by all those who involved in the Company, except for Locomotive SC - a document developed, agreed, but not approved by the Board of Directors of Locomotive SC.

In order to determine the level of innovative development of national companies, each year the Foundation calculates the Rating of innovation and technological development on the bases of 10 key indicators of innovation performance (COP). In accordance with the requirements of industrial-innovative policy, the National Fund on an annual basis provide a final report on innovation. Over the past year rating of innovation and technological development amounted to 88.5 points (2013 index rating - 77.14 points). ■

CORPORATE GOVERNANCE

THE SOLE SHAREHOLDER

NC KTZ SC seeks to a balanced development of the society based on effective corporate governance mechanisms, and forms a control system for maximum efficiency and transparency of the results of all activities based on the interests of the Sole Shareholder and other stakeholders.

Corporate governance of NC KTZ SC is annually assessed for compliance with the best practice according to the methods of diagnostics of corporate governance in the companies of Samruk-Kazyna.



An indicator of the assessment is the rating of corporate governance.

In 2014 diagnosis of corporate governance in NC KTZ SC carried out by the Internal Audit Service – they provided analysis of the current corporate governance practices and produced recommendation for further improvement.

Results of the project formed the basis of the action plan for improving the system of corporate governance of NC KTZ SC for 2015.

The highest management body is the Sole Shareholder – Samruk-Kazyna SC, delegating general management of the company to the Board of Directors.

Corporate governance based on the principle of protecting and respecting the rights and legitimate interests of the Sole Shareholder. The Sole Shareholder has the right granted by the Law and the Charter.

THE EXCLUSIVE COMPETENCE OF THE SOLE SHAREHOLDER IN THE FOLLOWING MATTERS:

- ▲ make changes and additions to the Statute of the Company or approval of its new edition;
- ▲ approval of the code of corporate governance, as well as amendments and additions to it;
- ▲ voluntary reorganization or liquidation of the Company;
- ▲ approval of the annual report of the Company and annual financial statements;
- ▲ approval of distribution of net income for the fiscal year, the decision to pay dividends on common shares and approval of dividend per common share of the Company;
- ▲ Other issues on which decisions related legislation and (or) the Statute to the exclusive competence of the Sole Shareholder of the Company.
- ▲ The Sole Shareholder has the right to cancel any decision of other bodies of the Company on matters relating to the internal operations of the Company.

THE BOARD OF DIRECTORS

The Board of Directors determines the strategic objectives, priority directions of development and establishes the main reference points for the Company's activities for the long-term prospects, provides availability of the necessary financial and human resources for implementation of the set objectives. The Board of Directors controls the activities of the NC KTZ SC executive body.

The structure of the Board of Directors provides a fair and objective representation of the interests of the Sole Shareholder.

The Board of Directors is determined by the Sole Shareholder. Member of the Board of Directors can only be physical persons.

WHEN THE SOLE SHAREHOLDER MAKING DECISIONS ON THE ELECTION (APPOINTMENT) OF MEMBERS OF THE BOARD OF DIRECTORS THE SOLE SHAREHOLDER HE/SHE SHOULD BE GUIDED BY THE FOLLOWING REQUIREMENTS FOR THE SELECTION OF CANDIDATES FOR THE BOARD OF DIRECTORS:

- ▲ the trust of the Sole Shareholder and other Members of the Board of Directors to the candidate;
- ▲ the positive achievements and impeccable reputation of the candidate in business and industry environment;
- ▲ professional knowledge and skills of the candidate allowing him/her to make informed decisions, which meets the best interests of the Sole Shareholder and the Company. The additional advantage is the presence of the candidate scientific degree in area corresponding to the main activities of the Company;
- ▲ The presence of leadership experience at least 3 (three) years, preferably in area corresponding to the main activities of the Company;

- ▲ Availability of a sufficient amount of time, allowing effectively perform mandated functions.

DIRECTOR COULD BE INDEPENDENT IN CASES IF:

- ▲ if he-she is not affiliated with the Company and has not been affiliated for three (3) years prior to his election to the Board of Directors (except in the case when he/she is an Independent Director of the Company);
- ▲ he or (she) not an affiliated person in relation to the affiliates of the Company;
- ▲ does not have any relations with the subordination of officers of the Company or organizations - affiliates of the Company and was not associated with the subordination of these persons within three (3) years prior to his election to the Board of Directors;
- ▲ he or (she) not an auditor of the Company and has not been an auditor for three (3) years prior to his/her election to the Board of Directors;
- ▲ he or (she) not a civil servant.

The Independent Directors of the NC KTZ SC meet the specified requirements.

Board Members, except the Chairman of the Board could not be elected to the Board of Directors. Chairman of the Board may not be elected as Chairman of the Board of Directors.

THE BOARD OF DIRECTORS OF THE NC KTZ SC IN 2014

By the decision of the Board of Samruk-Kazyna SC on August 1, 2014 (minutes No 36/14):



THE FOLLOWING MEMBERS OF THE NC KTZ SC BOARD OF DIRECTORS EARLY TERMINATED THE POWERS:

- ▲ M.Zh. Urazbekov - Director of Transport Asset Management of Samruk-Kazyna SC, the representative of the Sole Shareholder;
- ▲ Zh.M. Kasymbek - Minister of Transport and Communications of the Republic of Kazakhstan;
- ▲ N.K. Issingarın - Independent Director;
- ▲ Chris Walton - Independent Director.

ELECTED TO THE BOARD OF DIRECTORS OF THE NC KTZ SC:

- ▲ Shomodi Kalman - Independent Director;
- ▲ Christian Kuhn - Independent Director;
- ▲ Jeremy Drew - Independent Director;
- ▲ E.Zh. Balapanov - Representative of the Sole Shareholder.

By the decision of the Board of Samruk-Kazyna SC on November 17, 2014 (minutes No 52/14) A.O. Ilkyavichyus was elected to the Board of Directors of the NC KTZ SC - Representative of the Sole Shareholder.



BAIDAULETOV NURZHAN TALIPOVICH

CHAIRMAN OF THE BOARD OF DIRECTORS

He was born in 1960. He graduated from the Moscow Institute of Railway Transport with a qualification in Transit management on the railway transport in 1986. In 1986 he began his career as shunting master, station duty officer at Ekibastuz Tselinnaya Railway. He worked as an Engineering Technologist at Ekibastuz Station, Chief Engineer at Pavlodar-North Station in Pavlodar. In the period from 1989 to 1998 – Deputy Chief of the Traffic Department of Pavlodar branch of Tselinnaya Railway, Head of Pavlodar Station in Pavlodar, First Deputy Head of the Pavlodar branch of Tselinnaya Railway, Deputy Chief of Akmola Railway, Head of the Pavlodar branch of the road, Head of Akmola Railway of Kazakhstan Temir Zholy RSE. In 1998, he was appointed Director of the Department of Railway Transport of the Ministry of Transport and Communications of the Republic of Kazakhstan. In the period from 2003 to 2004 – Vice-Minister of Transport and Communications of the Republic of Kazakhstan. In the period from 2004 to 2006 – Chairman of the Committee of Communication Lines of the Ministry of Transport and Communications of the Republic of Kazakhstan.

Since 2006 - present – Director for Transport and Industrial Assets Management of Holding Samruk SC, Managing Director of Holding Samruk SC, Managing Director, General Director for Assets Management of Samruk-Kazyna, Chairman of the NC KTZ SC Board of Directors. A citizen of the Republic of Kazakhstan. He does not own shares of the company, suppliers and competitors. He was elected for the first time to the Board of Directors on June 20, 2006, re-elected on June 21, 2012.



MAMIN ASKAR UZAKPAEVICH

MEMBER OF THE BOARD OF DIRECTORS, CHAIRMAN OF THE BOARD – PRESIDENT OF NC KTZ SC

He was born in 1965. He graduated from Tselinograd Civil Engineering Institute, Russian Academy of Economics named after G.V. Plekhanov with specialization in construction engineer, economist. He started his working life as installation fitter of Tselintyazhstroy trust. He worked as Deputy Director General of the Union of Innovative Enterprises in Kazakhstan. from 1996 to 2008 – First Deputy Mayor of the city of Astana, Vice-Minister of Transport and Communications of the Republic of Kazakhstan, First Vice-Minister of Industry and Trade of the Republic of Kazakhstan, Minister of Transport and Communications of the Republic of Kazakhstan, Mayor of the city of Astana.

Since April 2008 – Chairman of the Board - President of the NC KTZ SC, Member of the NC KTZ SC Board of Directors. A citizen of the Republic of Kazakhstan. He does not own shares of the company, suppliers and competitors. He was elected to the Board of Directors for the first time on April 4, 2008, re-elected on June 21, 2012.



URAZBEKOV MARAT ZHANABERGENOVICH

MEMBER OF THE BOARD OF DIRECTORS

He was born in 1960. He graduated from Almaty Institute of Railway Engineers in 1986 and was awarded a qualification of electrical engineer. He graduated from the Academy of Public Administration under the President of the Republic of Kazakhstan in 2000 with specialization in state and municipal management. He began his career as Master, Senior Master of locomotive depot. IN 1988 he was appointed Chief Technologist of Arys locomotive depot of Almaty Railway. From 1993 to 2003 he worked as Deputy Head, Head of the Department for Development Factory and Repair Facilities of the Department of Railway Transport of the Republic of Kazakhstan, Deputy Director of the Department of Railway Transport, and then he was appointed Director of the same Department. From August 2003 to October 2008 he worked as Deputy Chairman of the Committee of Railway Transport of the Ministry of Transport and Communications of the Republic of Kazakhstan, Chairman of the Committee of Communication Lines of the Ministry of Transport and Communications. From October 2008 – present he has been working as Director of the Directorate for Management of Transport Assets of Samruk-Kazyna.

From January 2012 to August 1, 2014 – Member of the NC KTZ SC Board of Directors. A citizen of the Republic of Kazakhstan. He does not own shares of the company, suppliers and competitors. He was elected to the Board of Directors for the first time on January 24, 2012, re-elected on June 21, 2012, early terminated the powers of a Member of NC KTZ SC Board of Directors from August 1, 2014.



KASYMBEK ZHENIS MAKHMUDOVICH

MEMBER OF THE BOARD OF DIRECTORS

He was born in 1975. He graduated from the Kazakh State Academy of Architecture and Construction with specialization in architect designer and Eurasian National University with specialization in government and local administration. He began his career as central banker in Temirbank JSC. He worked as Head of the Department of RailwayTransport and Ports of the Agency for Regulation of Natural Monopolies and Protection of Competition, Head of the Tariff Policy Division of the Department for Coordination and Tariff Policy, Director of the Department of Water Transport of the Ministry of Transport and Communications of the Republic of Kazakhstan, Director of Aktau International Sea Port RSE. From November 2005 – Vice-Minister of Transport and Communications of the Republic of Kazakhstan. From March 12, 2009 to March 7, 2014 he worked as an Executive Secretary of the Ministry of Transport and Communications of the Republic of Kazakhstan. March 7, 2014 to June 8, 2014 – Minister of Transport and Communications of the Republic of Kazakhstan. Since 13 August 2014 he was appointed First Deputy Minister for Investment and Development of the Republic of Kazakhstan.

Since 2011 to August 1, 2014 – Member of the Board of Directors of the NC KTZ SC. A citizen of the Republic of Kazakhstan. He does not own shares of the company, suppliers and competitors. He was elected to the NC KTZ SC Board of Directors for the first time on June 20, 2006, re-elected on June 21, 2012, early terminated the powers of the NC KTZ SC Member of the Board of Directors from August 1, 2014.



**SYZDYKOV
TITO UAKHAPOVICH**
INDEPENDENT DIRECTOR

He was born in 1948. He graduated from Semey Animal Husbandry and Veterinary Institute, Pavlodar University. Master of Science in economics and management in industries and social sphere. Candidate of Economic Sciences. Nearly ten years Tito Syzdykov had been worked on farms of Pavlodar region. He headed sovkhos and had been elected to the responsible party and government posts for many years. From 1997 to 1999 he worked as Mayor of Aksu city in Pavlodar region. In 1999 he was elected to the Mazhilis of the Parliament of the Republic of Kazakhstan.

From 2012 – Independent Director, Member of the Board of Directors of the NC KTZ SC. A citizen of the Republic of Kazakhstan. He does not own shares of the company, suppliers and competitors. He was elected to the Board of Directors on October 2, 2012.



**ISSINGARIN
NIGMATZHAN KABATAEVICH**
INDEPENDENT DIRECTOR

He was born in 1941. He graduated from Ural Electromechanical Institute of Railway Engineers in 1964. He graduated from the Academy of National Economy under the USSR Council of Ministers in 1984. He has a doctorate degree in economics. In the period from 1964 to 1986 – Engineer, Chief Engineer, Head of Tselinograd Division of Signaling and Communication, Head of Signaling and Communication Department of Tselinograd branch of the road, Head of the Technical Department – Deputy Chief Engineer of the Kazakhstan Railways, Chief Engineer, Head of Tselinnaya Railway. In the period from 1986 to 1991 – Deputy Minister of the Ministry of Communication Lines of the USSR, Head of the Almaty Railway. In the period from 1991 to 2002 – Minister of Transport and Communications of the Republic of Kazakhstan, First Deputy Prime Minister of the Republic of Kazakhstan, Chairman of the Integration Committee of the Customs Union (Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan), Deputy Secretary General of the Eurasian Economic Community.

Since 2002 - present – Director General Economtransconsulting LLP, Chairman of the Association of National Freight Forwarders of Kazakhstan, Kazakhstan Association of Carriers and Wagon. From 2006 to August 1, 2014 – Independent Director, Member of the Board of Directors of the NC KTZ SC. A citizen of the Republic of Kazakhstan. He does not own shares of the company, suppliers and competitors. He was elected to the Board of Directors of the NC KTZ SC on June 20, 2006, re-elected on June 17, 2013, early terminated the powers of a Member of the Board of Directors of the NC KTZ SC from August 1, 2014.



WALTON CHRIS
INDEPENDENT DIRECTOR

He was born in 1957. He graduated from the University of Western Australia. He holds a BA degree in Political Sciences and Master of Business Administration (MBA) in finance. In the period from 1983 to 2005 – Research worker under Senator D. Evanse, Corporate Planner in BP Australia, Group Financial Planning Manager, acting Financial Director, Financial Manager of the Australian Airline Group, General Manager of Financial Management of Australia Post, Financial Manager, acting Director of the International Department of New Zealand Air, General Manager of Effective Partnership, General Manager of Financial Planning and Analysis Qantas Airways, Financial Director of EasyJet SC. Present – Independent Chairman of the Board of Directors of Goldenport Holdings Inc, Independent Director, Chairman of Rockhopper Exploration Audit Committee.

From 2008 to August 1, 2014 – Independent Director, Member of the Board of Directors of the NC KTZ SC. A citizen of the United Kingdom. He does not own shares of the company, suppliers and competitors. He was elected to the Board of Directors of the NC KTZ SC on June 13, 2008, re-elected on June 21, 2012, early terminated the powers of a Member of the Board of Directors of the NC KTZ SC from August 1, 2014.



KALMAN SHOMODI
INDEPENDENT DIRECTOR

He was born in 1959. In the period from 1983 to 1989 held various positions at the Hungarian State Railways (MAV), including Freight Assistant of Deputy Director General, Head of the Department of MAV International Management and etc. Mr. Shomodi's international career is considerably associated with the Organization for Cooperation of Railways (OSJD, Warsaw): - in the period from 1989 to 1992, he worked as Deputy Chairman at the same time Chairman of the Commission on Transport Law; - in the period from 1993 to 1999 – Chairman of the Commission on Transport Policy; - in the period from 2002 to 2008 – he worked as the Executive Secretary. In the period from 1999 to 2002 – he held a post responsible for relations with the CIS countries and the Baltic States in the International Union of Railways (UIC, Paris). From 2008 to 2011 – Head of Department at MAV Zrt. In addition, from 2006 to 2012 as an Independent Director he was a Member of the Board of Directors of the NC KTZ SC, Chairman of the Audit Committee of the Board of Directors of the NC KTZ SC, as well as Member of Committee for Personnel and Remuneration of the Board of Directors of the NC KTZ SC.

From June 1, 2011 he worked as Executive Secretary of OSJD and Member of OSJD Committee of Hungary. Hungarian citizen. He does not own shares of the company, suppliers and competitors. He was elected to the Board of Directors of the NC KTZ SC on June 20, 2006, re-elected on June 21, 2009 for a term of three years, re-elected to the Board of Directors of the NC KTZ SC on August 1, 2014.



KUHN CHRISTIAN
INDEPENDENT DIRECTOR

He was born in 1965. In the period from February 1992 to February 1996 – Researcher at the University of Hanover, Institute of transportation, construction and railway operations, PhD at the University of Hanover. In the period from March 1996 to December 1999 – Project Manager, Head of Freight Department at Deutsche Eisenbahn Gesellschaft mbH (DEG). From November 2000 to October 2005 – Managing Director of Connex Cargo Logistics (CCL). From August 1998 to February 2005 – Managing Director of Industriebahn-Gesellschaft Berlin mbH (IGB) and a Member of the Board of Niederbarnimer Eisenbahn AG (NEB). In the period from November 2005 to February 2009 – Head of the Steel and Coal Industries (Stinnes Freight Logistics / Railion Deutschland AG). From April 2009 - present – Managing Director of Martrade Holding und Management GmbH, Independent Director of Martrade Group and Tata Martrade International Logistics Ltd (TMILL), Kolkata, India. In the period from January 2010 to May 2011 – Deputy Chairman of the Board of DB Schenker Rail, Chief Operating Officer of DB Schenker Rail GmbH, Independent Director of BLS Cargo AG (Bern), NordCargo srl (Milan), DB Schenker Rail Scandinavia A/S (Copenhagen) and XRail SA (Brussels). In the period from November 2005 to February 2009 and January 2010 to May 2011 – Member of the Board of Production Management, Managing Director of Deutsche Bahn AG.

From June 2011 - present – Independent Consultant in the field of railway and logistics. German citizen. He does not own shares of the company, suppliers and competitors. He was elected to the Board of Directors of the NC KTZ SC on August 1, 2014.



DREW JEREMY
INDEPENDENT DIRECTOR

He was born in 1948. Consultant in the field of railways, specializing in railway policy, strategy, regulatory and commercial issues. He worked in the sphere of railways in more than 20 countries around the world. In the period from 1979 to 1985 – The World Bank. From 1985 to 1993 – Founding Director of the Prague office of Coopers & Lybrand Management Consultants, currently it is IBM. In the period from 1995 to 1997 – British Office of Regulation of the railway operations. From 2008 to 2010 – Community of European Railways. Recent professional experience includes working for the United States Transportation at the Council of Research and Development for the Financing of the Railway of the European Bank for Reconstruction and Development on the Tariffs of the Railway Infrastructure in Russia and Romania; for the Greek government on the privatization of the railway; for the British Department of Transport for the franchise (concession) policy; and the African Development Bank on the Business Plan and Financing of a new line in East Africa.

A citizen of the United Kingdom. He does not own shares of the company, suppliers and competitors. He was elected to the Board of Directors of the NC KTZ SC on August 1, 2014.



**BALAPANOV
ERIK ZHUMAKHONOVICH**
MEMBER OF THE BOARD OF DIRECTORS

He was born in 1968. He graduated from Almaty Institute of National Economy, Institute for Eurasian market. He is a Candidate of Economic Sciences. He started his career as an Apprentice Accountant, Stud Farm Foreman. From 1995 to 1998 he worked in various positions in Turan Bank starting from the Head of Department of Currency Transactions to the Deputy Chairman of the Board. From 1998 to 2000 – Chairman of the Board of Directors of Nan Onimderi LLC. From 2000 to 2001 – Acting Chairman of the Board of Almaty Commercial Bank SC. From 2001 to 2002 – Managing Director of Development Bank of Kazakhstan SC. From 2002 to 2003 – Deputy General Director of Caspian Industrial and Financial Group LLP. From 2003 to 2012 – Managing Director of Kazkommertsbank SC and at the same time Chairman of the Board of Directors of several Kazkommertsbank SC subsidiaries. From 2012 to 2013 – Advisor to the Chairman of the Board, Chairman of the Board of BTA Bank SC.

From January 2014 – present Deputy Director of Zenith LLP. A citizen of the Republic of Kazakhstan. He does not own shares of the company, suppliers and competitors. He was elected to the Board of Directors of the NC KTZ SC on August 1, 2014.



**ILKYAVICHYUS
ADAMAS OLEGAS**
MEMBER OF THE BOARD OF DIRECTORS

He was born in 1975. In the period from 1996 to 2000 – the Open University, Bachelor in Business Administration and Computer Sciences, Tel Aviv, Israel; From 2005 to 2007 – BMI Business School, Master of International Business Administration BMI-197, Copenhagen, Denmark. IBM Global Business Services, Executive Director of the program. In the period from 2009 to 2013 – General Director, Manager of Global Business Transformation Program Eurasian Natural Resources Corporation, Management of Business and Technology (ENRC BTS).

From November 26, 2013 - present – Advisor of the Chairman of the Board, Chief Director of Business Transformation of Samruk-Kazyna. A citizen of the Republic of Lithuania. He does not own shares of the company, suppliers and competitors. He was elected to the Board of Directors of the NC KTZ SC on August 1, 2014.

INFORMATION ON WORK OF THE BOARD OF DIRECTORS OF THE NC KTZ SC

The Board of Directors bears a responsibility to the Sole Shareholder for the effective management and control over the activities of the Company.

The Board of Directors of the NC KTZ SC was consisted of 7 members before August 1, 2014, 3 of them were Independent Directors, from August 1, 2014 to November 17, 2014 the Board of Directors of the NC KTZ SC was consisted of 7

members, 4 of them were Independent Directors, from November 17, 2014 the Board of Directors of the NC KTZ SC is consisted of 8 members, 4 of them are Independent Directors.

There were held 12 meetings of the Board of Directors of the NC KTZ SC in total in 2014, 9 of them were held in personal attendance.

PARTICIPATION OF MEMBERS OF THE BOARD OF DIRECTORS IN IN-PERSON MEETINGS WAS AS FOLLOWS:

Name	Participation in in-person meetings	Reasons for not participating in meetings
N.T. Baidautov	9 out of 9	
A.U. Mamin	3 out of 9	4 – due to business trip 1 – due to vacation leave 1 – due to signing of agreement between NC KTZ SC and Alstom Transport
Zh.M. Kasymbek	2 out of 6	3 – due to business trip 1 – due to participation in the meeting with Prime-Minister of the Republic of Kazakhstan
M.Zh. Urazbekov	6 out of 6	
N.K. Issingarin	4 out of 5	1 – due to illness
T.U. Syzdykov	9 out of 9	
K. Walton	6 out of 6	
K. Shamodi	3 out of 3	
K. Khun	3 out of 3	
J. Drew	3 out of 3	
E.Zh. Balapanov	3 out of 3	
A.O. Ilkyavichyus	1 out of 1	

THE BOARD OF DIRECTORS REVIEWED 2 ISSUES RELATING TO INTERESTED-PARTY TRANSACTIONS IN 2014:

- Interested-party transaction, in which the NC KTZ SC signed additional agreement in the framework of the replacement of the issuer of Eurobonds issued in 2010 by Kazakhstan Temir Zholy Finance BV 2.
- Interested-party transaction, in which the NC

KTZ SC signed additional agreement an additional agreement to the contract of guarantee between the NC KTZ SC and Transport technologies LLC to secure the guarantee of the NC KTZ SC and Kazakhstan Development Bank SC to secure the obligations of Aktobe rail and structural steel mill LLP.

THERE WERE CONSIDERED 122 ISSUES DURING THE MEETINGS IN 2014, INCLUDING THOSE RELATING TO:

- The Sole Shareholder – 2;
- The Board of Directors of the NC KTZ SC - 17;
- The Board of the NC KTZ SC - 1;
- The Internal Audit Service of the NC KTZ SC - 15;
- social matters - 5;
- the NC KTZ SC regulatory measures - 11;
- production and economic matters - 53;
- reports on the activities of the NC KTZ SC - 16;
- the creation of new businesses – 2.

On the reviewed 122 issues by the Board of Directors of the NC KTZ SC there were given 270 instructions.

INFORMATION ON THE COMMITTEES OF THE BOARD OF DIRECTORS OF THE NC KTZ SC

THE FOLLOWING COMMITTEES BEEN ESTABLISHED UNDER THE BOARD OF DIRECTORS OF NC KTZ SC:

The Audit Committee Board of Directors of the NC KTZ SC

BEFORE AUGUST 1, 2014 WAS CONSISTED OF 4 MEMBERS OF THE BOARD OF DIRECTORS, 3 OF THEM WERE INDEPENDENT DIRECTORS:

K. Walton	Independent Director, Chairman of the Committee;
T.U. Syzdykov	Independent Director, Member of the Committee;
N.K. Issingarin	Independent Director, Member of the Committee;
Zh.M. Kasymbek	Minister of Transport and Communications of the Republic of Kazakhstan, Member of the Board of Directors, Member of the Committee.

FROM AUGUST 1, 2014 IS CONSISTED OF 4 MEMBERS OF THE BOARD OF DIRECTORS, 3 OF THEM ARE INDEPENDENT DIRECTORS:

K. Shomodi	Independent Director, Chairman of the Committee;
T.U. Syzdykov	Independent Director, Member of the Committee;
J. Drew	Independent Director, Member of the Committee;
E.Zh. Balapanov	Representative of the Sole Shareholder, Member of the Committee.

Committee on personnel and remuneration of the Board of Directors of the NC KTZ SC

BEFORE AUGUST 1, 2014 WAS CONSISTED OF 4 MEMBERS OF THE BOARD OF DIRECTORS, 3 OF THEM WERE INDEPENDENT DIRECTORS:

T.U. Syzdykov	Independent Director, Chairman of the Committee;
M. Zh. Urazbekov	Director of Transport Assets Management of Samruk-Kazyna SC, Member of the Board of Directors, Member of the Committee.
K. Walton	Independent Director, Member of the Committee;
N. K. Issingarın	Independent Director, Member of the Committee;
A.T. Ordabayeva	General Manager of the Department of Personnel Management of Samruk-Kazyna SC, the Expert of the Committee;
A.M. Lepesbayev	Vice President for Economics and Finance of the NC KTZ SC, the Expert of the Committee.

FROM AUGUST 1, 2014 IS CONSISTED OF 3 MEMBERS OF THE BOARD OF DIRECTORS, 3 OF THEM ARE INDEPENDENT DIRECTORS:

T.U. Syzdykov	Independent Director, Chairman of the Committee;
K. Khun	Independent Director, Member of the Committee;
K. Shomodi	Independent Director, Member of the Committee;
A.T. Ordabayeva	General Manager of the Department of Personnel Management of Samruk-Kazyna SC, the Expert of the Committee;
Sh. S. Omarbekova	Vice President of NC the KTZ SC, the Expert of the Committee.

The Strategic Planning and Innovation Committee of the Board of Directors of the NC KTZ SC

BEFORE AUGUST 1, 2014 WAS CONSISTED OF 5 MEMBERS OF THE BOARD OF DIRECTORS, 3 OF THEM WERE INDEPENDENT DIRECTORS:

N.K. Issingarın	Independent Director, Chairman of the Committee;
T.U. Syzdykov	Independent Director, Member of the Committee;
K. Walton	Independent Director, Member of the Committee;
M. Zh. Urazbekov	Director of Transport Assets Management of Samruk-Kazyna SC, Member of the Board of Directors, Member of the Committee.

Zh. M. Kasymbek	Minister of Transport and Communications of the Republic of Kazakhstan, Member of the Board of Directors, Member of the Committee.
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FROM AUGUST 1, 2014 IS CONSISTED OF 4 MEMBERS OF THE BOARD OF DIRECTORS, 2 OF THEM ARE INDEPENDENT DIRECTORS:

K. Khun	Independent Director, Chairman of the Committee;
J. Drew	Independent Director, Member of the Committee;
E. Zh. Balapanov	Representative of the Sole Shareholder, Member of the Committee.
A.O. Ilkyavichyus	Representative of the Sole Shareholder, Member of the Committee. (from December 5, 2014).
K.K. Alpysbayev	Vice President of the NC KTZ SC, the Expert of the Committee.
E.S. Zhusanbayev	Managing Director of Corporate Development of the NC KTZ SC, the Expert of the Committee.

THERE WERE HELD 21 MEETINGS OF COMMITTEES OF THE BOARD OF DIRECTORS OF THE NC KTZ SC IN TOTAL IN 2014, INCLUDING:

The Audit Committee of the Board of Directors of the NC KTZ SC held 8 meetings, of which 7 in-person and 1 in absentia meetings, during which there were considered 34 issues

PARTICIPATION OF MEMBERS OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF THE NC KTZ SC IN IN-PERSON MEETINGS WAS AS FOLLOWS:

Name	Participation in in-person meetings	Reasons for not participating in meetings
K. Walton	4 out of 4	
N.K. Issingarın	3 out of 3	
T.U. Syzdykov	7 out of 7	
Zh. M. Kasymbek	2 out of 4	2 – due to business trip
K. Shomodi	3 out of 3	
J. Drew	1 out of 3	2 – due to business trip
E. Zh. Balapanov	3 out of 3	

The Committee on personnel and remuneration of the Board of Directors of the NC KTZ SC held 9 in-person meetings, during which there were discussed 32 issues

PARTICIPATION OF MEMBERS OF THE COMMITTEE ON PERSONNEL AND REMUNERATION OF BOARD OF DIRECTORS OF THE NC KTZ SC IN IN-PERSON MEETINGS WAS AS FOLLOWS:

Name	Participation in in-person meetings	Reasons for not participating in meetings
T.U. Syzdykov	9 out of 9	

Name	Participation in in-person meetings	Reasons for not participating in meetings
M. Zh. Urazbekov	6 out of 6	
N.K. Issingarın	3 out of 5	2 – due to illness
K. Walton	4 out of 6	2 - due to business trip
K. Shomodi	3 out of 3	
K. Khun	2 out of 3	1 - due to business trip

The Strategic Planning and Innovation Committee of the Board of Directors of the NC KTZ SC held 4 in-person meetings, during which there were considered 12 issues

PARTICIPATION OF MEMBERS OF THE COMMITTEE FOR STRATEGIC PLANNING AND INNOVATION OF THE BOARD OF DIRECTORS OF THE NC KTZ SC IN IN-PERSON MEETINGS WAS AS FOLLOWS:

Name	Participation in in-person meetings	Reasons for not participating in meetings
N. K. Issingarın	2 out of 2	
Zh. M. Kasymbek	0 out of 2	2 - due to business trip
M. Zh. Urazbekov	2 out of 2	
T. U. Syzdykov	4 out of 4	
K. Walton	0 out of 2	2 - due to business trip
K. Khun	2 out of 2	
J. Drew	1 out of 2	1 - due to business trip
E. Zh. Balapanov	2 out of 2	

Recommendations on the following issues are developed by the Committee on personnel and remuneration:

- the respective remuneration of Directors, Members of the Board, Corporate Secretary, Corporate Secretary Office in accordance with the goals, objectives and the current position of the Company;
- the introduction of structured and open system of remuneration of Directors, Members of the Board and Corporate Secretary.

The Committee for strategic planning and innovation is developing recommendations on:

- the improvement of competitiveness and stimulation of innovation activities of the Company based on the analysis of the scientific and technical and innovation spheres of the Company;

- effective interaction and coordination of activities of the Company in the implementation of innovation policy;

- reform of the Company's activities in order to enhance innovation.

EVALUATION OF THE ACTIVITY OF THE BOARD OF DIRECTORS OF THE NC KTZ SC

Corporate Governance Code of the NC KTZ SC envisages an annual assessment of the activity of the Board of Directors of the NC KTZ SC, with at least 1 time in three years, assessment should be carried out by independent consultants.

In 2012, in accordance with the best international practices of corporate governance the assessment of the Board of Directors of the NC KTZ SC was conducted by an independent consultant, in 2013 and 2014 assessment of the activity of the Board of Directors of the NC KTZ SC was conducted by the method of self-assessment using questionnaires.

Assessment of the activity of the Board of Directors of the NC KTZ SC was conducted on the basis of valuation technique of the activity of the Board of Directors and its Committees, Chairman, Members of the Board of Directors and Corporate Secretary of the NC KTZ SC, which was approved by the Board of Directors of the NC KTZ SC.

The assessment showed to the Board of Directors of the NC KTZ SC the directions for further improvement of its own activities and the development of corporate governance practices.

THE REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

Terms of Independent Directors remuneration are reflected in the agreements concluded with them. The remuneration consists of fixed and variable components. Members of the Board of Directors of the NC KTZ SC, who are not Independent Directors, including representatives of the Sole Shareholder carry out their work on free of charge basis.

THE AMOUNT OF PAYMENTS TO INDEPENDENT DIRECTORS IN 2014 WAS:

Name	Annual fee
Nigmatzhan Kabatayevich Issingarın	3 645 000 tenge
Tito Uakhapovich Syzdykov	7 222 500 tenge
Chris Walton	23 850 US dollars
Shomodi Kalman	19575US dollars
Christian Khun	18675US dollars
Jeremy Drew	19 575 US dollars

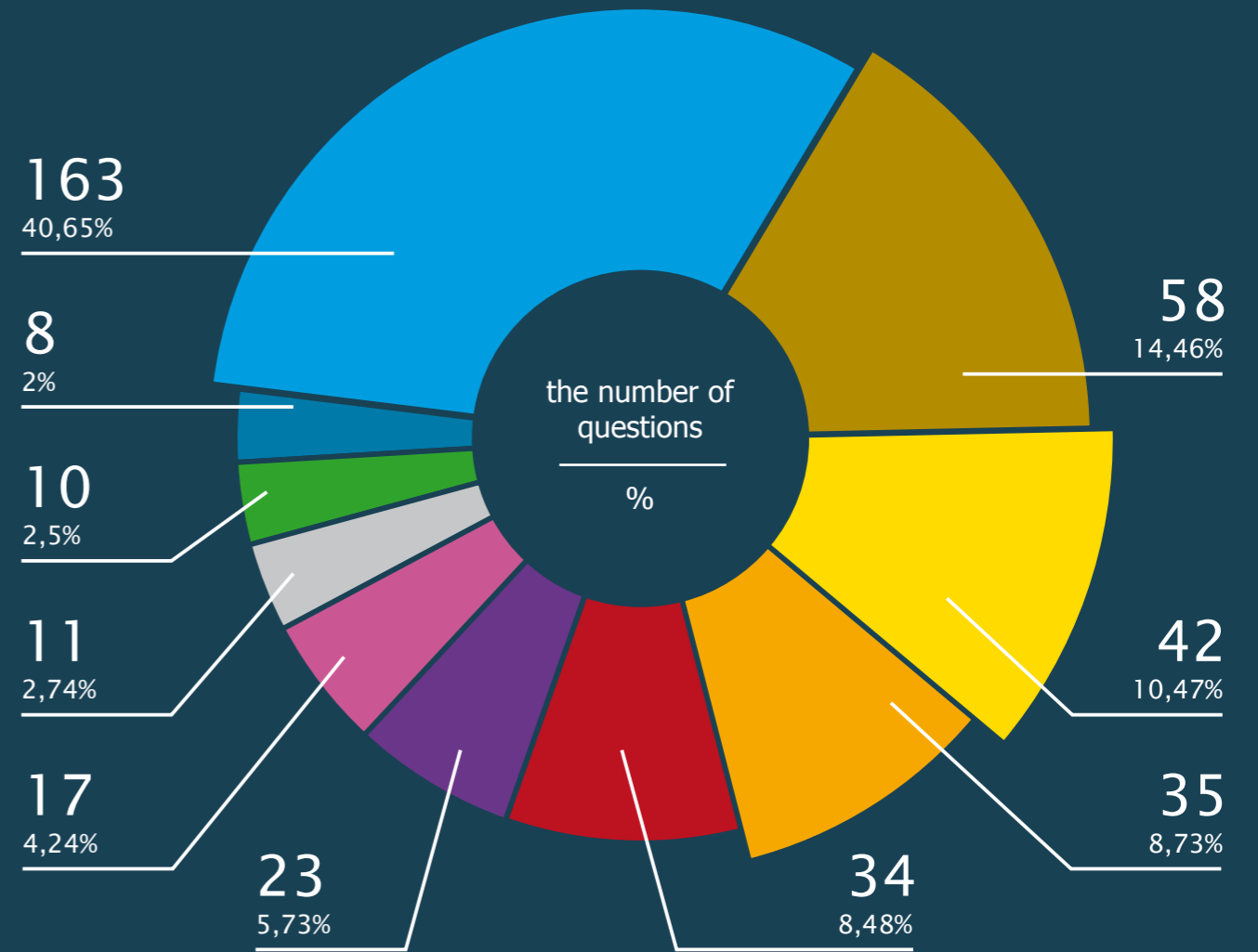
THE BOARD

The Board is a collegial executive body of the Company, that have competence to resolve all Company's activity issues not covered by the Law, other legislative acts of the Republic of Kazakhstan and the Statute to the competence of other bodies and officers of the Company.

In accordance with the decision of the Board of Directors of the NC KTZ SC there was determined the number of Members of the Board of 10 persons and there were elected its Members.

The Board is responsible for implementing of strategy and daily operations of the Company.

In 12 months of 2014 there were held 38 meetings of the Board of the NC KTZ SC, of which 32 were face to face and 6 in absentia. Structural units of the NC KTZ SC and dependent companies were submitted 401 questions for consideration by the Board, including questions:



- ▲ which were submitted for consideration by the NC KTZ SC Board of Directors;
- ▲ on approval of rules, regulations, plans, guidelines;
- ▲ on transactions;
- ▲ on table staffing authorization;
- ▲ on procurement;
- ▲ on appointments;
- ▲ write-off of accounts receivable/payable;
- ▲ on changing the type of shares, increasing, accommodation, sale and purchase;
- ▲ on approving and amending the statutes of subsidiaries;
- ▲ on other issues of the current activity.

THE COMPOSITION OF THE BOARD OF THE NC KTZ SC IN 2014:



MAMIN ASKAR UZAKPAEVICH

CHAIRMAN OF THE BOARD - PRESIDENT OF THE NC KTZ SC

Askar Uzakpaevich Mamin was born in 1965. He graduated from Tselinograd Civil Engineering Institute, Russian Academy of Economics named after G.V. Plekhanov with specialization in construction engineer, economist. He started his working career as a fitter of Tselintyazhstroy trust. From 1996 to 2008 – First Deputy Mayor of Astana city, Vice-Minister of Transport and Communications of the Republic of Kazakhstan, First Vice-Minister of Industry and Trade, Minister of Transport and Communications of the Republic of Kazakhstan, Mayor of the city of Astana. From April 2008 President of the NC KTZ SC. He was awarded the medal «Eren enbegi ushin» (1998), the Order of «Qurmet» (2006), the Order of «Barys» to the second degree (2011), the Order of the Holy Prince Daniel of Moscow 3 degree (2010), the Legion of Honour of the French Republic (2013), the Order of the «Cross of Recognition» of the second degree of the Republic of Latvia (2013), the Order of 1st degree «For Civil Merits» of the Kingdom of Spain (2014), Honorary Citizen of Astana city (2011). Honorary railway worker (2012), Honorary Builder of Kazakhstan (2013).



URYNBASAROV BAUYRZHAN PAZYLBEKOVICH

VICE-PRESIDENT OF THE NC KTZ SC

He was born on October 22, 1970 in Kyzylorda region. He graduated from Almaty Institute of Railway Engineers with specialization in management of transport processes. He began his career as traffic controller in Almaty department of Almaty branch of the road. Subsequently he worked as a Senior Engineer, Head of the Industrial Engineering Department of the Railroad Department of Kazakhstan Temir Zholy RSE in Almaty. In 2007-2008 he was a Head of branch of the NC KTZ SC — Karaganda branch of the road. From 2009-2010 he held positions of Directors of branches of the NC KTZ SC – Management of Transportation Process, Almaty branch of the road. From 2010 to 2011 – Managing Director - Chief Engineer of the NC KTZ SC. From 2012 to 2014 - Managing Director for Operational Work of the NC KTZ SC. From February to April 2014 Acting Chairman of the Board (President) of Kaztemirtrans SC. From April 2014 - Vice-President of the NC KTZ SC.



ALPYSBAYEV KANAT KALIYEVICH

VICE-PRESIDENT OF THE NC KTZ SC

He was born on March 31, 1972 in Atbasar, Akmola region. He graduated from Alma-Ata Institute of Railway Transport Engineers, University of Kentucky (USA), Moscow International Higher Business School. He holds a master degree. From 1994 to 2002 worked at the Tselinnaya Railway enterprises, Kazakhstan Temir Zholy RSE, Joint Stock Companies of various profiles. In 2002-2003 worked as a Director of Finance and Administration, Vice-President of Finance and Information Technology at Air Astana CSC. From November 2005 to June 2008 worked as a Director of Business Development of Branch of General Electric Corporation. From 2008 to 2013 worked as Vice-President of Economics and Finance at the NC KTZ SC. From January 2011 to November 2014 – Vice-President on Logistics at the NC KTZ SC. From December 9, 2014 Vice-President of the NC KTZ SC.



KIZATOV YERMEK ANUARBEKOVICH

VICE-PRESIDENT OF THE NC KTZ SC

Was born on August 6, 1961 in Akmola region. He graduated from Almaty Institute of Railway Transport Engineers in specialization in construction of the railroads, road and traveling facilities. Doctor of Technical Sciences. He started to work as the master of the Novoishimskaya distance of the road of Tselinnaya Railways. He held senior positions at Tselinnaya Railways, Kazakhstan Temir Zholy RSE, the NC KTZ SC. From April 2008 to 2014 - Vice-President of the NC KTZ SC. From April to August 2014 - Adviser of the President of the NC KTZ SC. From August to November 2014 – Vice-President of Human Resources and Social Affairs of the NC KTZ SC. From December 9, 2014 – Vice-President of the NC KTZ SC.



**SKLYAR
ROMAN VASILYEVICH**

VICE-PRESIDENT OF THE NC KTZ SC

He was born on May 8, 1971 in Pavlodar. He graduated from Pavlodar State University, Kazakh Institute of Law and International Relations, Moscow Institute of modern business. From 1989 to 1990 he worked as a locksmith fitter at Ekibastuzugleavtomatika, fitter at Kazpromtehmontazh. From 1990 to 2002 he worked in commercial structures. From 2002 to 2003 — Head of the Department of the Committee for the Insolvent Debtors of the Ministry of Finance in the Pavlodar region. From 2003 to 2005 he served as Head of the Department of Public Procurement of Pavlodar city, Chief Inspector of Mayor of Pavlodar region. From 2005 to 2006 - Head of Mayor office, Deputy Mayor of Pavlodar city. From 2006 to 2007 - Head of the Department of Infrastructure Development of Astana Mayor Office. From 2007 to 2008 - Director of the Department of Energy and Utilities of Astana city. From 2008 to 2010 he worked as Deputy Mayor of Pavlodar region. From October 2010 to May 2011 - First Deputy Mayor of Pavlodar region. From 18 May 2011 to October 2013 Vice-Minister of Transport and Communications of the Republic of Kazakhstan. From August to December 2014 – Vice-President for Supporting the NC KTZ SC. From December 9, 2014 he was appointed as Vice- President of the NC KTZ SC.



**OMARBKOVA
SHOLPAN SAPARGALIEVNA**

VICE-PRESIDENT OF THE NC KTZ SC

She was born on July 15, 1968 in Almaty. She graduated from Kazakh State University named after Kirov with specialization in Political Economy. She began her career in 1991 as a Junior Researcher at the Institute of Economics of NAS of the Republic of Kazakhstan. From 1995 to 1999 - Financial Director of Investment Management Group LLP. From 2002 to 2013 – Financial Director, Vice - President of Finance, Vice-President for Economics and Finance of Kaztransservice, Director of the Tariff Policy Department of the NC KTZ SC, Vice-President for Economics and Finance of Kaztemirtrans SC. From September 9, 2013 to November 2014 Managing Director for Economics of the NC KTZ SC. From December 9, 2014 Vice-President of the NC KTZ SC.



**KILYBAI
NURDAULET IGILIKULY**

MANAGING DIRECTOR - CHIEF OF STAFF OF THE NC KTZ SC

He was born on April 10, 1978 in Mangistau region. He graduated from the Kazakh Academy of Transport and Communications named after M. Tynyshpayev, Eurasian National University named after L. N. Gumilyev. Engineer on managing the process of transportation, the financier. All his working life is associated with railway transport of the Republic of Kazakhstan. He began his career in 1999 as the station duty officer at Mangishlak Station of Atyrau Branch of Kazakhstan Temir Zholy. Subsequently, he worked as a student of freight clerk, freight clerk and senior freight clerk, chief specialist of Kazakhstan Temir Zholy. From 2002 to 2008 he held various positions at NC KTZ SC. From 2008 to 2011 - Deputy Chairman of the Committee of Railways at Ministry of Transport and Communications of the Republic of Kazakhstan, President of Vokzal - Service SC, Managing Director of Passenger Transportation at the NC KTZ SC. From 2011 he worked in senior positions at the NC KTZ SC, Ministry of Transport and Communications of the Republic of Kazakhstan. From August 2013 Managing Director - Chief of Staff of the NC KTZ SC.



**KHASENOV
RUSTEM KOIBAGAROVICH**

MANAGING DIRECTOR OF LEGAL AFFAIRS OF THE NC KTZ SC

He was born on August 4, 1962 in Kokshetau. He graduated from Karaganda State University. From 1997 to 2004 worked as Head of Legal Service; Chief Expert of legal examination of law division of the Ministry of Transport and Communications of the Republic of Kazakhstan, Head of Legal Security Department of Ring Motorway of the Ministry of Transport and Communications. From 2004 to 2008 – Deputy Director of Legal Department of the Ministry of Transport and Communications of the Republic of Kazakhstan, Chief of State and Legal Department of Mayor's apparatus of Astana city. From 2008 he has been working as Managing Director of Legal Affairs of the NC KTZ SC.



ZHUSANBAEV ERKIN SEMETAEVICH

MANAGER OF CORPORATE DEVELOPMENT
OF THE NC KTZ SC

He was born on January 26, 1970 in Tselinograd. He graduated from the Moscow State University named after M.V. Lomonosov with specialization in mechanics, applied mathematics. He began his career in 1992 as an engineer at the Institute of Mechanics and Engineering of the Academy of Sciences of the Kazakh SSR. From 1994 to 1998 he worked as a specialist, leading specialist, chief specialist of the National Aerospace Agency of the Republic of Kazakhstan. Subsequently he worked as a commercial assistant at the Representation office of the Japanese company Marubeni Corporation. From 1998 to 2002 he held senior positions in the structure of Kazakhstan Temir Zholy RSE, Kazgiprozheldortrans SBE. From 2002 to 2007 - Managing Director of Synergy Co LLP, acting Director of the Department for the Regulation and Control of Railway Transport Agency for Regulation of Natural Monopolies of the Republic of Kazakhstan. From 2007 to 2008 Advisor to the President of the NC KTZ SC on Tariff Policy. From April 2008 - Managing Director of Corporate Development of the NC KTZ SC.



LEPESBAYEV ALMAS MURATOVICH

CHAIRMAN OF THE BOARD (PRESIDENT) OF
KAZTRANSERVICE

He was born in July 16, 1978 in Akmola region. He graduated from Kokshetau University named after Sh. Ualikhanov with specialization in Economics and Management, Kazakh Humanitarian - Law University with specialization in Law. He started his career in 2000 as a Leading Specialist on the creation of additional jobs at the Main Directorate of technical policy of Kazakhstan Temir Zholy RSE. From 2000 to 2002 - Chief Specialist, Deputy Head of the Department, Head of the Department of Kazakhstan Temir Zholy RSE. From 2003 to 2004 - Head of the Economy, Finance and Accounting Department of car department of the NC KTZ SC. From 2004 to 2006 - Deputy Head of Department, Head of Department, Deputy Director of the Department of Economy and Finance, Director of the Department of Economics and Finance of Kazzheldortrans SC. From 2006 to 2009 - Director of the Department of Economics. From 2009 to 2013 - Managing Director for the Economy. From September 2013 to November 2014, Vice - President for Economics and Finance of the NC KTZ SC. On December 9, 2014 Chairman of the Board (President) of Kaztransservice.

THE REMUNERATION OF MEMBERS OF THE BOARD

Remuneration of supervisory and managerial employees of the NC KTZ SC on the results of the year in accordance with the Rules of performance evaluation and remuneration of supervisory and managerial employees of the NC KTZ SC, approved by the NC KTZ SC Board of Directors on 30 October 2014 (minutes No 11).

According to paragraph 26 of these Regulations, the presence of the consolidated total income for the year is the main condition of remuneration according to the results of the year, calculated by taking into account the planned amount for the payment of remuneration.

During calculation of remuneration, the implementation of plan on corporate and individual key performance indicators for each position is taken into account, and is charged in proportion to the actual hours worked according to appropriate positions.

The above rules are based on the following principles:

- ▲ The interrelation between remuneration the performance of tasks, meeting the interests of the NC KTZ SC and its Sole Shareholder;
- ▲ The dependence of size of remuneration on the results of the NC KTZ SC activity and effectiveness of employees.

INFORMATION ON THE WORK OF THE NC KTZ SC INTERNAL AUDIT SERVICE FOR 2014

The NC KTZ SC Internal Audit Service – is the body responsible for supervising the financial and economic activities, assessment of internal control, risk management, execution of documents on corporate governance and counseling to improve the NC KTZ SC activity.

Audit Plan of the NC KTZ SC Internal Audit Service for 2014 approved by the Board of Directors on December 10, 2013 (minutes No 12).

25 audit engagements specified by annual audit plan have been fully implemented.

The audit covered the following key business

processes such as investment projects, purchases, loans, personnel and social policy, preservation of fixed capital, as well as in accordance with the recommendations of the Sole Shareholder there were implemented corporate governance system diagnostics, assessment of the effectiveness of corporate risk management and internal control.

According to the results of completed audit engagements by the Internal Audit Service there were issued 262 recommendations. In accordance with the Internal Audit Policy in the the NC KTZ SC, the Internal Audit Service ensured the acceptance of corrective action plans by audit objects.

CORPORATE RISK MANAGEMENT

The level of the risk management system according to evaluation results, carried out by the NC KTZ SC Internal Audit Service (in accordance with the Methodology for assessing the effectiveness of corporate risk management system in subsidiaries and affiliated organizations of Samruk-Kazyna) in 2014 amounted to

73,25 %

in 2013 - 69,63 %.

The NC KTZ SC recognizes the importance of risk management as a key component of the corporate governance system of the Company and its subsidiaries, aimed at timely identification and taking measures to reduce the risks that may adversely affect its value and reputation.

The introduction of the corporate risk management system in the NC KTZ SC is carried out in the framework of implementation of the Recommendations of Samruk-Kazyna, according to which the introduction of the corporate risk management should be in accordance with the model of COSO «Corporate Risk Management - «Integrated Model» (2004).

In 2014, the work of Risk Committee, Board and Board of Directors of the Company was aimed at further improvement of the corporate risk management system and bringing it into line with international best practices.

In 2014 there were held 8 meetings of the Risk Committee (in 2013 – 5 meetings). Risk Committee in 2014 made decisions on the following issues:

- ▲ approving a new draft of Risk Management Policy of the NC KTZ SC and approving the

The level of efficiency of the internal control system according to evaluation results, carried out by the NC KTZ SC Internal Audit Service (in accordance with the Methodology for evaluating the effectiveness of internal control in subsidiaries and affiliated organizations of Samruk-Kazyna) in 2014 amounted to

87,5 %

in 2013 - 82 %.

annulling of Risk Management Policy of the NC KTZ SC, approved by the NC KTZ SC Board of Directors dated October 19, 2009 (minutes No 6),

- ▲ approving a new draft of Rules of identification and risk assessment of the NC KTZ SC and approving the annulling of Rules of identification and risk assessment of the NC KTZ SC, approved by the NC KTZ SC Board of Directors dated October 19, 2009 (minutes No 6),
- ▲ approving risk management reports with the description and analysis of Company's key risks (including legal risks), information management on compliance with risk limits,
- ▲ approving foreign exchange risk hedging strategy of the NC KTZ SC associated with the coupon payment and principal of Eurobonds of the NC KTZ SC, redeemable in May 2016 in the amount of 324.000.000 (three hundred twenty-four million US dollars)
- ▲ approving the risk registry and maps of the NC KTZ SC,

- ▲ approving the draft of the NC KTZ SC Plan to improve the financial situation.

IN THE FRAMEWORK OF IMPROVEMENT OF THE EFFECTIVENESS OF CORPORATE RISK MANAGEMENT, THE FOLLOWING KEY EVENTS WERE CARRIED OUT IN 2014:

ON JUNE 9, 2014

By the decision of the Board of the NC KTZ SC (minutes No 02/15) limits on balance sheet and off-balance sheet liabilities for the NC KTZ SC counterparty banks were set (on a consolidated basis).

ON JULY 17, 2014

By the decision of the Board of the NC KTZ SC (minutes No 02/20) a new exchange risk hedging strategy of the NC KTZ SC, associated with the coupon payment and principal of Eurobonds of the NC KTZ SC, redeemable in May 2016 in the amount of 324.000.000 (three hundred twenty-four million US dollars) was approved.

ON AUGUST 27 / OF NOVEMBER 5 / ON DECEMBER 9, 2014

By the decision of the Board of the NC KTZ SC (minutes No 02/23 / minutes No 02/30 / minutes No 02/36) limits on balance sheet and off-balance sheet liabilities for counterparty banks (Tsesnabank SC, AsiaCredit Bank SC, Capital Bank Kazakhstan SC, Halyk Bank of Kazakhstan SC and Bank RBK SC) were reset on the consolidated basis.

ON MAY 28, 2014

By the decision of the NC KTZ SC Board of Directors (minutes No 6) a new Risk Management Policy of the NC KTZ SC, Rules for identification and risk assessment of the NC KTZ SC, risk registry and map of the NC KTZ SC were approved.

ON SEPTEMBER 15 / ON MAY 28 / ON DECEMBER 5, 2014

By the decisions of the NC KTZ SC Board of Directors (minutes No 9) were approved and (minutes No 6

/ minutes No 12) there were noted the reports on Risk Management with the description and analysis of Company's key risks (including legal risks), information on compliance with the risk limits, as well as information on the implementation of plans to minimize the Company's risks.

ON JULY 10, 2014

By the decision of the NC KTZ SC Board of Directors (minutes No 7) a new edition of the Regulation on the internal control system of the NC KTZ SC was approved.

ON DECEMBER 5, 2014

By the decision of the NC KTZ SC Board of Directors (minutes No 12) the risk registry and map of the NC KTZ SC were approved.

ON SEPTEMBER 15 / ON DECEMBER 5, 2014

By the decision of the NC KTZ SC Board of Directors (minutes No 9 / minutes No 12) limits on balance sheet and off-balance sheet liabilities for counterparty banks (Tsesnabank SC, AsiaCredit Bank SC, Capital Bank Kazakhstan SC, Halyk Bank of Kazakhstan SC and Bank RBK SC) were reset on the consolidated basis.

The Company discloses the note «Financial Instruments, objectives and policies of financial risk management» in the format of the annual audited consolidated and separate financial accountability of the NC KTZ SC.

THE COMPANY MAY BE EXPOSED TO THE FOLLOWING KEY RISKS, WHICH COULD ADVERSELY AFFECT ITS ACTIVITY AND ACHIEVEMENT OF STRATEGIC OBJECTIVES:



OPERATIONAL RISKS (RISKS IN SAFETY OF OPERATION, WORK SAFETY AND ECOLOGY)

The Group is the owner and operator of the railway infrastructure in Kazakhstan, as well as the largest owner and operator of passenger and freight rolling stock, locomotives in Kazakhstan. In this regard, the Group may be exposed to risks in safety of operations, including collisions, derailment of rolling stocks of goods and/or passenger trains on main, station and siding lines and/or during railway shunting operations of rolling stock at the stations, natural disasters. In order to manage

these risks the NC KTZ SC implements measures to strengthen preventive work on organization and ensuring safe railway operations, connected with the movement of trains. As part of the risk management of industrial injuries, the NC KTZ SC implements measures to ensure the health and safety, accident prevention and the improvement of working conditions, provides Employers' Liability Compulsory Insurance for injury or disease to their employees arising out of their employment.

THE REDUCTION OF FREIGHT SERVICES (MARKET RISK) DUE TO THE RESUMPTION OF GLOBAL ECONOMIC CRISIS AND DECLINE IN COMMODITY PRICES

Deteriorating economic conditions may lead to a decrease in services provided on the transport of goods by rail, a decrease in productivity, an increase in production cost of sales and services rendered and a negative impact on planned performance indicators. The company is taking steps to improve the efficiency of its operations, increase the transit traffic, as well as to implement anti-crisis measures (additional cost reduction).

EXCHANGE RISK

The company is mainly exposed to risks associated with changes in the US dollar due to the fact, that the Company attracts borrowing mainly in US dollars and weakening (devaluation) of tenge against the US dollar means an increase in foreign exchange losses. As part of the management of this risk, the Company monitors changes in USD/KZT exchange rates, as well as other factors affecting the change in the exchange rates: USD/RUR, USD/EUR, the price of oil, raw materials on a daily basis. At the same time, in order to control the exchange risk associated with the management of temporarily redundant cash, the Company controls the level of temporarily redundant cash denominated in US dollars.

By the decision of Board of Directors of the Company dated December 23, 2010 (minutes No 9) the Policy of hedging exchange and interest rate risks was approved. The Policy of hedging exchange and interest rate risks of the NC KTZ SC designed to minimize (decrease) interest rate and currency exposure, which could be possible due to the unfavorable change in the tenge exchange rate against foreign currencies and adverse changes in interest rates on loans with floating interest rates.

On August 29, 2014 the National Company Kazakhstan Temir Zholy Joint Stock Company made a transaction on hedging of currency risks

of the NC KTZ SC, relating to the payment of remuneration and principal on Eurobonds of the NC KTZ SC in the amount of 324 000 000 (three hundred and twenty four million) US dollars with interest rate of 7% per annum, redeemable in May 2016. There was signed transaction on hedging of currency risks with The Royal Bank of Scotland plc., in the framework of signed General Agreement ISDA (2002 Master Agreement), with the use of derivatives - USD/CHF cross-currency swaps at the rate of 6.5% per annum. Lowering of interest rate by 0.5% per annum will further reduce the cost of remuneration payments in the amount of about 1.6 million dollars per year.

INFORMATION TECHNOLOGY RISKS

The Group uses telecommunication networks and computer systems to coordinate schedules and other aspects of its railway operations, as well as for accounting, sales of tickets for passenger trains, cargo delivery tracking and performance of many other functions. Equipment and software, which are used by the Group, could be potentially damaged by human error, natural disasters, power outages, sabotage, computer viruses and other circumstances. Group Audit is held annually in the structural units to reduce the risk of failure of information technology and information security violations, in order to comply with local regulations and corporate policy in the field of information security and protection service, proprietary, commercial or other information protected by Law of the Republic of Kazakhstan. The Company has been certified for compliance with the international standard ISO/ IEC 27001: 2005 for information security.

THE NC KTZ SC STATEMENT OF ADHERENCE TO THE NC KTZ SC CODE OF BUSINESS ETHICS REQUIREMENTS



In order to implement the provisions of the Corporate Governance Code, by the decision of the Company's Board of Directors dated March 19, 2013 (minutes No 2), there was approved the Company's Code of Business Conduct.

The Code of Business Conduct was developed in accordance with the provisions of the current legislation of the Republic of Kazakhstan, the Company's internal documents, including the Code of Corporate Governance and Corporate ideology and philosophy of the Company's business, and establishes the basic principles and norms of Company's executive officers/employees behavior, defines the rules for relationships within the Company and the Company's relationship with stakeholders.

The purpose of the Code is to develop and improve the corporate culture and promote the efficient interaction of Company's executive officers/

employees with stakeholders based on practical application of business conduct.

The Company's activity is based on the fundamental corporate values, such as honesty, integrity, respect for others, mutual assistance and trust.

The Company's immutable values of the corporate culture also include safety, quality and environmental protection, responsibility, sustainable development and mutual prosperity, teamwork and openness to the development, professionalism and pride in their work.

This Code applies to all executive officers and employees of the Company.

The Company's executive officers/employees are responsible for the faithful performance of their official duties in the interests of the Company and the Sole Shareholder.

In addition, within the framework of compliance with the Code of Business Conduct by the decision of the Board of Directors there were developed and approved the following documents:

- ▲ The Company's corporate conflicts settlement policy (minutes of 5 June 2009 No 4);
- ▲ The Policy on settlement the conflict of interest for executive officers and employees of the Company (minutes of September 13, 2011 No 5).

In order to ensure the compliance with the Code of Business Conduct, the practice of regular monitoring and verification of knowledge of the provisions of the Code is being introduced.

For example, by the order of October 10, 2013 No 1325-ЛЗ there was approved a plan of action to implement the Company's Code of Business Conduct for 2013-2015.

The plan includes activities to promote the Code, monitoring the appeals of individual and legal entities for violations of the Code provisions by the Company's employees, training events on corporate culture for Company's employees, surveys to determine the moral and psychological climate in labor collectives.

Monitoring of the compliance with the Code of Business Conduct helps to establish the causes of unintentional or intentional violations of the norms established by this Code of Business Conduct.

The Company is aware that the commitment to high ethical standards helps to maintain and strengthen the confidence in the team and in cooperation with external partners, the public and the state.

Compliance with the standards of business conduct today strengthens the reputation and ensures sustainable development in the future. That is why a strict adherence to the requirements of the

Code of Business Conduct is a top priority for the Company.

THE COMPANY'S EXECUTIVE OFFICERS AND EMPLOYEES, STAKEHOLDERS IN ORDER TO GET EXPLANATION ON REQUIREMENTS OF THE CODE OR ANY ETHICAL ISSUES ON FACTS OF VIOLATIONS OF THE CODE CAN CONTACT:

- ▲ their immediate supervisors of structural divisions or high-level executives;
- ▲ Corporate Secretary;
- ▲ The Head of Internal Audit;
- ▲ The Chairman of the Board;
- ▲ The Board of Directors.

SUSTAINABLE DEVELOPMENT

SOCIAL PROJECTS

in 2014 more than

11
billion tenge

Expenditure on social programs for the Group of Companies is amounted



Concern for people and their well-being, social support issues and as a consequence, improve the quality of employees' life is one of the priorities of the NC KTZ SC. Social support for employees and pensioners of the Company hereby provides its commitments by:

- ▲ compliance with the norms in the area of social and labor relations;
- ▲ the provision of material support and social guarantees to employees, pensioners, disabled persons and victims of accidents at work and occupational diseases;

- ▲ the provision of a number of social guarantees for young people, employees' families, including summer vacation and recreation of children of Company's employees;

- ▲ regulation of health issues;

- ▲ the promotion of comprehensive professional development and training and others, i.e. reflecting the points, which are not covered by legislation, but are very important for the employees.

The main document regulating the provision of benefits and guarantees for employees and pensioners of the railway is Collective Agreement concluded every three years between the Company and labour collective, as well as local acts for the implementation of social policy.

To make optimal use of the budget of social spending and strengthen the motivation of employees, the work on improving employee benefits package is carried out. For example, during the implementation of the Collective Agreement for 2012-2014 there were signed seven additional agreements that extend employee benefits package. In addition to traditional

benefits related to the birth of a baby, remarkable dates, reimbursement of travel by train, payment of dental prosthetics and etc, there were included provision of material assistance to the Day of Knowledge (September 1); Day of Persons with Disabilities to employees with disabled children, young families of employees - in connection with the registration of marriage, as well as the Day of Youth, moreover there is a guaranteed provision of material assistance to employees in the amount of up to 200 MCI in connection with the occurrence of events that require unforeseen material costs and other. This work is carried out on a regular basis. ►

MEDICAL CARE under the Company's Employees Health Program approved by the decision of the Board of the Company for 2013-2020

INCLUDES THE ORGANIZATION OF:

- pre-shift medical screening (workers employed in jobs associated with increased risk, machines and mechanisms more than 7.5 million medical screenings);
- periodic medical check-ups and examinations of workers engaged in heavy work, work under harmful (particularly harmful) and (or) dangerous working conditions directly related to the movement of trains (more than 80 medical check-ups);
- rehabilitation (outpatient, inpatient examination/treatment) of workers, whose diseases have been identified as a result of the compulsory medical examinations;
- voluntary health insurance in the case of the employee and his/her family members illness

more than

40 000
people

Each year, about 10 000 employees and pensioners in the Group of Companies **VACATION IN SANATORIUMS** and health resorts, located on the territory of Kazakhstan and the Russian Federation. The Company pays most of the cost of sanatorium vouchers and workers and pensioners pay only 10% - 30%.

The Company together with the Ministry of Emergency Situations of Kazakhstan was organized the work of specialized **MEDICAL TRAINS**. Densaulyk, Zhardem and Salamatty Kazakhstan, for the implementation period of the project since 2010, more than 200 000 residents of the republic received quality medical care with the usage of modern technology.

In 2014, Densaulyk and Zhardem train visited the stations and sidings of South Kazakhstan, Kyzylorda, Zhambyl, Almaty and Mangistau regions.

In accordance with the provisions of the Collective Agreement **PENSIONERS** were provided by various financial assistance (for anniversaries and holidays Victory Day, Day of Transport Workers); annual free travel on train, free dental prosthetics and others.

In order to assist in protecting and supporting the interests of veterans of railway workers in participation in social activities, as well as educational work with Company's young employees there are keep working Veteran Council, as well as the Central Council of Veterans under the regional offices of the road. In 2014, on the eve of the Day of transport workers Astana hosted the meeting of the Veterans Council and Advisory Council.



Today work in the NC KTZ SC more than

37 000
young people

which accounting for about 23% of the total number of employees of the Company.

A key element of the development of human resource capacity of the Company is the implementation of a corporate system of **YOUTH POLICY**. The Company has a Program of Youth Policy of the NC KTZ SC for 2012 - 2015 years, there was established an Advisory Body - The Council of Youth Affairs under the President of the Company.

During the period of implementation of the Program of Youth Policy there were realized and

remain valid basic directions of the Program - Future Managers and Project Management.

In the period of implementation of the project the Program for Future Managers were attended by more than 2000 young executives of the Company, including 280 persons became the Members of the Republican Youth Forum. According to the results of the contest, participants had the opportunity to be involved in qualification enhancement courses in the CIS countries and in the Republic of Kazakhstan, they were joined the personnel reserve.

Regional Forum on Youth Program of Project Management was attended by more than 3 000 young employees of the Company, of which 450 persons became members of the Republican Youth Forum.

Currently, 11 projects have received Company's support for organizational and financial management, 49 young employees were able to be involved in qualification enhancement courses in

the CIS countries and the Republic of Kazakhstan, 51 were joined the personnel reserve, 2 received Master program grants.

Contests and interactive projects remain relevant, where young employees are able to prove themselves on the 12 training, creative, innovative and other fields. All the projects are completely

automated and performed online in the Internet environment. During the implementation of the Youth Policy Program coverage of young people by 10 major youth projects were 11 000 people, mass sports and health and fitness activities - 47 300 persons, corporate events, flash mobs, round tables, patriotic and social actions – 7500 persons.

The budget of the Company annually provides funds for the organization of corporate events for the **SOCIAL SUPPORT FOR EMPLOYEES' CHILDREN**.

During the summer holidays about 10 000 of employees' children rested on the basis of the best children's health centers in the territory of our republic. In addition, children of workers, who work in manufacturing sphere from low-income and large families of regional branches (400 children) were spent their holidays in the

recreation center, located on the territory of the United Arab Emirates.

In addition, to foster children's interest in railway professions, for realization creative potential and improve the image of the Company there were conducted exhibitions and children's drawings contests, New Year morning performance, theatrical performances dedicated to Children's Day and etc. during the year for employees' children.



As part of the construction of a new railway lines Zhezkazgan - Beineu and Arkalyk - Shubarkol there were completed

In accordance with the **HOUSING PROGRAM** 1039 employees of the Group of the Company received the keys to new apartments in Astana, of which the first ¼ of the housing (259 apt.) was given to the young railway workers under the age of 29 years.

167 apartments

41 sport instructors performed the organization of mass sports and health and fitness activities in the Company in the 14 departments of roads and at Dostyk Station.

During 2014, there were held more than 250 **SOCIAL SPORTING AND CULTURAL RECREATION** activities covering about 15,000 railway workers throughout the railway transportation enterprises.

In accordance with the timetable of sporting and mass participation events of the NC KTZ SC

in 2014 there were organized championships, tournaments, family relay races, Republican competitions in winter and summer sports, competition among the employees of the central office, branches and subsidiaries of the Company dedicated to the state and professional holidays, memorable dates.

Following the principles of corporate social responsibility, the Company pays special attention to charity projects and campaigns. ■



In the framework of **CHARITABLE ACTIVITIES** there was continued the work on implementation of projects Railway Head's Grant, Sponsorship to the regional schools that were previously on the balance of KTZ RSE - For Children to School, the collection of clothing and shoes for families in need, By the Way of Mercy, Do Good! and others. In addition, there was provided assistance

(more than 700 thousand tenge.) to sick children by raising funds in the charity boxes and placing information on the site goodrail.kz.

Same as previous years, in honor of the Victory Day celebrations from May 1 to December 31, there was organized free transportation for participants and invalids of the Great Patriotic War.

HUMAN RESOURCES POLICY



Staff - this is one of the most important assets of the NC KTZ SC ensuring the sustainable development of the NC KTZ SC, the implementation of innovative and high-tech projects, the achievement of its strategic objectives.

On January 1, 2015 payroll number of staff of the Group of the NC KTZ SC SC was

159 480
people

More than

67,4%

of the staff employed in the NC KTZ SC and its subsidiaries are workers

Staff turnover in 2014 was

8,3%

In order to improve the transparency and efficiency of accounting personnel in 2014 the basic functionality of the automated human resource management system SAP HCM was replicated in all branches of the Company.

Systematic work on the formation of a high-performance and cohesive team capable to react promptly to changing market demands and to fulfill the strategic objectives based on the Personnel

Policy of the NC KTZ SC. One of the priorities of Personnel Policy is focused staff development.

The corporate training covers the full range of training, retraining, training and academic training of personnel as at external training providers and training organizations in the NC KTZ SC. The NC KTZ SC has various mechanisms for training and development for each category of staff.

SPECIALISTS WITH HIGHER EDUCATION HAVE THE OPPORTUNITIES TO:

- ▲ to get further education in accordance with the Master and Doctoral/PhD programs;
- ▲ professional development, including employee training programs of the NC KTZ SC in foreign educational institutions;
- ▲ training in specialized programs for certification.

SPECIALISTS WITH TECHNICAL AND VOCATIONAL EDUCATION, AS WELL AS TO EMPLOYEES WHO DO NOT HAVE EDUCATION, HAARE AN OPPORTUNITY FOR:

- ▲ higher education program «Magistral», Personal Scholarships of the President of the NC KTZ SC;
- ▲ improvement of professional skill in training centers of the NC KTZ SC.

In order to improve the management skills of management of the NC KTZ SC, the exchange of experience with leading transport and logistics organizations there was implemented training program of employees of the NC KTZ SC in foreign educational institutions, in 2014, 175 Company employees were trained on the topics: «The organization and management in the railway industry», «Marketing and retail sales in the railway industry», «Development of IT and automation in the railway industry», «Development of transport logistics». Training was organized with experts DB International GmbH and the Institute for Transport Logistics (National University of Singapore).

The company pays great importance to the training of young professionals. Targeted method of selecting the best-trained young professionals on the main railway industry for the work was realized at the enterprises of the NC KTZ SC. In 2014 implementation of the dual system of training of students of technical and vocational education was continued by the NC KTZ SC. The principle of strengthening the practical part of the training, corresponding to modern requirements of production, has successfully realized the resources of the educational complex of the NC KTZ SC - Center of technologies in transport in Astana, equipped with the newest training equipment.

In addition, as part of a pilot site for the implementation of the dual system in conjunction with Astana locomotive-repair

and maintenance depot a work program on the specialty «Maintenance, Repair and maintenance of railway rolling stock» was developed, and the schedule was approved for the passing of the practical training for students on the manufacture of Akmola College KazATC.

During 2014 the cooperation was continued with Kazakh Academy of Transport and Communications named M.Tynyshpaeva SC on training of specialists for the transport sector, including the development of educational programs holding public lectures and seminars by executives of the NC KTZ SC on topical issues of the industry, and also the work was continued on equipping of training centers and Kazakh Academy of Transport and Communications named M.Tynyshpaeva SC with modern equipment and simulators supplied by such well-known partners like General Electric, ALSTOM, Talgo, Siemens.

In order to implement the law of the Republic of Kazakhstan "About languages in the Republic of Kazakhstan and the State program development and functioning of languages in the Republic of Kazakhstan for 2011-2020» courses of the state language organized every year. In 2014, 3.048 employees of the Group of the NC KTZ SC were taught to the state language.

Realizing the role of globalization and integration, developing international

cooperation, the NC KTZ SC provides courses of studying foreign languages for employees of the NC KTZ SC. In 2014, more than 300 employees of the NC KTZ SC completed English courses.

On average, each year about 100 000 employees are trained in domestic and foreign educational institutions, training centers of the NC KTZ SC.

Institute of mentoring was sent on the training young specialists and workers, who has a positive effect on retaining and increasing employee engagement, reducing of labour fluidity. The NC KTZ SC holds the monitoring of the implementation of measures for adaptation and mentoring of young workers in the branches. During 2014 the NC KTZ SC held 1355 adaptation activities for 5632 new employees. Number of mentors at the NC KTZ SC was - 1462 people, the number of employees completed internship - 1858 people.

Besides working with young professionals in the NC KTZ SC, there is personnel reserve for providing the security of personnel in the NC KTZ SC. On January 1, 2015 the number of employees in the personnel reserve amounted to 588 people.

In 2014, the percentage of appointments of personnel reserve was 72%, the percentage of fluidity reserve - 5%.

Also the NC KTZ SC realizes both material and non-material methods of stimulation work, providing moral encouragement of employees with corporate, departmental and state awards of the Republic of Kazakhstan, aimed at retaining and developing of the staff.

One of the significant events of the NC KTZ SC in 2014 was the celebration of the 110th anniversary of the Kazakhstan railway. The activities organized to celebrate the anniversary indicated, was attended by representatives of foreign railway administrations, state authorities of the Republic of Kazakhstan and the veterans of the industry. More than 4.200 people were awarded with commemorative of Kazakhstan Temir zholya 110 zhyl.

HEALTH, SAFETY AND ENVIRONMENT

During 2014 the NC KTZ SC and its subsidiaries and the number of accidents associated with the production, reduced by

16 %

46 cases compared to 55 cases in 2013

The coefficient of frequency of industrial injuries per 1.000 workers was reduced by

15 %

0.307 against 0.361 in 2013

the coefficient of severity of occupational injuries decreased by

5 %

25.51 against 26.84 in 2013



For creating safe work environment to employees planned comprehensive measures to ensure the safety and health for 2014 were fully implemented. At the same time the funds allocated for the implementation of these measures 2 billion tenge, of which 522 million tenge were spent.

The NC KTZ SC in the exercise of its activity is responsible for environmental safety and well-being of the environment.

Environmental activities carried out in accordance with the Environmental Code of the Republic of Kazakhstan, other normative legal acts and international treaties and agreements ratified by the Republic of Kazakhstan, as well as regulated by the Regulation on the protection of the environment in the NC KTZ SC.

Currently, ecological safety in the Group of Companies is characterized by increasing of

emissions of pollutants into the atmosphere by 4% (from 21.0 thousand tonnes to 21.9 thousand tonnes). The growth observed in the subsidiaries of the Company related to the transfer of the stations to the railway station from the municipal property and of akimats due to new sources of emissions from the buildings of Temirzhol Zhondeushi LLP.

In carrying out environmental protection measures funds in the amount of 888.6 million tenge were spent (it is 96.5% of the plan - from 920.1 million tenge). Events directed to equipment of emission sources necessary to cleaning equipment, reconstruction of treatment facilities, development of regulatory environmental documentation, etc.

However, in 2014 for the implementation of environmental projects the following work was done.

Major repairs and reconstruction of the drainage

system of the building department of roads and the building of computational stations were done at Akzhayyk Station of Atyrau branch of the road.

On Zashitinskiy branch of the road in connection with the transition for electric heating of Kazievka Station emissions of air pollutants reduced from stationary sources from 26.474 tonnes to 15.620 tonnes.

LOCOMOTIVE SERVICE CENTER SC: reconstruction of drainage system with the purchase and installation of sand and oil catcher of Kostanai Station reduced the level of suspended and dissolved oil products and other pollutants that are in the waste and storm waters.

PASSENGER TRANSPORTATION SC: 92 new passenger wagons were put into operation in 2014; it reduced pollutant emissions compared with 2013 year to 97 tonnes.

KAMKOR MANAGEMENT LLP: the project on Reconstruction of industrial boiler Shu locomotive repairing factory with transfer to gas fuel was started. It significantly reduced the cost of purchasing fuel and accordingly, significantly harmful emissions were reduced into the atmosphere, in fact, for the 2014 mass emissions amounted to 67.7 tons compared to 115 tonnes in 2013.

LOCOMOTIVE SC 33 units of locomotive traction were purchased and put into operation in 2014, it reduced harmful emissions into the atmosphere from locomotives (mobile sources) in 1.5 times..

DEVELOPMENT PROSPECTS

COMPANY IN 2015

Plan of capital investment of the NC KTZ SC Group of Companies for 2015 is amounted

364 247
million tenge

The Company in 2015 is forecast the following production and financial indicators:

205 467
million t-km

18 643
mln km-pass

cargo turnover tariff

passenger miles

Total revenues for the NC KTZ SC Group of Companies are planned in the amount of

867,9
billion tenge

Government grants are projected in the amount of

23,3
billion tenge

Total expenditure on current activities is planned in the amount of

820,3
billion tenge

Net profit is projected in the amount of

26,4
billion tenge

THE MAIN INVESTMENT AREAS:

- ▲ Construction of Zhezkazgan-Beineu railway line amounting to 49.831 million tenge;
- ▲ Construction of Arkalyk-Shubarkol railway line at 16 555 million tenge;
- ▲ The development of the railway hub in Astana Station, including the construction of the railway station (I starting complex Phase I) in the amount of 35.003 million tenge;
- ▲ Construction of a multifunctional ice palace for the sum of 29.048 million tenge;
- ▲ Construction of Borzhakty Ersai railway line in the amount of 8.663 million tenge;
- ▲ Construction of the second track on the site Almaty 1-Shu in the amount of 9 918 million tenge;
- ▲ Construction of ferry crossing in Kuryk village in the amount of 4.800 million tenge;
- ▲ Creating and integrated development of Khorgos-Eastern Gate SEZ in the amount of 70.373 million tenge;
- ▲ Energodispatcherskaya traction ACS in the amount of 3.561 million tenge;
- ▲ Renewal of freight wagons for a total of 13.726 million tenge (1.044 units);
- ▲ Updating of locomotive park in the amount of 28.512 million tenge (30 units.);
- ▲ Renewal of passenger wagons in a total of 21.198 million tenge (153 units.);
- ▲ Overhaul of the permanent way in the amount of 9.070 million tenge (145 km);
- ▲ Overhaul of locomotives in the amount of 1.677 million tenge (21.5 units.);
- ▲ Overhaul of passenger wagons in the amount of 46 million tenge (2 pcs). ■

STATEMENT OF MANAGEMENT ON RESPONSIBILITY FOR PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

The management of SC «National Company «Kazakhstan Temir Zholy» (hereinafter referred to as the "Company") is responsible for the preparation of the consolidated financial statements authentically reflecting the financial position of the Company and subsidiaries (hereinafter collectively referred to as the "Group") as at December 31, 2014 as well as its results of operations, cash flows and changes in equity for the year ended the date stated above in accordance with International Financial Reporting Standards issued by the International Financial Reporting Standards («IFRS») Committee.

In preparing the consolidated financial statements, the management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable the statements users to understand the impact, which particular transactions, other events and conditions have on the consolidated financial position and consolidated results of the Group; and
- assessing the Group's ability to continue as a going concern.

The Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and provide information on any date with reasonable accuracy, the consolidated financial position of the Group and to ensure that the consolidated financial statements comply with IFRS;
- Maintaining statutory accounting records in accordance with local legislation and IFRS;
- Taking all reasonably possible measures to safeguard the assets of the Group; and
- Detecting and preventing any financial fraud and other irregularities.

The consolidated financial statements for the year ended December 31, 2014, was approved by the Management on March 13, 2015.

On behalf of the Group Management:

A.U. Mamin
President

13 March 2015

Sh.S. Omarbekova
Vice-President

13 March 2015

N.Kh. Abilova
Chief Accountant

13 March 2015

REPORT OF THE INDEPENDENT AUDITORS

TO THE BOARD OF DIRECTORS AND SHAREHOLDER OF SC «NATIONAL COMPANY «KAZAKHSTAN TEMIR ZHOLY»:
We have audited the enclosed consolidated financial statements of SC «National Company «Kazakhstan Temir Zholy» and its subsidiaries (hereinafter -»the Group«), which consists of the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of profit and loss and other comprehensive income, cash flows and changes in equity for 2014 and notes, containing main provisions of the accounting policies and other explanatory information.

RESPONSIBILITY OF THE MANAGEMENT FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and authenticity of the consolidated financial statements in accordance with International Financial Reporting Standards issued by the International Financial Reporting Standards Committee, as well as for the internal control system as the management determines is necessary for the preparation of consolidated financial statements that are free from any significant distortion due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the authenticity of the consolidated financial statements based on our audit. We have conducted our audit in accordance with International Standards of Auditing. These standards require the conformity with the ethical requirements as well as planning and performing the audit in order to obtain a reasonable assurance that the consolidated financial statements do not contain any significant distortion.

The audit involves performing procedures to obtain audit evidences confirming the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional judgment, including evaluation of the risks of material misstatement in the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditors consider a system of an internal control over the preparation and fair presentation of the consolidated financial statements in order to design the audit procedures conforming to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal controls system. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate for expressing our opinion.

OPINION

In our opinion, the consolidated financial statements fairly in all material respects reflect the financial position of the Group as at 31 December 2014, including its financial results and cash flows for 2014 in accordance with International Financial Reporting Standards as issued by the International financial Reporting Standards Committee.

Alexandre Dorofeyev
Assignment Partner
Qualified auditor of
Russian Federation
Qualification certificate No. 042607
dd. 28 February 2002
Russian Federation

Daulet Kuatbekov
Auditor-executor
Qualified Auditor of
Republic of Kazakhstan
Qualification certificate No. 0000523
dd. 15 February 2002
Republic of Kazakhstan

«Deloitte» LLP
Licence for the right to perform an audit
in the Republic of Kazakhstan No. 0000015, type МФО - 2,
issued by Ministry of Finance of the Republic of Kazakhstan dd. 13 September 2006
13 March 2015

Nurlan Bekenov
Director General
«Deloitte» LLP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousand Kazakhstan tenge)

	Notes	31 December 2014	31 December 2013	1 January 2013
ASSETS				
Non-current assets				
Fixed assets	5	2,228,942,130	1,980,001,428	1,644,295,010
Intangible assets	6	12,566,300	9,564,865	8,570,847
Investments in associates	7	16,299,164	1,943,788	2,633,746
Investments in joint ventures	7	21,086,452	24,746,576	12,845,453
Investment property	8	6,931,262	7,296,492	7,129,207
Assets, held for distribution to Shareholder	13	23,850,672	10,757,881	7,000,000
Other financial assets	12	-	1,922,971	1,874,213
Financial derivative	35	4,001,783	-	-
Other non-current assets	9	172,856,718	185,849,386	134,010,200
Sub-total long-term assets		2,486,534,481	2,222,083,387	1,818,358,676
Current assets				
Current inventories	10	34,814,915	37,723,901	34,510,578
Trade receivables	11	7,649,242	8,107,149	7,784,113
Other financial assets	12	38,077,081	36,789,673	48,366,850
Financial derivative	35	676,213	-	-
Prepaid income tax		2,129,314	2,194,087	2,549,670
Assets, held for distribution to Shareholder	13	28,997,449	29,204,088	28,238,638
Loans provided	14	-	3,639,298	-
Other current assets	15	82,005,465	60,709,412	48,160,363
Cash and cash equivalents	16	86,552,218	85,855,902	69,706,429
Cash restricted in use		734,044	1,170,375	1,178,134
		281,635,941	265,393,885	240,494,775
Non-current assets and disposable group assets classified as held for sales	17	67,283,089	-	37,720,512
Sub-total current assets		348,919,030	265,393,885	278,215,287
Total assets		2,835,453,511	2,487,477,272	2,096,573,963
EQUITY AND LIABILITIES				
Equity				
Equity	18	793,329,985	683,932,991	675,526,248
Added paid capital	18	-	30,000,000	5,429,760
Foreign currency re-evaluation reserve		(782,574)	(144,081)	(112,268)
Retained earnings		600,970,019	601,316,737	360,944,289
Equity attributable to the shareholders of the parent		1,393,517,430	1,315,105,647	1,041,788,029
Non-controlling interests	38	16,056,277	14,065,376	7,522,579
Total equity		1,409,573,707	1,329,171,023	1,049,310,608

	Notes	31 December 2014	31 December 2013	1 January 2013
Long-term liabilities				
Loans	19	355,121,763	295,369,338	220,128,879
Issued debt-notes	20	453,894,049	338,063,638	331,688,969
Financial lease liabilities	21	2,667,615	3,413,415	4,546,064
Non-current liabilities for employees benefits	22	27,178,832	27,737,065	27,211,583
Deferred tax liabilities	23	240,880,392	225,465,889	153,590,261
Other liabilities	26	48,601,265	25,010,252	25,215,745
Sub-total long-term liabilities		1,128,343,916	915,059,597	762,381,501
Current liabilities				
Loans	19	42,676,856	34,868,844	29,166,061
Current portion of the issued debt securities	20	3,123,566	1,866,159	7,587,539
Current portion of the finance lease liabilities	21	441,902	450,644	552,251
Current portion of the liabilities for employees benefits	22	2,977,924	2,490,345	2,485,748
Trade payable	24	91,661,881	77,375,619	98,503,421
Corporate income tax		732,921	1,339,275	91,648
Other taxes and other compulsory payments to budget	25	8,100,811	10,154,715	9,494,682
Other liabilities	26	114,233,062	114,701,051	120,325,660
		263,948,923	243,246,652	268,207,010
Liabilities included in disposal group classified as held for sales	17	33,586,965	-	16,674,844
Sub-total current liabilities		297,535,888	243,246,652	284,881,854
Total liabilities		1,425,879,804	1,158,306,249	1,047,263,355
Grand total equity and liabilities		2,835,453,511	2,487,477,272	2,096,573,963

A.U. Mamin
President

13 March 2015

Sh.S. Omarbekova
Vice-President

13 March 2015

N.Kh. Abilova
Chief Accountant

13 March 2015

The accompanying Notes form an integral part of these consolidated financial statements

**CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014 (in thousand Kazakhstan tenge)**

	Notes	2014	2015
Continuing operations			
Income			
Freight transportation		743,243,126	742,800,361
Passenger transportation		77,386,364	73,549,271
Government subsidies		24,637,811	23,880,765
Other income	27	35,979,278	29,968,181
Total income		881,246,579	870,198,578
Cost of sales	28	(634,172,853)	(575,433,419)
Gross income		247,073,726	294,765,159
General and administrative expense	29	(82,344,029)	(88,616,581)
Sales expense		(26,614)	(18,957)
Fixed assets impairment	5	(1,164,806)	(1,511,358)
Other gains and losses		3,620,763	3,255,428
Finance income	30	10,521,364	5,493,553
Finance cost	31	(46,702,065)	(36,901,326)
Currency exchange difference	32	(71,699,687)	(7,937,221)
Share of profit (loss) of associates	7	(630,227)	432,057
Share of profit (loss) of joint ventures	7	675,551	(4,701,206)
Income from the subsidiaries disposal	34	821,163	-
Earnings before tax		60,145,139	164,259,548
Corporate income tax expense	23	(21,086,274)	(36,594,179)
Earnings of the year from the continuing operations		39,058,865	127,665,369
Discontinued operations			
Loss for the year from the discontinued operations	17	(5,502,074)	(9,229,803)
Earnings for the year		33,556,791	118,435,566
Other comprehensive loss net of income tax:			
<i>Other comprehensive loss, not to be reclassified in profit or loss during the forthcoming periods:</i>			
Actuarial losses of the pension plan with the fixed repayments	22	(257,013)	(3,808,063)
<i>Other comprehensive (loss)/gains, subject to being reclassified as profit or loss during the next periods:</i>			
Loss, incurred due to foreign ventures reports recalculating		(638,493)	(31,813)
Other comprehensive loss for the year		(895,506)	(3,839,876)
Total comprehensive profit for the year		32,661,285	114,595,690
Profit for the year attributable to			
Shareholder of the parent		30,397,462	115,627,571
Non-controlling interests	38	3,159,329	2,807,995
		33,556,791	118,435,566
Total comprehensive income attributable to			
Shareholder of the parent		29,501,956	111,787,767
Non-controlling interests		3,159,329	2,807,923
		32,661,285	114,595,690
Profit per share from the continuing and discontinued operations, in tenge	36	62	235
Profit per share from the continuing operations, in tenge	36	73	254

**CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 DECEMBER 2014
(in thousand Kazakhstan tenge)**

	Notes	2014	2013
Operating activities			
Income for the year		33,556,791	118,435,566
Corporate income tax expense reflected in the profit and loss statement	17, 23	22,791,364	39,124,709
Adjustments of:			
Depreciation		101,196,715	90,624,626
Finance expense	17, 31	47,361,597	37,974,159
Reserve for value added tax not to be reimbursed	9	803,000	3,845,992
Court claims reserve reinstatement		(420,576)	(907,721)
Loss from fixed assets impairment		1,173,221	1,523,433
Loss from fixed assets and other non-current assets disposal		465,565	404,391
Finance income	17, 30	(10,786,274)	(5,706,120)
Expense/(benefits) as per plan with the fixed repayments		3,253,396	(1,254,018)
Share in loss/(profit) of associates	7	630,227	(432,057)
Share in loss/(profit) of joint ventures	7	(675,551)	4,701,206
Reserve/(reinstated reserve) for non-liquid and outdated inventory		181,310	(148,070)
Reserve accrued for bad and doubtful debts		4,089,695	1,535,663
Reserve accrued for unused leaves		978,687	535,279
Currency exchange difference		72,166,751	8,066,197
Loss from assets disposal attributable to discontinued operations	17	-	2,274,564
Income from subsidiaries disposal	34	(821,163)	-
Other		(1,904,223)	(498,577)
Operating profit before change in working capital		274,040,532	300,099,222
Decrease/(increase) in trade receivables			
		6,421,688	(1,338,033)
Decrease in inventory			
		2,588,921	1,028,942
(Increase)/decrease in other current and non-current assets (including long-term VAT to be reimbursed)			
		(1,911,612)	867,202
Increase in trade payable			
		9,033,940	11,583,973
Decrease in other taxes due for payment			
		(21,100,706)	(22,100,874)
(Decrease)/increase in other current liabilities			
		(11,624,102)	8,775,589
Decrease in employees benefits due			
	22	(2,063,208)	(2,023,966)
Increase/(decrease) in other long-term payables			
		500	(18,886)
Cash-flow from operating activities		255,385,953	296,873,169
Interest paid			
		(43,109,409)	(41,399,092)
Interest received			
		4,488,927	5,020,020
Corporate income tax paid			
		(8,727,135)	(3,872,389)
Net cash-flow from operating activities		208,038,336	256,621,708
Cash-flow from investing activities			
Capital expenditure		(353,536,388)	(466,475,313)
Intangible assets acquisition		(2,164,560)	(2,827,957)
Inflow from fixed assets and other assets disposal		460,401	1,392,402
Other non-current assets acquisition		(655,078)	(11,315,142)
Subsidiaries acquisition net of cash and cash equivalents	33	656,881	(6,606,733)
Acquisition of investments in associates	7	(14,813,614)	(2,177,211)
Acquisition of investments in joint ventures		-	(3,724,340)
Sales of investments available for sales		642,178	-
Acquisition of other finance assets		(78,032,351)	(38,684,386)
Inflow from other finance assets sales		85,107,717	50,805,737
Loans provided	14	-	(10,000,000)
Borrowings repayments	14	-	6,000,000
Dividends from joint ventures		516,517	-
Net cash-flow incurred due to subsidiary disposal	17, 34	1,812,114	4,088,122
Net cash-flow from investing activities		(360,006,183)	(479,524,821)

A.U. Mamin
President

13 March 2015

Sh.S. Omarbekova
Vice-President

13 March 2015

N.Kh. Abilova
Chief Accountant

13 March 2015

The accompanying Notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014 (in thousand Kazakhstan tenge)

	Notes	2014	2013
Cash-flow from financing activities:			
Share paid-up against equity	18	79,000,000	30,000,000
Borrowings received		91,342,964	283,996,501
Inflow from bonds issue		58,253,270	-
Loans repayment		(54,290,098)	(44,744,451)
Dividends and distributions paid out		(5,170,372)	(25,406,373)
Acquisition of asset attributable to Shareholder		(15,065,475)	(3,757,881)
Settlement of finance lease liability		(560,226)	(1,369,118)
Net cash-flow from financing activities		153,510,063	238,718,678
Net increase in cash and cash equivalents			
		1,542,216	15,815,565
Cash and cash equivalents at beginning of year	16	85,855,902	69,726,277
Impact of currency exchange rate fluctuation on cash and cash equivalents balance denominated in foreign currency		2,566,649	314,060
Cash and cash equivalents at end of year	16	89,964,767	85,855,902
Non-cash operations:			
Capital expenditure not paid in full before year-end		22,840,739	21,073,300
Fixed assets acquisition for borrowed cash remitted directly by bank to supplier		20,797,846	17,854,093
Adjustment of loan received from Shareholder to fair value as reflected in equity.	18	12,126,873	148,219,928
Loan expense capitalization		4,457,583	3,906,368
Mutual settlement of railway administrations-wise		2,982,329	1,636,176
Acquisition of investments in joint ventures paid by non-current assets	7	1,336,135	-
Depreciation capitalized in fixed assets value		1,208,246	2,971,969
Fixed assets received against share in authorized capital		860,597	2,992,994
Depreciation capitalized in inventory value		202,083	697,466
Acquisition of investments in associates paid by non-current assets.	7	171,989	-
Other non-current assets acquisition not paid in full before year-end		134,596	838,774
Adjustment of loans provided to joint venture to fair value as included in investments in joint venture	14	-	589,813

	Share capital	Added capital	Foreign currency revaluation reserve	Retained earnings	Share attributable to shareholder of parent	Non-controlling interest	Total equity
As at 1 January 2014	683,932,991	30,000,000	(144,081)	601,316,737	1,315,105,647	14,065,376	1,329,171,023
Profit for the year	-	-	-	30,397,462	30,397,462	3,159,329	33,556,791
Other comprehensive loss for the year	-	-	(638,493)	(257,013)	(895,506)	-	(895,506)
Total comprehensive income for the year	-	-	(638,493)	30,140,449	29,501,956	3,159,329	32,661,285
Issue of shares (Note 18)	109,396,994	(30,000,000)	-	-	79,396,994	-	79,396,994
Dividends paid (Notes 18 and 38)	-	-	-	(16,165,051)	(16,165,051)	(1,170,372)	(17,335,423)
Other distribution (Notes 18 and 26)	-	-	-	(24,659,207)	(24,659,207)	-	(24,659,207)
Other movements (Note 18)	-	-	-	10,337,091	10,337,091	-	10,337,091
Subsidiary acquisition (Note 33)	-	-	-	-	-	1,944	1,944
As at 31 December 2014	793,329,985	-	(782,574)	600,970,019	1,393,517,430	16,056,277	1,409,573,707
As at 1 January 2013	675,526,248	5,429,760	(112,268)	360,944,289	1,041,788,029	7,522,579	1,049,310,608
Profit for the year	-	-	-	115,627,571	115,627,571	2,807,995	118,435,566
Other comprehensive loss for the year	-	-	(31,813)	(3,807,991)	(3,839,804)	(72)	(3,839,876)
Total comprehensive income for the year	-	-	(31,813)	111,819,580	111,787,767	2,807,923	114,595,690
Issue of shares (Note 18)	8,406,743	24,570,240	-	(1,859,405)	31,117,578	-	31,117,578
Dividends paid (Notes 18 and 38)	-	-	-	(16,999,211)	(16,999,211)	(407,162)	(17,406,373)
Other distribution (Notes 18 and 26)	-	-	-	(824,455)	(824,455)	-	(824,455)
Other movements (Note 18)	-	-	-	148,235,939	148,235,939	-	148,235,939
Subsidiary acquisition (Note 33)	-	-	-	-	-	4,142,036	4,142,036
As at 31 December 2013	683,932,991	30,000,000	(144,081)	601,316,737	1,315,105,647	14,065,376	1,329,171,023

A.U. Mamin
President

13 March 2015

Sh.S. Omarbekova
Vice-President

13 March 2015

N.Kh. Abilova
Chief Accountant

13 March 2015

The accompanying Notes form an integral part of these consolidated financial statements

A.U. Mamin
President

13 March 2015

Sh.S. Omarbekova
Vice-President

13 March 2015

N.Kh. Abilova
Chief Accountant

13 March 2015

The accompanying Notes form an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in thousand Kazakhstan tenge unless otherwise stated)

1. GENERAL INFORMATION

SC «National Company «Kazakhstan Temir Zholy» (hereinafter referred to as «Company») was established in Kazakhstan in accordance with the Decrees of the Government of the Republic of Kazakhstan (hereinafter referred to as «Government») aiming at forming a holding company for the state assets of the railway branch of the economy. The Company was incorporated in 15 May 2002. These consolidated financial statements include the results of the Company's operations and its fully controllable subsidiaries (hereinafter collectively referred to as «Group»). The registered address of the Company is as follows: 6, D. Kunayev str., Astana-010000, the Republic of Kazakhstan

The Government represented by SC «Sovereign Wealth Fund «Samruk-Kazyna» is a sole shareholder of the Company (hereinafter referred to as «Shareholder»).

The Government exercises control over the structure of the Group and defines the long-term strategy of the railway operations in the Republic of Kazakhstan. Since 1997, the state is in the process of restructuring the railway sector in the Republic of Kazakhstan, which includes the establishment of the Group, the division of passenger and freight transport and related tariffs as well as subsidies for the passenger transport. Group's development strategy until 2020 envisages significant investments in the railway assets. Within the framework of this strategy, the Group has developed a plan which provides for the establishment of SC «KTZ-infrastructure», SC «KTZ – Freight Transport», SC «KTZ - Passenger transportation» and multi-modal transport and logistics operator, 100% of the shares of which will be owned by the Company. The target structure of the Group is formed based on the Complete privatization plan for 2014-2016 years, adopted by the Government, according to which the stakes of 35 subsidiaries, associates and joint ventures of the Group shall be sold in a competitive environment.

The Group operates the state railways system, controlled by the Government, providing services for freight and passenger traffic and providing maintenance and repair of the railway infrastructure in the Republic of Kazakhstan. As part of the regulation of the railway sector of Kazakhstan, the Government determines the tariffs applied by the Group in freight and passenger traffic. Also, certain directions of passenger transport are subsidized by the state grants. These regulated tariffs

differentiate depending on the type of services provided for transportation. The tariff for the transportation of goods in international transit traffic is not regulated by the Government.

In 2014 and 2013 the Group received an approval of the Government to raise tariffs for cargo transportation in the regulated forms of traffic by an average of 7% and 8.4%, respectively, and passengers transportation in international traffic, passenger transportation in inter-provincial and inter-district traffic by 7% and 12%, respectively, and the amount of the State subsidies granted to the Group has increased.

2. MAIN PROVISIONS OF THE ACCOUNTING POLICIES

BASIC PRINCIPLES OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as «IFRS») as issued by the International Accounting Standards Board (hereinafter referred to as «IASB»). The consolidated financial statements of the Group is drawn up on the basis of a going concern.

The consolidated financial statements have been prepared based on a historical cost principle, except for certain financial instruments carried at cost or estimated fair value as at the balance sheet date described in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods or services.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as «IFRS») as issued by the International Accounting Standards Board (hereinafter referred to as «IASB»). The consolidated financial statements of the Group is drawn up on the basis of a going concern.

The consolidated financial statements have been prepared based on a historical cost principle, except for certain financial instruments carried at cost or estimated fair value as at the balance sheet date described in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods or services:

- level 1 – unadjusted quoted prices for identical assets and liabilities in active market, that the Company may observe at date of assessment;
- level 2 – other inputs not meeting level 1 requirements, but observable for the asset or liability directly or indirectly; and
- level 3 – unobservable inputs for the asset or liability.

ADOPTION OF NEW AND REVISED STANDARDS Standards and Interpretations adopted in the current period:

In the current year the Group has adopted the following new and revised standards:

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32), and
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36).

Amendments to IAS 32- «Offsetting Financial Assets and Financial Liabilities»

Amendments to IAS 32 provide clarification on application of the offsetting rules. In particular, the meaning of "currently has a legally enforceable right of

set-off" and "the application of simultaneous realisation and settlement». The amendments had no material impact on the consolidated financial statements of the Group.

Amendments to IAS 36- «Recoverable Amount Disclosures for Non-Financial Assets»

Amendments to IAS 36 limit the requirement to disclose the recoverable amount of an asset or cash-generating unit to only those periods, when a loss was recognized or impairment was reinstated. Additionally, the amendments introduce additional disclosure requirements when the recoverable amount is determined based on the fair value net of disposal costs. Application of the amendments to IAS 36 affects only the disclosure and does not affect the figures of the financial statements.

Standards and interpretations issued, which will be adopted in future periods:

At the date of these consolidated financial statements approval the following Standards and Interpretations were issued but not yet effective:

	EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER
IFRS 9 «Financial Instruments»	1 January 2018
IFRS 15 «Revenue from Contracts with Customers»	1 January 2017
IFRS 14 «Regulatory Deferral Accounts»	1 January 2016
Amendments to IAS 27 - «Equity Method in Separate Financial Statements»	1 January 2016
Amendments to IAS 16 and IAS 38 - «Clarification of Acceptable Methods of Depreciation and Amortisation»	1 January 2016
Amendments to IFRS 11 - «Acquisition of an Interest in a Joint Operation»	1 January 2016
Amendments to IFRS 10 and IAS 28 - «Sale or Contribution of Assets between an Investor and its Associate or Joint Venture»	1 January 2016
Amendments to IFRS 5, IFRS 7, IAS 19, IAS within IFRS annual improvements, cycle of 2012-2014	1 January 2016
Amendments to IAS 19 - «Defined Benefit Plans: Employee Contributions»	1 July 2014
Amendments to IFRS 2, IFRS 3, IAS 8, IFRS 13, IAS 16 and IAS 38, IAS 24 within IFRS annual improvements, cycle of 2010-2012	1 July 2014
Amendments to IFRS 3, IFRS 13, IAS 40 within IFRS annual improvements, cycle of 2011-2013	1 July 2014

The Group has not applied in advance the standards, amendments and interpretations issued but not yet effective.

The Group's Management expects that the application of IFRS 9 in the future may have an impact on the amount of recognized financial assets and financial liabilities. However, it is not possible to assess the impact of IFRS 9 application prior to conducting a detailed analysis.

The Group's Management also expects that the

application of IFRS 15 in the future may have a significant impact on the amount and timing of revenue recognition. However, it is not possible to assess the impact of IFRS 15 application prior to conducting a detailed analysis

SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires the preparation of Management's judgments and the use of subjective

estimates and assumptions that affect the recorded amounts of assets and liabilities and the disclosure of potential assets and liabilities at the balance sheet date and recorded the amounts of revenues and expenses during the reporting period in the consolidated financial statements. Despite the fact that these estimates are based on historical knowledge and other relevant factors, events or actions can be developed in such a way that actual results will differ from those estimates.

Key assumptions for the future and other key sources of uncertainty estimation as at the balance sheet date that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

DEFINITION OF CONTROL

Control over SC «National Company "Aktau International Sea Commercial Port"»

SC «National Company "Aktau International Sea Commercial Port"» is recognized as a subsidiary of the Group (Notes 3, 18 and 38), although legally the Group does not own any shares of SC «National Company "Aktau International Sea Commercial Port"». The Group has measured the control over SC «National Company "Aktau International Sea Commercial Port"», having considered all the relevant facts and circumstances arising from the trust management agreement signed with SC "Sovereign Wealth Fund «Samruk-Kazyna», the legal owner of 100% shares of SC «National Company "Aktau International Sea Commercial Port"». The Group has concluded that in view of the broad powers granted by the Shareholder, and a practical possibility to individually control the significant activities SC «National Company "Aktau International Sea Commercial Port"» for the purpose of influencing the income of the Group, the Group has a control over SC «National Company "Aktau International Sea Commercial Port"».

Control over "Tulpar-Talgo" LLP

In October 2012 the Group represented by subsidiary thereof SC "Remlocomotive" made an additional contribution to the authorized capital of "Tulpar-Talgo" LLP, which is a joint venture with company Talgo Kazajstan S.L., having increased so the ownership share from 50% to 99.99%. At the same time the Group entered into an option agreement according to which Talgo Kazajstan S.L. had a right to buy out 49.99% of the authorized capital of "Tulpar-Talgo" LLP. The increased share of Group in "Tulpar-Talgo" LLP has not affected a right of ban for the major operating decisions by Talgo Kazajstan S.L. Hence, the Group continues to account for the investments as investment in joint venture by the equity method.

The Group owns 99.99% of «Tulpar-Talgo» LLP, but has not consolidated the joint venture earlier in view of the

option enhancing the second shareholder to ban any major operating decision of the joint venture.

On 6 August 2014 the option of Talgo Kazajstan S.L. expired, so did the right of ban, and the Group acquired a control over «Tulpar-Talgo» LLP since the date (Note 17).

Control over airports

The Group and State property and Privatization Committee of Ministry of Finance of the Republic of Kazakhstan (hereinafter referred to as «Committee») entered into a trust management agreement for 100% Government shares in «Aircompany Kokshetau», «Petropavlovsk International Airport», «Astana International airport», «Kostanay International Airport», «Shymkent airport» and «Korkyt Ata Airport», belonging to the balance sheet assets of Ministry of Transport and Communications of the Republic of Kazakhstan. The Group does not acknowledge the airports as subsidiaries thereof, as the Group is only an agent and does not have any control over the airports, and only executes the right to make decisions in the interest of the Committee delegated thereto. The agreement does not entitle the Group to receive any income from the airports operating activities.

Control over SC "Khorgos International Centre of Boundary Cooperation"

On 1 July 2011 the Group entered into a trust management agreement with the Committee for 100% Government shares in SC "Khorgos International Centre of Boundary Cooperation" (hereinafter referred to as Khorgos). The Group does not acknowledge Khorgos as subsidiary thereof, as the Group is only an agent and does not have any control over the entity, and only executes the right to make decisions in the interest of the Committee delegated thereto. The agreement does not entitle the Group to receive any income from Khorgos operating activities.

DETERMINATION OF FAIR VALUE

Some of the Group's assets and liabilities are measured at fair value. In assessing the fair value of an asset or liability Group uses observable market data, as far as they are available. In the absence of level 1 inputs the Group engages third-party qualified appraisers to assess.

Information about the methods of evaluation and inputs used to determine the fair value of assets and liabilities are disclosed in Notes 8, 17, 33, 35 and 40.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCEPT GOODWILL

Group reviews whether there is an indicator of impairment of the book value of tangible and intangible

assets at each reporting date.

Determining whether there is an indicator of impairment is based on a number of factors, such as changes in the expected growth of the railway industry, expected cash flows, changes in the availability of financing in the future; technological obsolescence, discontinuance of services, current replacement costs and other changes in the conditions.

If such indicators exist, the recoverable value of the assets is determined and compared to the carrying value of the assets. If the carrying amount exceeds the recoverable value of assets, impairment is acknowledged. The recoverable amount is the highest one of two values: fair value less costs to sell and value of use. In assessing value of use, the estimated future cash flows are discounted to their present value using a discount rate before tax, which as management believes, reflects current market assessments of the interim value of money and the risks specific to the assets. The change in the estimated recoverable amount can lead to impairment or recovery in future periods.

VAT REFUND

At each balance sheet date the Group estimates the provisions created non-refundable amount of VAT incurred due to the international transport services rendered. The Group is not able to include VAT to its customers and, consequently, can realize these amounts only by obtaining their refund from the tax authorities. The Group considers information on the expected VAT refund disclosed by its tax administration, correspondence with the tax authorities, as well as historical data on compensation. The actual amount of VAT refunds may differ from the estimates, which may have a significant effect on future operating results.

FIXED ASSETS DEPRECIATION

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets. Estimates related to the estimated useful lives, disposal value and depreciation methods are reviewed at each reporting date and adjusted if necessary. Any adjustments are accounted for prospectively as a change in accounting estimates. Estimates of the useful lives and disposal value of the assets depend on the expected use, programs for repair and maintenance, operation turnovers, improved technology and other conditions of work. As a result of changes in these estimates, the amount of depreciation may differ materially from the amounts reported in the past years.

TAXATION

Various Kazakh laws and regulations are not always clearly written. There may be cases of differences

of opinion between local, regional and national tax authorities. While in the case of accrual of additional taxes by the tax authorities, the existing fines and penalties are set in a large amount; the rate of penalties is 50% of the amount of additional taxes and the fines reach 13.75% of the untimely paid tax. As a result, penalties and fines may exceed the amount of additional taxes.

Because of the uncertainties mentioned above, the amount of potential taxes, penalties and fines, if charged additionally, may exceed the amount reported as expense and accrued as at December 31, 2014. Differences between the estimates and the amounts actually paid, if any, can have a significant effect on future operating results.

LOANS FROM SHAREHOLDER AT AN INTEREST RATE LOWER THAN THE MARKET ONE

The Group receives loans from Shareholder with an interest rate below market for similar loans. These borrowings are initially recognized at cost, being the fair value of cash, taking into account the costs associated with the borrowing of funds. The Group calculates fair value (amortized cost) of these loans by using interest rates on long-term government treasury obligations with similar terms and recognizes the adjustment to fair value of the loan (net of related deferred tax) in equity. In the absence of a similar term, the Group extrapolates the most appropriate market rate for the term of the loan received by the Group. After initial recognition, the loans are measured at amortized cost using the effective interest rate method.

CONSOLIDATION PRINCIPLES

The consolidated financial statements include the financial statements of the Company and entities controlled by the Company and its subsidiaries listed in Note 38.

Subsidiaries are consolidated from the date when the control is transferred to the Group and cease to be consolidated from the date of the Group losing control over them. In particular, income and expenses of subsidiaries acquired or disposed of during the year are included in the statement of profit and loss and other comprehensive income from the date of receipt until the date when the control ceases.

Group has a control in the following cases:

- possesses decision-making authority over the entity;
- carries risks / has rights to variable results of the entity operations; and
- may use its power to affect the variable results of the entity operations. ▶

Group re-evaluates the presence or absence of control, if the facts and circumstances indicate a change in one or more control elements.

The Group controls an entity without a majority of the voting rights, if the existing rights to vote allow to individually control feasibility of major activities of the entity. When evaluating the adequacy of the voting rights to control the Group considers all facts and circumstances important to execute the authorities including:

- share of the voting rights of the Group as compared to the shares and distribution of shares of other holders of voting rights;
- potential voting rights held by the Group, the other holders of voting rights and other parties;
- rights arising from the contracts; and
- any additional facts and circumstances indicating whether the Group has an ability to manage significant activities at the time when the administrative decision needs to be taken about these activities, including distribution of votes in the previous meetings of shareholders.

Profit or loss and each component of other comprehensive income / loss are distributed among the Shareholder of the Group and non-controlling interests. Total comprehensive income / loss of the subsidiary is distributed among the Group's Shareholder and non-controlling interests even if it leads to a negative balance of non-controlling interests.

All transactions, balances and unrealized gains or losses on settlements within the Group are eliminated on consolidation.

BUSINESS COMBINATION

Business combinations are accounted for by the Group using the purchase method, except for the combinations in the transaction between entities under common control. The consideration payable in a business combination is measured at fair value, which is calculated as the sum of the fair values at the acquisition date of the assets transferred by the Group, the liabilities accepted by the Group towards the former owners of the acquired business, and equity securities issued by the Group in exchange for control over the business. Acquisition-related costs are generally recognized in profit or loss as incurred.

Identifiable assets acquired and liabilities accepted are recognized at fair value, with the following exceptions:

- deferred tax assets and liabilities and assets and liabilities related to agreements on employee benefits are recognized and measured in accordance

with IAS 12 «Income Taxes» and IAS 19 «Employee Benefits», respectively;

- liabilities or equity securities related to the agreements of the acquired business in respect of the benefit calculated based on the share price, or to the Group's agreements in respect of the payments calculated based on the share price, which are entered into as replacement of the agreements of the acquired business for such payments are measured in accordance with IFRS 2 «Share-based Payments» at the acquisition date; and
- assets (or disposal groups) classified as held for sale in accordance with IFRS 5 «Non-current Assets Held for Sale and Discontinued Operations», are measured in accordance with IFRS 5.

Goodwill is calculated as the excess of the cost of acquisition, the value of non-controlling interest in the acquiree and the fair value of previously held interest (if any) in the capital of the acquired entity over the value of its net identifiable assets and liabilities at the acquisition date. If the net fair value of the acquired identifiable assets and liabilities exceeds the cost of acquisition, such excess is recognized in the profit and loss statement as income from the acquisition of ownership at a price below fair value.

Non-controlling interests, representing the existing ownership interest and entitling their holders to a proportionate share of net assets in the event of liquidation may be initially measured at fair value or the proportional amount of the non-controlling interest in the recognized amount of the identifiable net assets of the acquired business. The choice of measurement basis is made for each transaction separately. Other non-controlling interests are measured at fair value or, when applicable, in accordance with the method described in another IFRS.

Goodwill arising from the acquisition of a business is recognized at purchase cost as established at the date of acquisition of the business net of accumulated impairment losses, if any. The Group assesses goodwill for impairment at least once a year and whenever there are indications of impairment. Goodwill is distributed among the cash-generating units (groups of assets that generate cash) or groups of cash-generating units that are expected to benefit from the synergies of the business combination. Impairment losses on goodwill are recognized directly in the profit and loss statement and cannot be reinstated in future periods.

COMBINATION OF BUSINESS UNDER COMMON CONTROL

Combination of business under common control (enterprises under state control) is accounted for on an initial cost basis, in which the initial carrying amount

of the assets and liabilities of the acquired entity are combined with the Group. The consolidated financial statements reflect the effect of the consolidation as if the financial statements of the subsidiaries were consolidated, from the earliest period presented.

The differences arising between the issued share capital and the value of the shares of subsidiaries are adjusted in retained earnings in the consolidated statement of changes in equity.

FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Kazakhstan tenge (hereinafter referred to as «tenge»). The functional currency of the Company and its subsidiaries is also tenge. The functional currency of the Group's branches located in Russia is Russian ruble. The assets and liabilities of these branches are translated at the exchange rate as at the balance sheet date, while gains or losses are translated at the average exchange rate for the year. Exchange differences as a result of the translation are included in other comprehensive income. On disposal of a foreign operation, all cumulative translation differences relating to that particular foreign operation are recognized in profit and loss.

The following table shows the tenge exchange rate as at the following dates:

	31 December 2014	31 December 2013
US Dollar	182.35	153.61
Swiss franc	184.64	172.34
Russian ruble	3.17	4.69

RECOGNITION OF FINANCIAL INSTRUMENTS

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when the Group becomes a party to the contract under which the instrument is provided. Financial assets and liabilities are recognized using accounting method as at the transaction date.

Financial assets and liabilities are initially recognized at cost, being the fair value of consideration received or paid, including or net of the costs associated with the transaction, and subsequently measured at fair value or amortized cost.

Fair value is generally determined with a reference to the official market quotes. If quoted market prices are not available, fair value is determined using generally accepted methods of assessment, such as discounted future cash flows, which are based on market data.

The amortized cost of a financial asset or financial liability is measured using the effective interest rate

Tenge is not a fully convertible currency outside the Republic of Kazakhstan. Transactions in currencies other than the Group's functional currency (foreign currencies) are recorded at the market rate as at the transaction date, set by Kazakhstan Stock Exchange («KSE»). As for the foreign currencies, which were not traded out during the KSE session, the exchange rates are calculated by the National Bank of the Republic of Kazakhstan using the cross rates against the US dollar in accordance with the quotations received through Reuters news agency channels.

Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the exchange rate as at the balance sheet date. All exchange differences arising from changes in exchange rates after the date of the transaction are recognized in the profit and loss. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated at the exchange rate as at the date when fair value was determined. Non-monetary assets and liabilities reported at historical cost in foreign currency are not retranslated.

method. The effective interest method is used for calculating the amortized cost of the debt liability and of allocating interest income over the relevant period. The effective interest rate is the rate that at which the estimated future cash inflows are discounted (including all received or made payments for the debt instruments which form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (if applicable) for a shorter period, to the net carrying value at the time of the adoption of a debt instrument for accounting.

Income from debt instruments are recognized using the effective interest rate method, except for financial instruments which are accounted for at fair value through profit or loss.

Financial assets

Financial assets are classified into the following categories: financial assets accounted for at fair value

through profit or loss («FVTPL»), investments held-to-maturity, financial assets available-for-sale («AFS») and «loans and receivables». The classification depends on the nature and purpose of financial instruments and is determined at initial recognition.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in bank accounts, cash in transit, cash on hand and short-term deposits with an original maturity not exceeding three months.

INVESTMENTS HELD-TO-MATURITY

Investments held-to-maturity are the debt securities with determinable or fixed payments, which the Group is intending and is able to hold until their maturity. Investments held to maturity are reported at amortized cost using the effective interest method, net of the provision for impairment.

AFS FINANCIAL ASSETS

AFS financial assets are those non-derivative financial assets that are classified as available for sale or are not classified either as (a) loans and receivables, or as (b) investments held to maturity, or as (c) financial assets FVTPL.

Financial assets classified as AFS are carried at fair value at the end of each reporting period. Investments in equity securities classified as AFS, for which there is no quoted market price in an active market and their fair value cannot be reliably evaluated are measured at cost net of any impairment losses identified at the end of each reporting period.

LOANS AND TRADE RECEIVABLES

Trade receivables are recognized and reflected in the accounting books based on the sums of the invoices due to be paid, net of doubtful accounts.

OTHER FINANCIAL ASSETS

Other financial assets are non-derivative financial assets such as bank deposits with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method, net of any impairment.

DERIVATIVE INSTRUMENT

The Group uses derivative financial instruments - currency swaps to manage currency risk.

Initially, derivative financial instruments are measured at fair value at the contract date and are subsequently remeasured at fair value at each balance sheet date. Changes in fair value are recognized in profit or loss, except for derivative financial instruments classified as hedging instruments in an effective hedge transaction.

Further information on derivative financial instruments is presented in Notes 30, 35 and 40.

The Group does not apply hedge accounting.

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than FVTPL assets, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired when there is objective evidence that as a result of one or more events that took place after the initial recognition of the financial asset the following cases have occurred: a significant change in the estimated future cash flows of the investment, significant financial difficulties of the issuer or debtor, breach of contract, granting preferential conditions by creditors related to the borrower's financial difficulties, probability of bankruptcy or other financial reorganization of the borrower, the disappearance of an active market for that financial asset. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying value of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of the provisions for doubtful accounts.

The Group creates provisions for doubtful debts in the unrecovered receivables within the originally agreed terms. The provision for doubtful accounts is reviewed periodically and, if there is a need for adjustments, the corresponding amounts are recognized in the profit or loss of the reporting period, which revealed the need of adjustment. Bad debts are written off as soon as these are revealed on the account of the previously established reserve.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed in profit or loss in the amount so that the carrying amount of the investment at the date of the reversal of the impairment loss shall not exceed the amount which could be amortized cost if no impairment would be recognized.

Financial liabilities

TRADE AND OTHER PAYABLES

Trade and other payables are initially recognized at fair value, subsequently re-estimated at amortised cost using the effective interest rate method.

LOANS WITH INTEREST AND BORROWINGS

All loans and borrowings are initially recognized at value which represent fair value of the received cash including cost of the borrowings attraction.

After initial recognition, interest bearing loans and borrowings are measured at amortized cost using the effective interest method

Revenues and expenses, except for borrowing costs to be capitalized (e.g. commission on guarantees to third parties) are recognized in profit or loss when the liabilities derecognised as well as during depreciation.

OFFSETTING

Financial assets and financial liabilities may be offset and the net amount may be reported in the consolidated statement of financial position only when there is a legal right to offset the recognized amounts and the Group has the intention to offset or dispose of the asset and settle the liability simultaneously.

Derecognition of financial assets and liabilities

FINANCIAL ASSETS

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) ceases to be recognized in the case where:

- rights to receive cash flows from the asset expire;
- the Group retains the right to receive cash flows from the asset, but has undertaken an obligation to pay them in full without a significant delay to a third party in accordance with the transfer agreement, and has transferred substantially all the risks and benefits of the asset; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and benefits of the asset, or (b), not transferred, nor retained all the risks and benefits of the asset, but has transferred control over the asset.

If the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained all the risks and benefits of the asset, and continues to exercise control over the asset, the Group continues to recognize the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lowest value between the original carrying amount of the asset and the maximum amount of compensation that may be required from the Group as a repayment.

FINANCIAL LIABILITIES

A financial liability (or part of a financial liability) is derecognized when it is settled, i.e. when the obligation specified in the contract is fulfilled, canceled or expired.

INVENTORIES

The major part of the inventory is used in the course of economic activity to ensure operation of the main railway network and rolling stock, and not for trading.

Inventories are valued at the lowest between cost or net realizable value. The cost price includes costs incurred due to delivery of the inventories and bringing the inventories in the condition necessary for its intended use. Net realizable value is the estimated selling price of inventories in the ordinary course of business, net of the costs of completion and estimated costs of selling. Inventories are carried at weighted average cost method.

NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered mainly not during use in production activities but in case of sale. This condition is considered to be fulfilled if the asset (or disposal group) can be sold in its present condition and there is a high probability of sale. Management must complete the sale of an asset within one year from the date of classification as held for sale.

If the Group has adopted a plan to sell a controlling stake of a subsidiary, all assets and liabilities of such subsidiary are classified as held for sale when the criteria described above are fulfilled, regardless of whether the Group will retain a non-controlling interest after the sale.

If the Group adheres to a plan of sale, which includes the sale of a contribution or part of a contribution in an associate or joint venture, the whole contribution or its part is classified as held for sale under the above criteria, and the Group ceases to apply the equity method on the part of the contribution classified as held for sale. The remaining part of the contribution in an associate or joint venture shall not be reclassified as held for sale, and continues to be reflected under the equity method. Group ceases to use the equity method when the disposals results in loss of the Group's significant influence over the associate or joint venture.

After the disposal the Group recognizes the remaining stake in the former associate or joint venture in accordance with IFRS 39. If the enterprise continues to be an associate or joint venture, the Group continues to apply the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount at the time of reclassification and fair value less costs to sell. ►

PROPERTY, PLANT AND EQUIPMENT

Property and equipment are reflected at their initial cost or deemed cost, less any accumulated depreciation and impairment losses.

The cost of purchased fixed assets is defined as the amount paid for the acquisition of an asset and the amount of other costs directly attributable to bringing the asset to the location and in a condition that ensures its operation in line with the intentions with regard to the intended use.

The cost of the Group's own construction includes the cost of all used in construction materials, direct labor costs of the project and directly related to the project financing costs as well as an appropriate proportion of variable and fixed overhead costs. Capitalisation ceases when the assets are ready for intended use.

From time to time the Group enters into contracts for financial lease of equipment to be installed during the project implementation. Equipment in preparation for the installation, is not used and therefore is recognized as assets under construction. The equipment is transferred to the appropriate group as soon as it is ready to use, and then taken into account as described in this policy.

Property, plant and equipment are derecognised upon disposal or when future economic benefits from its use or disposal are no longer expected. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which derecognition occurred.

Subsequent costs**REPAIR OF ROADS AND MAJOR OVERHAULS INCLUDING REPLACEMENT OF SPARE PARTS**

The cost of repair of ways, including, mainly, the cost of replacing the railroad tracks, are capitalized to the extent that it is probable that future economic benefits, and such costs can be calculated or estimated with reasonable accuracy. Replaced assets are valued at the lower of cost and net realizable value and are entered in the inventory or cost of the assets, depending on their nature. The excess of the carrying value over the net realizable value of replaced assets is recognized as an expense in the profit and loss statement. The cost of pathways repair, in relation to which future benefits are not expected to be obtained, are recognized immediately in profit or loss.

Depreciation

Depreciation of fixed assets, except for land and construction in progress, calculated on a straight line basis due to the fact that the Group believes that

the depreciation of each asset category is distributed evenly over the estimated useful life. The estimated useful lives used by the Group in each period, are as follows (in years):

Plant and structures	10-140
Railroads infrastructure	5-100
Machinery and equipment	3-35
Railway transport	10-40
Other transport	4-15
Other	2-50

In 2014 the useful lives of fixed assets were partially revised, at the same time, the effect of the restatement on the current and future periods did not result in a change in estimate related to objects introduced to the reporting date.

Land and assets under construction are not depreciated. Assets under capital construction are transferred to the group after completion and then taken into account as described in this policy. The estimated useful life and depreciation method are checked at the end of each annual reporting period, taking into account any changes to the assessment in the future.

INTANGIBLE ASSETS

Intangible assets are stated at cost less accumulated depreciation and impairment losses. Intangible assets mainly include software and appropriate licenses. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which ranges from 1 to 10 years. The estimated useful life and depreciation method are checked at the end of each annual reporting period, taking into account any changes to the assessment in the future.

INVESTMENT PROPERTY

Investment property represents objects used for obtaining rent payment, capital gains, or in either case (including the facilities under construction). Investment property is initially recognized at purchase cost, including transaction costs. After initial recognition, the Group estimates the investment properties at the initial cost less accumulated depreciation and impairment losses. Depreciation of investment property is calculated on a straight line basis.

Investment property is derecognised upon disposal or final decommissioning when it is no longer expected to receive related economic benefits. Any gain or loss from the writing-off of an object (the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Depreciation of investment property is calculated on a

straight line basis over the estimated useful life of these assets as presented below (in years):

Plant and structures	45
Machinery and equipment	4-20

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS, EXCLUDING GOODWILL

Group reviews whether there is an indicator of impairment of the book value of tangible and intangible assets at each reporting date. If any such indication exists, the recoverable amount of the asset is calculated for the purpose of determining the amount of the impairment loss (if any). The recoverable amount is the higher of two values: fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate before tax, which as management believes, reflects current market assessments of the time value of money and the risks specific to the assets.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the amount received in the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined if there had not been any impairment loss for the asset in previous years.

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The company is considered as an associate, if the Group has significant influence on its financial and operating activities. Significant influence assumes the right to participate in decisions regarding the financial and operating activities of the enterprise, but not control or joint control over such activities.

Joint Ventures mean a joint activity in which the participants have joint control, enjoy the rights to the net assets of the joint operations. Joint control is a divided control over the enterprise, as set by the contract providing a unanimous approval of the decisions on significant activities by jointly controlling parties.

The results of the activities, assets and liabilities of associates and joint ventures are included in these statements using the equity method, except for investments classified as held for trading and accounted for in accordance with IFRS 5. Under the equity method investments in associates and joint ventures are initially recognized in the consolidated statement of financial position at purchase cost and adjusted thereafter

to reflect the Group's share in profit or loss or other comprehensive income of associates and joint ventures. If the Group's share of losses of these enterprises exceeds the Group's ownership in a company (including any share, in fact forming a part of the Group's net investment in associates and joint ventures), the Group discontinues recognizing its share in further losses. Additional losses are recognized only if the Group has an obligation to compensate the losses exceeding of the share in accordance with the legislation or business practice or if the Group has made payments on behalf of the associate or joint venture.

Investments in associates and joint ventures are reflected under the equity method from the time when an investment becomes an associate or joint venture. The positive difference between the acquisition cost of the Group's investments and the fair value of identifiable assets and liabilities at the date of acquisition forms the goodwill included in the carrying value of such investments. The positive difference between the Group's interest in the fair value of identifiable assets and liabilities and the cost of acquisition of investments after reassessment is recognized immediately in profit or loss.

The need for recognition of the Group's investments in associates or joint ventures impairment is determined in accordance with IAS 39. If necessary, the carrying value of the investment (including goodwill) is tested for impairment in accordance with IAS 36 «Impairment of Assets» by comparing the recoverable amount (the higher of the value and fair value less costs for sale) with a carrying value. A recognized impairment loss reduces the carrying value of the investment. Reversal of impairment is recognized in accordance with IAS 36 if the recoverable amount of the investment subsequently increases.

Group ceases to use the equity method, when the company ceases to be an associate or joint venture, or when investments are classified as intended for sale. If the Group reduces stake in the former associate or joint venture, and the remaining share becomes a financial asset, the Group reflects the initial recognition of the financial asset at its fair value at that date. The difference between the carrying amount and fair value of the retained interest in the former associate or joint venture at the date of termination of registration under the equity method is included in the profit or loss from the partial sale. In addition, the Group recognizes all amounts previously recognized in other comprehensive income in respect of the associate or joint venture, as if the relevant assets or liabilities would be sold by the associate or joint venture itself. Thus, if in case of the sale of assets and liabilities, all amounts previously recognized by the associate or joint venture in other

comprehensive income are reclassified to profit or loss, then the Group also reclassifies items of other comprehensive income to profit or loss upon termination of the equity method use.

The Group continues to apply the equity method when an associate becomes joint venture or vice versa. In such cases, re-evaluation at fair value is not performed.

If the Group reduces the interest in the associate or joint venture, but continues to apply the equity method, the Group reclassifies to profit or loss a proportional part of the amounts previously recognized in other comprehensive income if such reclassification would be needed in case of the sale of the related assets or liabilities.

Gains or losses on transactions with associate or joint venture are recognized in the financial statements only within the share of the associate or joint venture that does not belong to the Group.

BORROWING COSTS

The Group capitalizes borrowing costs directly attributable to the acquisition, construction and production of qualifying assets, as well as part of the cost of that asset. Investment gains earned on the temporary investment of individual loans pending their use for qualifying assets is deducted from borrowing costs suitable for capitalization.

Borrowing costs also include the foreign exchange differences arising from foreign currency borrowings, to the extent that they are regarded as an adjustment of the interest costs. The amount of exchange differences capitalized as an adjustment to interest costs does not exceed the amount of interest costs that the Group would be capitalized if the loan was taken in local currency. Any excess of the exchange differences is recognized in profit or loss.

All other borrowing costs are recognized in profit or loss in the period in which they arise.

EMPLOYEE BENEFITS

The pension plan as a defined benefits plan and other long-term employee benefits

In accordance with the Collective Agreement the Group pays certain post-employment benefits to its employees («pension plan with defined benefit»). According to the agreement, the Group provides the following payments and benefits under the unfunded plan:

- ea lump sum at retirement;
- annual financial aid to pensioners;
- provision of free railway tickets;
- financial assistance to pay for funeral services of

- seniors;
- anniversaries of employees and pensioners;
- financial assistance to pay for dental prosthetics; and
- other benefits.

Liabilities and expenses for compensation under the pension plan with a defined benefit are determined using the projected unit credit method. This method considers every year of employment as a step-up, an additional unit of rights to remuneration and measures each unit separately to reflect the final obligation. The cost of such benefits are recognized in the consolidated statement of profit and loss and other comprehensive income, in order to distribute the resulting compensation for the working employees according to the formula of interest on pension plans with defined benefit. This obligation is measured at the present value of estimated future cash flows using a discount rate similar to the interest rate on government bonds, currency and terms of which are comparable with the currency and estimated terms of the commitments for pension plans with defined benefit.

The categories of expenditure for pension plans with defined benefit include:

- the cost of services (including the cost of services during the current and preceding periods, as well as gains and losses from seizures and redemptions of pension plans with defined benefit);
- net interest income / (expense); and
- re-evaluation.

The Group reflects the first two components of expenses in the profit and loss as part of «cost of sales» and / or «general and administrative expenses» (Note 22). Gains and losses from curtailment are accounted for as past period services cost.

«Revaluation» expenditure category is recognized by the Group in other comprehensive income.

Payments for pension plans with defined benefit are accounted for as expense at a time when employees have rendered services entitling them to retirement benefits.

In respect of other long-term employee benefits the Group recognizes the «revaluation» cost category in profit or loss.

EQUITY

Authorized capital

Common shares are classified as equity. Costs directly attributable to the issue of new shares, apart from the cases of business combination, are shown as a

deduction from the amount of the capital gains. All non-monetary contributions to the share capital are measured at fair value determined by an independent appraiser as at the date of transfer.

The proceeds of the allocated common shares, on which the Group obtains no legal registration of allocation is recognized as additional paid-in share capital until the date of registration when the proceeds are transferred to share capital.

Other deposits

The Group carries out transactions with shareholders, such as the receipt of assets, adjustments to fair value on loans at a rate lower than the market, and other transactions with shareholders that do not result in creating an additional stake in the Group equity. The Group recognizes such transactions through retained earnings.

Dividends

Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared before the balance sheet date, the balance sheet date included. Dividends are disclosed when they are proposed prior to the reporting date, or declared after the balance sheet date but before the date of the consolidated financial statements approval.

Other distributions

Distributions are recognized in equity, when the Group undertakes a commitment to deliver cash or non-cash assets to Shareholder / ultimate shareholders free of charge, and the amount of such liability can be reliably measured. Distributions are recognized in equity net of any related deferred tax effect, where applicable.

RECOGNITION OF INCOME

Revenues are recognized to the extent that it is probable that the Group will receive certain economic benefits, and the income can be calculated in the amount of the fair value of the consideration received or receivable.

With regard to services related to transportation, income is recognized depending on the degree of completion of the transportation as at the date of the consolidated statement of financial position, provided that the degree of completion and the amount of income can be determined with sufficient accuracy. The degree of completion of the process of cargo transportation is calculated as a percentage ratio of the volume of services rendered at the balance sheet date, to the total volume of services, according to the information about the dates of departure and arrival of the goods (crossing the exit junction point between railway systems).

Prepayment amounts received from customers for the transport services not yet rendered are included in advances received from customers at the time of receipt. At the time of commencement of services, the amount related to these services is transferred to deferred revenue as a part of the other current liabilities in the consolidated statement of financial position. Deferred revenues are accounted for as income as soon as the services are provided.

Revenue from the wagons use services is recognized during the period when the railway wagons of the Group are actually used.

In relation to the sale of goods, the revenue is recognized when goods are actually delivered and the ownership title is transferred; while at the time of recognition the following conditions shall be met:

- the Group has transferred the significant risks and benefits related to the ownership of the goods to the buyer;
- the Group is no longer involved in the management to the degree usually associated with ownership of the goods and has no control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will be obtained by the Group;
- the costs incurred or to be incurred related to the transaction can be measured reliably.

GOVERNMENT GRANTS

The Government decided that the Group has a right to receive subsidies in the form of government grants to partially cover the cost of transportation of passengers to the socially important directions in the Republic of Kazakhstan. The Group and other organizations of Republic of Kazakhstan, providing services for passenger transport by railway, file their applications for grants on an annual basis. If the contract is concluded, the Group acquires the right to get the cost of transporting the passengers to the social important areas of the Republic of Kazakhstan subsidized within the amounts preliminarily budgeted, as determined by the Government.

The Government grants are recognized in the profit and loss in the period in which the transportation services have been provided to passengers at the reduced rates set by the Government, when there is a reasonable assurance that the Group will be able to fulfill the applicable conditions and when there is a reasonable assurance that the grants will be obtained.

TAXES

Current tax

Tax assets and liabilities of current and prior periods ▶

are measured at the amount that is expected to be reimbursed by the tax authorities or paid to the tax authorities. Tax rates and tax laws used to compute the amounts are tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Deferred tax

Deferred income tax is a tax that will be paid or reimbursed in the amount of a difference between the carrying value of assets and liabilities in the consolidated financial statements and the corresponding tax bases which are used to calculate a taxable profit, and is calculated using the liability method.

Deferred tax liabilities are generally recognized taking into account all taxable temporary differences. Deferred tax assets are recognized taking into account all deductible temporary differences to the extent that it is highly probable that there will be taxable profits in future for the use of these temporary differences. Tax assets and liabilities are not recognized in the consolidated financial statements, if the temporary differences are connected with goodwill or arise from the initial recognition of other assets and liabilities in the transactions (other than a business combination) which affects neither taxable nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences relating to subsidiaries, associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets for such investments and shares are recognized given the high probability of future taxable income sufficient to use deductible temporary differences, and the anticipation of their use in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that there is no high probability that sufficient taxable income will be obtained against which whole or part of the value of deferred tax assets can be used.

Unrecognised deferred tax assets are reviewed at each date of the consolidated statement of financial position and are recognized to the extent in which there is a possibility that future taxable profit will allow the deferred tax asset to recover.

Deferred tax assets and liabilities are measured at the tax rates that apply to the period when an asset is disposed or a liability is settled based on tax rates

(and tax laws) that have been enacted or substantially enacted at the date of the respective consolidated statement of financial position.

Deferred tax assets and liabilities are offset mutually when there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable company and the same taxation authority.

Current and deferred income taxes are recognized as costs or savings in the profit or loss, except when they relate to items of other comprehensive income or to equity, in which case the deferred income tax is also recognized outside profit or loss, or when it arises from the initial recognition of a business combination. In case of business combination the tax effect is included in the accounting for business combinations.

LEASE

Operating lease

Leases where the lessor retains the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the profit or loss on a straight-line basis depending on the lease term.

Finance leases

The Group recognizes the asset under finance lease in the consolidated statement of financial position at amounts equal to the fair value of the leased property at the commencement date of the finance lease, or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. When calculating the present value of the minimum lease payments the discount factor is used in the form of an interest rate under the lease agreement, when it is possible to define it; otherwise the interest rate on the borrowings of the Group is used. Initially incurred direct costs are recognized as part of the asset. Lease payments are apportioned between interest expense and reduction of the existing liability. The cost of interest is allocated to each period during the lease term so as to achieve a constant rate of interest for the outstanding liability for each period.

Financial rent increases depreciation expense for the asset as well as financial expenses for every reporting period. The policy of depreciation in respect of the leased asset corresponds to the depreciation policy of the Group's own assets if the lease term is longer than

the depreciation period. If the term of the lease period is less than the depreciation period of the similar fixed assets, then the leased assets are depreciated on the basis of the lease term.

Provisions

Provisions are recognized when the Group has a liability (legal or implicit) as a result of past events, and there is a high probability that the Group will be required to settle the liabilities, and the amount of the liabilities can be estimated reliably.

Provisions amount for the expected expense are recorded as the best estimate of the amount required to settle the present liability defined at the balance sheet date taking into account the risks and uncertainties specific to the liability. When a provision for future expenses is calculated based on estimated cash flows to repay the liability, the provision for future expenses is defined as the present value of those cash flows (where the effect of money value change with the time is material). If it is expected that the economic benefits required to settle the liability will be fully or partially reimbursed by a third party, the respective receivable is recognized, provided there is almost a full certainty that reimbursement will

be received and it is possible to make a reliable estimate of the amount of the receivable.

3. CLASSIFICATIONS CHANGE AFFECTING THE COMPARATIVE INFORMATION

Reclassification

In 2014, the Group revised the reflection of certain capital transactions, including adjustments to the fair value of loans granted by the shareholders, the transfer of shares of SC «National Company «Aktau international sea commercial port» and other transactions with shareholders that do not relate to obtaining a stake in the share capital of the Group. The Group began to reflect the amount of these adjustments and operations to retained earnings ledger and not in the additional paid-capital, which corresponds to the accounting policies of the Shareholder.

As a result, the Group reclassified the comparative information for the year ended December 31, 2013, in accordance with the presentation form of financial information for the year ended December 31, 2014.

The impact on the consolidated statement of financial position

	Before adjustments	Reclassification	Recalculated
As at 31 December 2013			
Equity			
Additionally paid capital	242,447,850	(212,447,850)	30,000,000
Retained earnings	388,868,887	212,447,850	601,316,737
Total equity	1,329,171,023	-	1,329,171,023
As at 1 January 2013			
Equity			
Additionally paid capital	43,407,831	(37,978,071)	5,429,760
Retained earnings	322,966,218	37,978,071	360,944,289
Total equity	1,049,310,608	-	1,049,310,608

Discontinued operations

As part of the Comprehensive Plan of privatization for 2014-2016 years approved of by the Government of Kazakhstan, in July 2014 the Shareholders adopted a list of subsidiaries, associates and joint ventures of the Group, subject to privatization. In August 2014 the Company approved of the plan of measures on realization of subsidiaries, associates and joint ventures

of the Group, and the active work commenced to implement it.

The Group reflected the results of subsidiaries' major activity as discontinued operations, and accordingly, the comparative figures for the year ended December 31, 2013 were restated. ►

Impact on the consolidated statement of profit and loss and other comprehensive income:

	Before adjustment	Discontinued operations	Recalculated
2013			
Income			
Other income	33,335,306	(3,367,125)	29,968,181
Total income	873,565,703	(3,367,125)	870,198,578
Cost of sales	(576,862,081)	1,428,662	(575,433,419)
Gross income	296,703,622	(1,938,463)	294,765,159
General and administrative expense	(94,155,179)	5,538,598	(88,616,581)
Sales expenses	(154,403)	135,446	(18,957)
Finance income	5,703,644	(210,091)	5,493,553
Finance expense	(37,811,417)	910,091	(36,901,326)
Currency exchange loss	(8,012,635)	75,414	(7,937,221)
Fixed assets impairment	(1,523,433)	12,075	(1,511,358)
Other profit and loss	3,815,236	(559,808)	3,255,428
Profit before taxation	160,296,286	3,963,262	164,259,548
Corporate income tax expense	(39,048,623)	2,454,444	(36,594,179)
Profit for year from continuing operations	121,247,663	6,417,706	127,665,369
Loss from discontinued operations	(2,812,097)	(6,417,706)	(9,229,803)
Profit per share from continuing operations, in tenge	241	13	254

4. SEGMENTS INFORMATION

The Group's operating segments are determined on the basis of services rendered. The Group identifies two main segments: services for freight and passenger traffic. All other segments, including mainly communication services, utilities, loading, unloading and maintenance of vessels, which together do not exceed the quantitative thresholds are therefore not separately disclosed.

The accounting policies of the reportable segments are conforming to the Group's accounting policies described in Note 2.

The Group's Management monitors multiple profitability indicators of the operating segments of the Group, such as: pre-tax profit, profit for the year from continuing operations and gross margin. At the same time, the profit for the year is a key indicator used by the Management for the purpose of resource allocation and assessment of segment performance.

The Group has no stated policy on the pricing of intersegment sales, but in general, intersegment operations are carried out at the existing market prices.

	For year ended 31 December 2014			
	Freight transportation	Passenger transportation	All other segments	Total
Key operating indices				
Income				
Income from transportation	772,834,872	79,400,169	-	852,235,041
Government subsidies	-	24,637,811	-	24,637,811
Other income	17,064,944	3,364,481	45,215,446	65,644,871
Intersegment revenue	(31,372,390)	(2,569,080)	(27,329,674)	(61,271,144)
Profit	758,527,426	104,833,381	17,885,772	881,246,579
Cost of sales	(536,106,815)	(93,005,450)	(5,060,588)	(634,172,853)
General and administrative expenses	(71,876,241)	(4,690,003)	(5,777,785)	(82,344,029)
Sales expenses	(26,614)	-	-	(26,614)
(Loss)/profit from fixed assets impairment	(782,613)	(421,346)	39,153	(1,164,806)
Other profit and loss	501,493	1,799,597	1,319,673	3,620,763
Finance income	9,221,986	258,703	1,040,675	10,521,364
Finance expense	(41,054,741)	(1,358,269)	(4,289,055)	(46,702,065)
(Loss)/profit from exchange rate difference	(71,706,311)	151,516	(144,892)	(71,699,687)
Share in loss of associates	(100,055)	-	(530,172)	(630,227)

	For year ended 31 December 2014			
	Freight transportation	Passenger transportation	All other segments	Total
Share in profit/(loss) of joint venture	2,738,052	-	(2,062,501)	675,551
Income from subsidiary disposal	420,326	-	400,837	821,163
Corporate income tax expense	(18,896,996)	(1,513,982)	(675,296)	(21,086,274)
Profit for year from the continuing operations	30,858,897	6,054,147	2,145,821	39,058,865

Other key information on segments

Capital expenditures	318,815,851	30,116,880	50,424,735	399,357,466
Fixed assets depreciation	86,553,273	6,898,127	5,994,328	99,445,728

	For year ended 31 December 2014			
	Freight transportation	Passenger transportation	All other segments	Total

Key operating indices

Income				
Income from transportation	771,487,429	75,626,319	-	847,113,748
Government subsidies	-	23,880,765	-	23,880,765
Other income	15,101,882	3,783,242	30,469,243	49,354,367
Intersegment revenue	(31,204,551)	(2,614,905)	(16,330,846)	(50,150,302)
Profit	755,384,760	100,675,421	14,138,397	870,198,578
Cost of sales	(488,583,133)	(82,164,126)	(4,686,160)	(575,433,419)
General and administrative expenses	(76,308,791)	(6,944,216)	(5,363,574)	(88,616,581)
Sales expenses	(18,957)	-	-	(18,957)
Loss from fixed assets impairment	(1,398,730)	(77,621)	(35,007)	(1,511,358)
Other profit and loss	1,585,691	1,494,801	174,936	3,255,428
Finance income	4,571,487	279,161	642,905	5,493,553
Finance expense	(33,569,064)	(1,104,341)	(2,227,921)	(36,901,326)
(Loss)/profit from exchange rate difference	(7,754,981)	49,567	(231,807)	(7,937,221)
Share in profit/(loss) of associates	665,480	-	(233,423)	432,057
Share in profit/(loss) of joint venture	777,880	-	(5,479,086)	(4,701,206)
Income from subsidiary disposal	(31,719,344)	(3,046,812)	(1,828,023)	(36,594,179)

Profit for year from the continuing operations

123,632,298	9,161,834	(5,128,763)	127,665,369	
Other key information on segments				
Capital expenditures	372,340,263	40,965,869	15,966,317	429,272,449
Fixed assets depreciation	80,480,546	6,145,354	4,818,007	91,443,907

Geographic information of the Group

The Group earns income from customers in different geographically located regions. The following table

demonstrates information about the revenues based on the locations for the years ended 31 December:

Customers' places of location	2014	2013
Kazakhstan	871,809,909	858,454,774
Russia	7,062,389	7,273,130
Other	2,374,281	4,470,674
	<u>881,246,579</u>	<u>870,198,578</u>

Mainly all the non-current assets of the Group are located in Kazakhstan.

5. FIXED ASSETS

Movement of the fixed assets for the year ended 31 December 2014 is demonstrated as follows:

	Land	Buildings and structures	Railroads infrastructure	Machinery and equipment	Railway transport	Other transport	Other	Assets in construction	Total
Historical cost:									
As at 1 January 2014	3,824,436	152,919,157	705,248,502	276,424,584	963,621,024	20,498,731	19,008,110	287,607,712	2,429,152,256
Received	663,221	1,120,832	74,662	9,441,801	77,493,324	1,702,821	4,024,361	304,836,444	399,357,466
Received from business combination							138		
Internal movement	(197,226)	24,080,485	57,562,956	46,689,533	7,643,014	429,412	478,078	(136,686,252)	-
Disposed	(77,567)	(1,343,687)	(18,782)	(2,499,041)	(4,246,494)	(291,362)	(376,749)		(8,853,682)
Transferred to inventories	-	-	(7,742,345)	(58,901)	(2,527)	(179)	(254,323)	(500,565)	(8,558,840)
Transferred to non-current assets of disposal group classified as held for sales (Note 17)	(191,936)	(12,794,921)	-	(18,770,977)	(11,878,008)	(1,585,039)	(466,451)	(2,283,797)	(47,971,129)
Joint ventures disposal (Note 34)	(45,840)	(1,032,512)	-	(331,093)	-	(75,296)	(13,802)	(8,410)	(1,506,953)
Foreign currency recalculation	-	(60,534)	(564,047)	(243,288)	(101,687)	(10,170)	(20,143)	(7,372)	(1,007,241)
Transferred to other current assets	-	-	-	-	(4,779,322)	-	-	-	(4,779,322)
Transferred to intangible assets (Note 6)	-	-	-	(989)	-	-	-	(5,996,578)	(5,997,567)
Transferred from investment property (Note 8)	-	110,688	-	-	-	-	-	-	110,688
As at 31 December 2014	3,975,088	162,999,508	754,560,946	310,651,629	1,027,749,324	20,668,918	22,379,219	446,961,182	2,749,945,814
Accumulated depreciation and impairment:									
As at 1 January 2014	-	(23,101,748)	(105,711,842)	(86,790,399)	(214,990,690)	(7,440,793)	(6,102,568)	(5,012,788)	(449,150,828)
Depreciation accrued for year (Carried)/restated impairment for year	-	(3,876,176)	(22,987,345)	(24,033,799)	(45,391,240)	(1,486,034)	(1,671,134)	-	(99,445,728)
Internal transition	-	(154,684)	(11,730)	(238,957)	(432,719)	34,892	6,289	(367,897)	(1,164,806)
Disposed	-	(2,928,405)	(40,138)	2,752,618	(7,872)	235,452	235,452	-	-
Transferred to inventory	-	540,952	18,426	2,384,509	3,710,932	245,790	360,411	-	7,261,020
Transferred to non-current assets of disposal group classified as held for sales (Note 17)	-	-	4,835,503	32,472	2,109	133	306	-	4,870,523
Joint ventures disposal (Note 34)	-	2,798,539	-	5,631,146	1,802,097	533,464	198,305	12,543	10,976,094
Foreign currency recalculation	-	530,001	308,346	129,458	-	29,103	4,931	-	693,493
Transferred to other current assets	-	15,257	-	85,174	48,165	5,814	7,686	-	470,442
Transferred to intangible assets (Note 6)	-	-	-	-	4,536,394	-	-	-	4,536,394
Transferred from investment property (Note 8)	-	(50,304)	-	-	-	-	-	-	16
As at 31 December 2014	-	(26,226,568)	(123,588,780)	(100,047,762)	(250,726,607)	(8,085,503)	(6,960,322)	(5,368,142)	(521,003,684)
Balance sheet value:									
As at 31 December 2014	3,975,088	136,772,940	630,972,166	210,603,867	777,022,717	12,583,415	15,418,897	441,593,040	2,228,942,130

Movement of the fixed assets for the year ended 31 December 2013 is demonstrated as follows:

	Land	Buildings and structures	Railroads infrastructure	Machinery and equipment	Railway transport	Other transport	Other	Assets in construction	Total
Historical cost:									
As at 1 January 2013	1,978,290	135,092,544	665,970,515	255,806,995	825,951,619	15,345,137	14,513,927	101,558,193	2,016,217,220
Received	42,065	2,360,388	304,214	8,562,612	133,940,414	3,755,947	2,270,209	278,036,600	429,272,449
Received from business combination							235,879		11,473,761
Internal movement	1,760,448	9,203,801	-	243,654	29,979	29,979	235,879	-	-
Disposed	71,861	6,878,230	48,901,259	13,583,901	13,644,910	1,484,365	2,304,993	(86,869,519)	-
Transferred to inventories	(24,274)	(201,885)	(17,278)	(1,278,769)	(9,878,742)	(85,368)	(235,341)	-	(11,721,657)
Transferred to non-current assets of disposal group classified as held for sales (Note 17)	-	(100)	(9,809,534)	(140,311)	(23,356)	(22,158)	(78,557)	(2,665,794)	(12,739,810)
Joint ventures disposal (Note 34)	-	-	(100,674)	(39,266)	(13,821)	(9,171)	(2,258)	-	(165,190)
Foreign currency recalculation	(3,954)	(413,821)	-	(152,805)	-	(742)	(2,451,768)	-	(2,605,315)
As at 31 December 2013	3,824,436	152,919,157	705,248,502	276,424,584	963,621,024	20,498,731	19,008,110	287,607,712	2,429,152,256
Accumulated depreciation and impairment:									
As at 1 January 2013	-	(17,608,827)	(89,360,481)	(68,975,226)	(180,858,996)	(6,093,000)	(4,980,243)	(4,045,437)	(371,922,210)
Depreciation accrued for year	-	(5,667,812)	(20,634,074)	(20,239,313)	(42,190,880)	(1,379,427)	(1,332,401)	-	(91,443,907)
Carried impairment for year	-	-	-	-	-	-	-	-	-
Internal transition	-	(40,869)	(414,073)	(18,912)	(3,571)	(39,224)	(39,433)	(955,276)	(1,511,358)
Disposed	-	10,671	-	1,218,826	(1,255,036)	897	24,642	-	-
Transferred to inventory	-	139,273	11,958	1,122,059	9,290,717	69,125	216,644	(12,075)	10,837,701
Transferred to non-current assets of disposal group classified as held for sales (Note 17)	-	100	4,632,201	67,365	20,240	39	6,727	-	4,726,672
Joint ventures disposal (Note 34)	-	-	-	11,507	6,836	797	1,477	-	73,244
Foreign currency recalculation	-	65,716	-	23,295	-	-	19	-	23,314
As at 31 December 2013	-	(23,101,748)	(105,711,842)	(86,790,399)	(214,990,690)	(7,440,793)	(6,102,568)	(5,012,788)	(449,150,828)
Balance sheet value:									
As at 31 December 2013	3,824,436	129,817,409	599,536,660	189,634,185	748,630,334	13,057,938	12,905,542	282,594,924	1,980,001,428

In 2014, the Group received fixed assets in the amount of 860,597 thousand tenge, including passenger platforms and railway stations from the Shareholder in the amount of 396,994 thousand tenge (in 2013: 2,976,983 thousand tenge) which were recorded in the consolidated statement of changes in equity as contribution to the charter capital and other deposits (Note 18).

As at 31 December 2014 construction in progress mainly consists of the costs of the projects for the construction of railway lines «Zhezkazgan - Beineu» and «Arkalyk - Shubarkol» in the amount of 349,160,830 thousand tenge (2013: 202,354,928 ths. tenge), for the development of Astana station railway junction, including the construction of the railway station complex in the amount of 12,339,944 thousand tenge (2013: nil).

As at 31 December, 2014 and 2013 the Group's fixed assets with a carrying value of 162,467,016 thousand

and 153,138,190 thousand tenge, respectively, served as collateral for certain loans (Note 19).

For the years ended 31 December 2014 and 2013, amount of capitalized costs on borrowings received amounted to 4,457,583 thousand tenge and 3,906,368 thousand tenge, respectively. The capitalization rate is ranging from 3.04% to 12% (2013: from 5.15% to 11.63%) (Note 19).

As at 31 December, 2014 and 2013, the initial cost of fully depreciated property, plant and equipment that are in use has amounted to 208,896,610 thousand tenge and 196,677,251 thousand tenge, respectively.

As at 31 December, 2014 the carrying value of fixed assets acquired under finance leases and included in machinery and equipment, and railway transport, reached 4,655,268 thousand tenge (31 December 2013: 6,190,687 thousand tenge).

6. INTANGIBLE ASSETS

Movement of the intangible assets for the year ended 31 December 2014 is demonstrated as follows:

	Licenses	Software	Other	Goodwill	Total
Cost:					
As at 1 January 2014	1,217,893	15,693,892	447,955	322,335	17,682,075
Received	18,337	245,780	67,532	-	331,649
Foreign currency recalculation	-	(2,368)	-	-	(2,368)
Transfer from inventory	574	135,924	-	-	136,498
Transfer to inventory	-	(81)	(33,357)	-	(33,438)
Transfer from fixed assets (Note 5)	1,229,908	3,296,466	1,471,193	-	5,997,567
Internal transition	(20,779)	68,082	(47,303)	-	-
Disposal	(4,456)	(151,477)	-	-	(155,933)
Transferred to non-current assets of disposal group classified as held for sales (Note 17)	(660)	(155,887)	(286,515)	(322,335)	(765,397)
Subsidiary disposal (Note 34)	(1,238)	(132)	-	-	(1,370)
As at 31 December 2014	2,439,579	19,130,199	1,619,505	-	23,189,283
Accumulated depreciation:					
As at 1 January 2014	(623,777)	(7,378,202)	(115,231)	-	(8,117,210)
Carried	(144,578)	(2,598,614)	(113,278)	-	(2,856,470)
Foreign currency recalculation	-	1,466	-	-	1,466
Transfer to inventories	-	-	1,586	-	1,586
Transfer from fixed assets (Note 5)	-	(16)	-	-	(16)
Internal transition	526	(40,144)	39,618	-	-
Disposal	4,456	151,229	-	-	155,685
Transferred to non-current assets of disposal group classified as held for sales (Note 17)	99	102,543	89,159	-	191,801
Subsidiary disposal (Note 34)	170	5	-	-	175
As at 31 December 2014	(763,104)	(9,761,733)	(98,146)	-	(10,622,983)
Balance sheet cost					
As at 31 December 2014	1,676,475	9,368,466	1,521,359	-	12,566,300

Movement of the intangible assets for the year ended 31 December 2013 is demonstrated as follows:

	Licenses	Software	Other	Goodwill	Total
Value:					
As at 1 January 2013	808,203	13,303,050	404,953	322,335	14,838,541
Received	105,734	172,511	4,679	-	282,924
Received from a business combination (Note 33)	592	6,862	-	-	7,454
Transfer from inventories	7,589	163,901	-	-	171,490
Transfer from fixed assets (Note 5)	311,965	2,254,824	38,526	-	2,605,315
Internal transition	(14,750)	14,752	(2)	-	-
Disposal	(1,440)	(222,008)	(201)	-	(223,649)
As at 31 December 2013	1,217,893	15,693,892	447,955	322,335	17,682,075
Accumulated depreciation:					
As at 1 January 2013	(577,387)	(5,628,409)	(61,898)	-	(6,267,694)
Carried	(47,606)	(1,945,745)	(54,493)	-	(2,047,844)
Transfer from fixed assets (Note 5)	-	(23,314)	-	-	(23,314)
Internal transition	539	(1,647)	1,108	-	-
Disposal	677	220,913	52	-	221,642
As at 31 December 2013	(623,777)	(7,378,202)	(115,231)	-	(8,117,210)
Balance sheet cost					
As at 31 December 2013	594,116	8,315,690	332,724	322,335	9,564,865

As at 31 December 2014 the initial cost of fully depreciated intangible assets consisting of software and used by the Group in its operations reached 2,806,521 thousand tenge (31 December 2013: 2,563,214 thousand tenge).

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

As at 31 December 2014 and 2013 the investments in associates comprise the following companies:

	LLP «Aktyubinsk rail and beam plant»	Logistic System Management B.V.,(SC «Kedentransservice»)	Chinese-Kazakhstan international logistics company-Lianyungang	LLP «Continental Logistics»	LLP «Aktau Sea North Terminal»	Other	Total
As at 1 January 2013	-	2,633,746	-	-	-	-	2,633,746
Acquisition	2,158,386	-	-	-	-	18,825	2,177,211
Share in profit/ (loss)	(228,034)	665,480	-	-	-	(5,389)	432,057
Dividends received	-	(232,512)	-	-	-	-	(232,512)
Transfers to joint ventures	-	(3,066,714)	-	-	-	-	(3,066,714)
As at 31 December 2013	1,930,352	-	-	-	-	13,436	1,943,788
Acquisitions	-	-	6,058,752	3,600,000	2,308,800	189,676	12,157,228
Contributions to share capital without change in ownership share	2,828,375	-	-	-	-	-	2,828,375
Share in (loss)/ profit	(509,382)	-	4,659	(61,702)	(29,412)	(34,390)	(630,227)
As at 31 December 2014	4,249,345	-	6,063,411	3,538,298	2,279,388	168,722	16,299,164

Additional information on the essential associates of the Group is presented below:

Associate	Core business	Core business country and country of incorporation	Type of relationships between Group and associate, whether it is strategically important for Group
LLP «Aktyubinsk rail and beam plant»	Production and trading of rolled metal products	Republic of Kazakhstan	Established with a purpose of supplying the up-to-date modern rails to the Group
Chinese-Kazakhstan international logistics company-Lianyungang	International multimodal transportation	People's Republic of China	Established with a purpose of developing transporting logistics
LLP «Continental Logistics»	Organizing construction, operation of transportation and logistics centers.	Republic of Kazakhstan	Established with a purpose of developing transporting and logistics centers
LLP «Aktau Sea North Terminal»	Construction and operation of logistics, industrial and infrastructural complexes	Republic of Kazakhstan	Established with a purpose of developing transporting and logistics infrastructure of the Group

The overall financial information in respect to the existing associates of the Group for the years ended 31 December for the following years:

	As at 31 December 2014				As at 31 December 2013
	LLP «Aktyubinsk rail and beam plant»	Chinese-Kazakhstan international logistics company-Lianyungang	LLP «Continental Logistics»	LLP «Aktau Sea North Terminal»	LLP «Aktyubinsk rail and beam plant»
Current assets	2,074,073	6,269,756	9,708,411	10,842,666	1,704,036
Non-current assets	54,785,380	6,913,194	6,745,894	2,424,664	15,512,078
Total assets	56,859,453	13,182,950	16,454,305	13,267,330	17,216,114
Current liabilities	5,121,060	808,642	4,659,979	7,568,859	99,379
Long-term liabilities	37,573,911	-	-	-	10,682,227
Total liabilities	42,694,971	808,642	4,659,979	7,568,859	10,781,606
Total net assets	14,164,482	12,374,308	11,794,326	5,698,471	6,434,508
Share	30%	49%	30%	40%	30%
Net assets attributable to Group	4,249,345	6,063,411	3,538,298	2,279,388	1,930,352
Balance sheet value of investments	4,249,345	6,063,411	3,538,298	2,279,388	1,930,352

	For 2014			
	LLP «Aktyubinsk rail and beam plant»	Chinese-Kazakhstan international logistics company-Lianyungang	LLP «Continental Logistics»	LLP «Aktau Sea North Terminal»
Income	-	402,055	-	-
(Loss)/profit for year and total comprehensive (loss)/profit	(1,697,941)	9,509	(205,673)	(73,529)
Group's share in overall comprehensive (loss)/income of associate	(509,382)	4,659	(61,702)	(29,412)

	For 2013	
	LLP «Aktyubinsk rail and beam plant»	Logistic System Management B.V., (JSC «Kedentransservice»)
Income	-	32,086,790
(Loss)/profit for year and total comprehensive (loss)/profit	(760,112)	2,016,606
Group's share in overall comprehensive (loss)/income of associate	(228,034)	665,480

Aggregate information for other associates of the Group:

	2014	2013
Group's share in loss for year and total comprehensive loss	(1,583,292)	(1,343,660)
Group's recognized share in losses	(34,390)	(5,389)
Non-recognized Group's share in losses	(1,600,182)	(1,338,271)

1 Unrecognized Group's share of losses in an associate refers to the accumulated share of losses that exceed the Group's share in the company, and the Group will have no legal or implicit obligation, and does not make payments on behalf of the associate.

In December 2013, the Group acquired an additional 17% ownership interest in the Logistic System Management BV for 3,251,928 thousand tenge, thus increasing its ownership to 50%. As a result, the Group obtained joint control and reclassified investments in Logistic System Management BV to the investment in the joint venture.

As at 31 December, 2014 and 2013 investments in joint ventures included the following:

	LLP «Electrovoz kurastyru zaulyty»	LLP «Tulpar -Talgo»	Logistic System Management B.V., («Kedentransservice»)	SC «Locomotive kurastyru zaulyty»	LLP «Astyk Trans»	Other	Total
Investments as at 1 January 2013.	3,832,952	9,012,501	-	-	-	-	12,845,453
Acquisition	-	-	3,253,657	9,071,018	90,000	301,250	12,715,925
Contributions to share capital without change in ownership share	-	819,690	-	-	-	-	819,690
Share in profit/ (loss)	(251,674)	(5,227,412)	-	628,504	150,511	(1,135)	(4,701,206)

	LLP «Electrovoz kurastyru зауыты»	LLP «Tulpar –Talgo»	Logistic System Management B.V., («Kedentransservice»)	SC «Locomotive kurastyru зауыты»	LLP «Astyk Trans»	Other	Total
Transfer from investments in associates	-	-	3,066,714	-	-	-	3,066,714
Investments at 31 December 2013.	3,581,278	4,604,779	6,320,371	9,699,522	240,511	300,115	24,746,576
Contributions to share capital without change in ownership share	-	-	-	-	1,336,135	-	1,336,135
Share in profit/ (loss)	(1,500,671)	(561,830)	1,441,623	(173,144)	1,554,212	(84,639)	675,551
Dividends received	-	-	(481,781)	-	(106,777)	-	(588,558)
Transfer to disposal non-current assets classified as held for sale (Note 17)	(1,040,303)	(4,042,949)	-	-	-	-	(5,083,252)
Investments as at 31 December 2014.	1,040,304	-	7,280,213	9,526,378	3,024,081	215,476	21,086,452

Additional information about essential joint venture of the Group:

Joint venture	Core business	Core business country and country of incorporation	Type of relationships between Group and joint venture, whether it is strategically important for Group
LLP «Electrovoz kurastyru зауыты»	Production of freight and passenger electric locomotives	Republic of Kazakhstan	JV satisfies demand of the Group for electric locomotives, thus ensuring a continuous process of transporting activities. JV is strategically important for the Group.
LLP «Tulpar –Talgo»	Production of passenger wagons	Republic of Kazakhstan	JV satisfies demand of the Group for express passenger wagons, thus ensuring a continuous process of transporting activities. JV is strategically important for the Group.
SC «Locomotive kurastyru зауыты»	Assembling of locomotives	Republic of Kazakhstan	JV satisfies demand of the Group for mainline locomotives, thus ensuring a continuous process of transporting activities. JV is strategically important for the Group.
Logistic System Management B.V., («Kedentransservice»)	Freight-forwarding services, operating rolling stock, terminals servicing-	Republic of Kazakhstan (incorporated in the Netherlands)	JV is an operator of the container transportation and renders terminal servicing of containers transportations at Dostyk station.
LLP «Astyk Trans»	Freight-forwarding services rendering for transporting grains and other agricultural products by railways	Republic of Kazakhstan	JV renders freight-forwarding services for transporting grains

Aggregate financial information in respect of existing joint ventures as at the reporting date and for the year ended 31 December 2014 is stated below:

	LLP «Electrovoz kurastyru зауыты»	LLP «Tulpar –Talgo»	Logistic System Management B.V.,	SC «Locomotive kurastyru зауыты»	LLP «Astyk Trans»
Current assets including Cash and cash equivalents	19,248,894	-	4,950,645	29,032,928	5,699,863
Non-current assets	3,300,589	-	1,125,010	118,760	198,016
Total assets	15,599,696	-	11,110,299	16,124,788	2,633,252
Current liabilities including Current financial liabilities (excluding trade and other liabilities and provisions)	34,848,590	-	16,060,944	45,157,716	8,333,115
Long-term liabilities, incl. Long-term financial liabilities (excluding trade and other payables and provisions)	15,857,629	-	3,892,362	19,839,073	2,284,954
Total liabilities	1,559,645	-	162,825	4,311,099	-
Total net assets	14,829,745	-	955,825	3,997,514	-
Share in equity	8,545,863	-	715,107	2,108,422	-
Net assets in joint venture attributable to Group	30,687,374	-	4,848,187	23,836,587	2,284,954
Goodwill	4,161,216	-	11,212,757	21,321,129	6,048,161
Adjustment of remaining share to fair value	25.00%	-	50.00%	50.00%	50.00%
Balance sheet value of investment as at 31 December 2014	1,040,304	-	5,606,379	10,660,565	3,024,081
Income	-	-	1,673,834	-	-
Depreciation	-	-	-	(1,134,187)	-
Finance income	-	-	-	-	-
Finance expense	-	-	-	-	-
Corporate income tax expense	-	-	-	-	-
(Loss)/profit for year and total comprehensive (loss)/profit	1,040,304	-	7,280,213	9,526,378	3,024,081
Group's share in total in comprehensive (loss)/ income of joint venture	23,986,141	243,404	44,483,979	16,860,729	9,296,040
	(723,895)	(344,432)	(894,226)	(1,133,738)	(103,527)
	52,424	-	14,729	497,097	177,650
	(740,387)	(228,432)	(84,376)	(265,667)	-
	(7,758)	-	(862,748)	-	(747,640)
	(3,001,342)	(561,834)	2,883,246	(346,288)	3,108,424
	(1,500,671)	(561,830)	1,441,623	(173,144)	1,554,212

⁽¹⁾ Group's share of 25% shown at year-end reflects the Group's decision passed in December 2014 to dispose of 25% out of 50% share (Note 17).

Aggregate financial information in respect of existing joint ventures as at the reporting date and for the year ended 31 December 2013 is stated below:

	LLP «Electrovoz kurastyru zaulyty»	LLP «Tulpar – Talgo»	Logistic System Management B.V., («Kedentransservice»)	SC «Locomotive kurastyru zaulyty»	LLP «Astyk Trans»
Current assets including Cash and cash equivalents	10,270,836	8,438,971	4,826,664	35,694,977	3,449,973
Non-current assets	25,566	96,060	773,664	5,003,082	2,554,278
Total assets	19,315,284	10,779,929	7,437,672	16,352,904	22,838
Current liabilities including Current financial liabilities (excluding trade and other liabilities and provisions)	29,586,120	19,218,900	12,264,336	52,047,881	3,472,811
Long-term liabilities, incl. Long-term financial liabilities (excluding trade and other payables and provisions)	9,377,553	14,493,161	2,727,460	23,069,356	2,991,789
Total liabilities	601,567	3,639,298	37,321	3,684,092	-
Total net assets	13,046,012	120,926	243,803	7,311,107	-
Share in equity	6,762,134	-	-	5,328,347	-
Net assets in joint venture attributable to Group	22,423,565	14,614,087	2,971,263	30,380,463	2,991,789
Goodwill	7,162,555	4,604,813	9,293,073	21,667,418	481,022
Adjustment of remaining share to fair value	50.00%	99.999%	50.00%	50.00%	50.00%
Balance sheet value of investment as at 31 December 2014	3,581,278	4,604,779	4,646,537	10,833,709	240,511
Income	-	-	1,673,834	-	-
Depreciation	-	-	-	(1,134,187)	-
Finance income	20,205,980	28,651,968	25,061,388	452,818	-
Finance expense	(528,803)	(512,775)	(1,099,149)	(1,653)	-
Corporate income tax (expense)/saving	12	-	56,383	-	-
(Loss)/profit for year and total comprehensive (loss)/profit	(384,792)	(246,235)	(193,065)	-	-
Group's share in total in comprehensive (loss)/ income of joint venture	2	(80,975)	(1,929,090)	(75,256)	-
	(503,348)	(5,227,451)	1,257,007	301,022	-
	(251,674)	(5,227,412)	628,504	150,511	-

Aggregate information on other Group's joint ventures:

	2014	2013
Group's share in loss and other comprehensive loss	(84,639)	(1,135)

On 6 August 2014 the Group obtained a control over LLP «Tulpar-Talgo», after the option term has expired, and recognized investments at fair value within a newly acquired joint venture, satisfying the criteria of being classified as held for sale at the purchase time (Note 17).

In 2014 the Group represented by the joint venture - SC «Kaztemirtrans», made an additional contribution by non-current assets against the share capital of joint venture LLP «Astyk-Trans» for the total amount of 1,336,135 thousand tenge. At the same time the second shareholder also contributed the non-current assets for the value of 1,336,135 thousand tenge to the share capital.

8. INVESTMENT PROPERTY

Movement of the investment property for the years ended 31 December 2014 and 2013 is reflected as stated below:

	2014	2013
Historical cost:		
At beginning of year	8,454,157	7,874,955
Transfer (to)/from fixed assets (Note 5)	(110,688)	579,202
At year-end	8,343,469	8,454,157
Accumulated depreciation and impairment:		
At beginning of year	(1,157,665)	(745,748)
Carried depreciation	(304,846)	(346,201)
Transfer (to)/from fixed assets (Note 5)	50,304	(65,716)
At year-end	(1,412,207)	(1,157,665)
Balance sheet value		
At year-end	6,931,262	7,296,492

For the years ended 31 December 2014 and 2013 the Group recognized the income from leases for the amount of 986,056 thousand tenge and 909,669 thousand tenge, respectively, and depreciation and maintenance cost for the amount of 936,753 thousand tenge and 854,232 thousand tenge, respectively.

The Group measured the fair value of the investment property as at 31 December 2014 and 2013. For the estimation purposes the market data about selling prices of the similar immovable property in Astana were used. At the investment property objects fair value estimation their current use was considered as the best one and the most efficient way of use. The evaluation techniques remained unchanged throughout the entire year.

As at 31 December 2014 and 2013 the fair value of the investment property is almost equal to its balance sheet value. As no accurate market equivalents of the investment property are available such evaluation refers to level 3 in the fair value measurement technique hierarchy.

9. OTHER NON-CURRENT ASSETS

As at 31 December 2014 and 2014 the other non-current assets include the following objects:

	31 December 2014	31 December 2013
Amounts prepaid for fixed assets	121,811,497	134,014,062
VAT refund	35,005,242	33,695,637
Residential property	20,895,758	20,262,309
Assets held for sale to the Government	12,905,735	14,148,355
Investments available as held for sale	78,821	726,523
Other	2,575,279	2,026,768
	193,272,332	204,873,654
Less: provisions for the advances to suppliers of fixed assets	(2,088,169)	(1,499,823)
Less: provisions for non-refundable VAT	(18,327,445)	(17,524,445)
	172,856,718	185,849,386

As at 31 December, 2014 advances paid for fixed assets, mainly comprised prepayments made for the construction of railway lines "Zhezkazgan - Beineu" and "Arkalyk - Shubarkol" in the amount of 36,118,004 thousand tenge (31 December 2013: 66,760,438 thousand tenge), advances paid for the supply of locomotives for the amount of 30,311,060 thousand tenge (31 December 2013: 24,149,238 thousand tenge), against the supply of passenger wagons in the amount of nil tenge (31 December 2013: 21,824,138 thousand tenge), for the construction of integrated dry port and infrastructure of special economic zone "Khorgos-Eastern Gate" in the amount of 21,364,520 thousand tenge (31 December 2013: nil) and for the construction of the railway station complex in Astana in the amount of 3,716,582 thousand tenge (31 December 2013: nil).

During 2012-2013 the Group entered into a contract for constructing a residential area for the Group's employees. As at 31 December 2014 the Group incurred construction expenses for the amount of 20,764,123 thousand tenge (31 December 2013: 19,625,072 thousand tenge) and made advance payments for the amount of 197,809 thousand tenge (31 December 2013: 547,186 thousand tenge).

Movements within the provisions for the prepayments to suppliers for the fixed assets for the years ended 31 December are stated as follows:

	<u>2014</u>	<u>2013</u>
Provisions for prepayments to fixed assets suppliers at beginning of year	(1,499,823)	(2,703,025)
Carried for year (Note 29)	(784,392)	(78,723)
Written-off during year on account of previously created provisions	14,903	15,265
Transfer to non-current assets, disposal group assets and liabilities, classified as held for sale	340,329	(540)
Transfer (from)/to other current assets (Note 15)	(159,186)	1,267,200
Provisions for prepayments to fixed assets supplier at year-end	<u>(2,088,169)</u>	<u>(1,499,823)</u>

As at 31 December 2014 and 2013 the long-term VAT due for refund consists of the amounts arising as a result of purchasing goods, services and fixed assets and are expected to be reimbursed during a period longer than one year.

Movements within the provisions for the non-refundable VAT for the years ended 31 December are stated as follows:

	<u>2014</u>	<u>2013</u>
Provisions for non-refundable VAT at beginning of year	(17,524,445)	(13,678,453)
Carried for year (Note 29)	(803,000)	(3,845,992)
Provisions for non-refundable VAT at year-end	<u>(18,327,445)</u>	<u>(17,524,445)</u>

In 2011, the ultimate shareholders of the Company provided a decision according to which the Company is to sell some of the assets constructed under the project for the construction of rail lines, at a price yet to be agreed. It is expected that the sale will occur in 2016 at a price not lower than the book value of these assets. In these consolidated financial statements the assets are classified as non-current assets. As at 31 December, 2014 and 2013 the carrying value of the assets held for the sale to the Government amounted to 12,905,735 thousand tenge and 14,148,355 thousand tenge, respectively.

10. INVENTORIES

As at 31 December 2014 and 2013 the inventories include the following items:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Fuel	9,676,511	5,671,686
Store and raw materials	9,476,025	14,560,641
Spare parts	8,247,164	10,418,550
Materials of the upper track structure	4,383,572	4,038,067

	<u>31 December 2014</u>	<u>31 December 2013</u>
Construction materials	1,351,208	1,391,568
Ready product	576,934	532,577
Assets in construction	424,333	707,826
Other	1,015,781	1,121,067
Less: provisions for non-liquid and outdated inventories	(336,613)	(718,081)
	<u>34,814,915</u>	<u>37,723,901</u>

Movements in the provisions for non-liquid and outdated inventories for the years ended 31 December, are represented as follows:

	<u>2014</u>	<u>2013</u>
Provisions for non-liquid and outdated inventories at beginning of year	(718,081)	(1,271,525)
Reinstated during year (Note 29)	16,312	233,491
Transfer to non-current assets, disposal group assets and liabilities classified as held for sale	256,973	(85,421)
Written-off during year on account of earlier created provisions	108,183	405,374
Provisions for non-liquid and outdated inventories at year-end	<u>(336,613)</u>	<u>(718,081)</u>

11. TRADE RECEIVABLE

As at 31 December 2014 and 2013 the trade receivables include the following items:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Trade receivable	12,881,564	12,765,803
Less: provisions for doubtful trade receivables	(5,232,322)	(4,658,654)
	<u>7,649,242</u>	<u>8,107,149</u>

As at 31 December 2014 the Group's trade receivable amount comprised 39% of total trade receivable consisting of eight debtors. (31 December 2013: 41% for eight debtors).

Movements in the provisions for trade receivables for the years ended 31 December, are represented as follows:

	<u>2014</u>	<u>2013</u>
Provisions for doubtful trade receivables at beginning of year	(4,658,654)	(5,445,246)
(Carried)/Reinstated during year (Note 29)	(1,284,515)	180,284
Transfer to non-current assets, disposal group assets and liabilities classified as held for sale	192,801	7,935
Written-off during year on account of earlier created provisions	517,393	597,130
Transfer to other current assets (Note 15)	653	1,243
Provisions for doubtful trade receivables at year-end	<u>(5,232,322)</u>	<u>(4,658,654)</u>

As at 31 December 2014 and 2013 the Group's trade receivables, net of the provisions for doubtful trade receivable, were expressed in the following currencies:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Tenge	6,668,357	7,154,473
US dollars	502,951	355,472
Swiss francs	318,961	491,782
Russian rubles	158,973	105,422
	<u>7,649,242</u>	<u>8,107,149</u>

12. OTHER FINANCIAL ASSETS

As at 31 December 2014 and 2013 the other financial assets included the deposits in the banks with the initial term of longer than three months:

	31 December 2014		31 December 2013	
	Interest rate	Amount	Interest rate	Amount
Current:				
SC «Tsesnabank»	4.3%-5.0%	20,504,948	3.2%-4.5%	20,934,346
SC «Eurasian»	4.5%-6.5%	9,835,200	4.5%	9,312,153
SC «Capital Bank»	3.9%-8.0%	4,501,347	-	-
Delta bank SC AF	4.5%-6.5%	1,811,750	-	-
SC «Kazkommertsbank»	4.0%	364,700	-	-
SC «Alliance bank»	3.0%	187,820	3.5%	101,757
SC «Bank CenterCredit»	6.5-7.6%	80,000	-	-
SB SC «Sberbank of Russia»	7.0%	50,000	-	-
SC «Halyk Bank of Kazakhstan»	-	-	6.5%	4,000,000
SC «Kazinvestbank»	-	-	4.5%	1,766,516
SC«Kaspy Bank»	-	-	6.0%	400,000
Long-term:				
SC «Tsesnabank»	-	-	5%	1,834,302
SC «Bank CenterCredit»	-	-	2.0%-5.2%	35,722
SB SC «Sberbank of Russia»	-	-	7.0%	50,000
		37,335,765		38,434,796
Interest accrued due for payment		741,316		277,848
		38,077,081		38,712,644
Less: Current portion of other financial assets		(38,077,081)		(36,789,673)
Long-term portion of other financial assets		-		1,922,971

As at 31 December 2014 and 2013 other financial assets were expressed in the following currencies:

	31 December 2014	31 December 2013
Tenge	8,468,761	4,510,570
US Dollars	29,608,320	34,202,074
	38,077,081	38,712,644

13. ASSET ATTRIBUTABLE TO SHAREHOLDER

Construction of a multifunctional ice palace

In July 2012 at the assignment from the Government of the Republic of Kazakhstan the Group undertook an irrevocable commitment to build a multifunctional ice palace in Astana at the expense of the Group. In October 2012 the Group entered into an agreement with a construction company for the amount of 25,146,747 thousand tenge for the implementation of this order. Subsequently, the contract was changed, where the estimated cost of construction was reduced by 140.995 thousand tenge (Notes 18 and 26).

In 2014 the Group undertook a further irrevocable commitment to build a multifunctional ice palace with the additional equipment in the amount of 23,595,513 thousand tenge and recognized it as a distribution to shareholders.

As at 31 December 2014 the Group remitted the prepayment for the construction in the amount of 4,258,354 thousand tenge (31 December 2013: 2,884,571 thousand tenge) and incurred the expenses connected with the above ice palace construction for the amount of, 19,592,318 thousand tenge (31 December 2013: 7,873,310 thousand tenge). The above expense is carried as a non-current asset classified as held for sale to the Shareholder in the consolidated statement of the financial position, as it is expected that the asset will be transferred in 2016.

TV and radio complex equipment

As at 31 December 2014 and 2013 the asset held in favor of shareholders, as reflected in current assets represent the costs in the amount of 28,238,638 thousand tenge incurred in connection with equipping tv and radio media buildings and technical equipment in response to the assignment of the Government of the Republic of Kazakhstan (Note 26). These costs are carried as current assets held for the benefit of shareholders, in the consolidated statement of financial position, since it is expected that these assets will be transferred to the shareholders during 2015.

Other assets

In 2013, on the assignment by the Government, the Group undertook an irrevocable commitment to transfer free of charge the social objects to the Mangistau region governor's office, built on the order

of the ultimate shareholder in the framework of social and economic development of Mangistau region in the amount of 965.450 thousand tenge (Notes 18 and 26). In 2014 the Group undertook the additional irrevocable commitment to the free transfer of social objects to the Mangistau region governor's office in the amount of 313.694 thousand tenge. During 2014, pursuant to the above instructions, the social facilities in the amount of 1,031,868 thousand tenge were transferred to the Mangistau region governor's office.

In 2014 guided by the Government's assignment the Group irrevocably undertook to construct the playschool in Astana worth 750,000 thousand tenge. As at 31 December 2014 the Group prepaid the said construction for the amount of 42,557 thousand tenge (31 December 2013: nil tenge), and incurred expenses connected with the playschool construction for the amount of 468,978 thousand tenge during 2014 (2013: nil).

The above listed expenses are recorded as current assets attributable to Shareholder in the consolidated report of the financial position as these assets are expected to be transferred to the Shareholder during 2015.

14. LOANS ISSUED

As at 31 December 2013 the loans include loans given to LLP «Tulpar-Talgo» in the amount of 3,639,298 thousand tenge. During 2013 the Group, through its subsidiary company SC «Remlokomotiv», issued interest-free loans to the joint venture LLP «Tulpar-Talgo» totaling 10,000,000 thousand tenge (of which 4,000,000 thousand tenge were not paid as at December 31, 2013). On initial recognition, these loans were accounted for at fair value, reflecting the present value of the contractual cash flows, discounted at the market rate. As a result, the discount in the amount of 589.813 thousand tenge was recognized as the investment in the joint venture.

As described in Notes 17 and 33 to the consolidated financial statements as at 31 December, 2014 LLP «Tulpar-Talgo» is treated as a subsidiary of the Group, its assets and liabilities are included in a disposal group classified as held for sale. Accordingly, the loans to LLP «Tulpar-Talgo», have been eliminated on consolidation as an intra-group transactions.

15. OTHER CURRENT ASSETS

As at 31 December 2014 and 2013 the other current assets include the following items:

	31 December 2014	31 December 2013
VAT refund	70,938,553	52,848,833
Claims, fines and penalties	4,850,527	3,659,833
Prepaid other taxes	3,589,074	1,547,027
Advances made	3,189,532	4,223,354
Future expenses	882,509	1,122,870
Employees payments	621,446	780,929
Other	4,740,990	3,818,301
	<u>88,812,631</u>	<u>68,001,147</u>
Less: provisions for doubtful receivables	<u>(6,807,166)</u>	<u>(7,291,735)</u>
	<u>82,005,465</u>	<u>60,709,412</u>

The current VAT refund is represented by the amount of VAT which will be offset by the Group against the VAT liability or reimbursed from the state budget in the coming year.

The movements in the provision for doubtful debts in respect of prepayments and other current assets for the years, ended 31 December, are shown below:

	2014	2013
Provision for doubtful debts at beginning	(7,291,735)	(5,055,226)
Carried for year (Note 29)	(1,770,332)	(1,669,886)
Transfer to non-current assets, disposal group assets and liabilities classified as held for sale	1,232,086	697,089
Written-off during year on account of earlier created provisions	864,282	4,731
Transfer to other current assets/from other current assets (Note 9)	159,186	(1,267,200)
Transfer from trade receivable (Note 11)	(653)	(1,243)
Provision for doubtful debts at year end	<u>(6,807,166)</u>	<u>(7,291,735)</u>

16. CASH AND CASH EQUIVALENTS

As at 31 December 2014 and 2013 the cash and cash equivalents include the following items:

	31 December 2014	31 December 2013
Cash in bank account in tenge	49,164,829	32,956,050
Cash in bank account in US dollars	7,328,185	11,749,561
Cash in bank account in euro	1,420,735	1,406,172
Cash in bank account in Swiss francs	422,613	-
Cash in bank account in Russian rubles	410,646	539,262
Cash in bank account in RMB	73,654	-
Cash in bank account in HK dollars	14	-
Cash in bank account in GBP	-	3,621
Short-term bank deposits in tenge	27,553,056	37,969,952
Short-term bank deposits in US dollars	154,998	1,193,818
Cash with cashier	23,488	37,466
	<u>86,552,218</u>	<u>85,855,902</u>
Cash included in disposal group assets classified as held for sale,	<u>3,412,549</u>	<u>-</u>

Cash in the current bank accounts generate interest at interest rates based on daily interest rates ranging from 0.10% to 7.75% per annum (2013: from 0.20% to 7.00% per annum).

Short-term bank deposits in tenge and in foreign currency are made for varying periods of three months or less, depending on the needs of the Group for cash and bring interest at the interest rates for short-term deposits from 0.04% to 17.1% per annum (2013: from 0.07% to 10 % per annum).

As at 31 December, 2014 and 2013 the funds placed by the Group on current accounts at banks, which are related parties of the Group amounted to 2,211 thousand tenge and 173.446 thousand tenge, respectively (Note 39).

17. NON-CURRENT ASSETS, ASSETS AND LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

In July 2014, under the Comprehensive Plan of privatization for 2014-2016 approved of the Government of Kazakhstan, the shareholders adopted the list of subsidiaries, associates and joint ventures of the Group, to be disposed of to private investors.

Assets and liabilities of subsidiaries, the sale of which is expected within twelve months following the balance sheet date have been classified as a disposal group in the consolidated statement of financial position. Group of companies LLP «Repair Corporation» Kamkor «(in particular, subsidiaries LLP «Repair Corporation «Kamkor»», LLP «Kazakhstan Wagon Construction Company» and LLP «Tulpar-Talgo» form a major type of business and are reflected as discontinued operations. The Group's Management expects that the proceeds from the sale of disposal groups will exceed their net book value, therefore, when they were classified as held for sale no impairment loss was recognized.

On December 31, 2014 the Group entered into contracts for the sale of shares in LLP «Kazakhstan Wagon Construction Company» and subsidiaries LLP «Repair Corporation «Kamkor» with a third party for a total amount of 19,258,209 thousand tenge. Completion of these enterprises sale is expected in 2015

On 30 July 2014 the Group signed an agreement with

Patentes Talgo SLU, the sole founder of Talgo Kazajstan SL, for an additional contribution or repurchase 51% stake in LLP «Tulpar-Talgo». Completion of the transaction is expected in 2015. The Group holds 99.99% stake in LLP «Tulpar-Talgo», but historically did not consolidate this entity due to the availability of the option granting the second party with a right to veto over key operational decisions of LLP «Tulpar-Talgo». On August 6, 2014 the option expired and the Group gained control over LLP «Tulpar-Talgo». At the date of obtaining control the subsidiary organization met the criteria for classification as a disposal group held for sale, and thus a subsidiary of this was accounted for at fair value net of costs to sell.

In December 2014 the Group, through its subsidiary company SC «Remlokomotiv», adopted a plan for the selling of 25% out of the 50% ownership interest in the joint venture LLP «Electric Kurastyru zauyty.» As a result, the Group has classified this share of investment in the amount of 1,040,303 thousand tenge in non-current assets held for sale (Note 7). The Group expects that the sale of the share will not have any impairment loss.. ▶

Non-current assets, assets held for sale, disposal group assets and liabilities are represented in the following manner:

	As at 31 December 2014				Total
	LLP «Repair Corporation «Kamkor» Group of companies	LLP «Kazakhstan wagon construction company»	LLP «Tulpar-Talgo»	Other	
Assets					
Fixed assets	29,864,361	6,792,387	-	338,287	36,995,035
Intangible assets	374,472	197,463	-	1,661	573,596
Other non-current assets	8,067	126,221	-	26,088	160,376
Inventories	9,133,271	263,176	-	65,689	9,462,136
Trade receivable	1,234,340	540	-	26,134	1,261,014
Other current assets	2,277,887	566,221	-	21,597	2,865,705
Cash and cash equivalents	2,767,070	45,270	-	39,406	2,851,746
Assets of newly acquired subsidiary	-	-	11,174,091	-	11,174,091
Total assets of disposal group classified as held for sale	45,659,468	7,991,278	11,174,091	518,862	65,343,699
Transfer from investments in joint ventures (Note 7)	-	-	-	1,040,303	1,040,303
Other	-	-	-	899,087	899,087
Total non-current assets, classified as held for sale	45,659,468	7,991,278	11,174,091	1,939,390	1,939,390
Total non-current assets and assets of disposal group classified as held for sale	45,659,468	7,991,278	11,174,091	2,458,252	67,283,089
Liabilities					
Loans	2,746,444	2,140,705	-	-	4,887,149
Employees benefits	1,412,695	36,463	-	68,697	1,517,855
Deferred income tax liability	2,344,508	-	-	14,170	2,358,678
Trade payables	13,332,815	3,541,103	-	106,104	16,980,022
Taxes and other compulsory payments to budget	1,949,820	19,037	-	34,491	2,003,348
Other long-term liabilities	170,168	-	-	-	170,168
Other current liabilities	3,307,217	202,106	-	94,335	3,603,658
Liabilities of newly acquired subsidiary	-	-	-	-	-
Total liabilities of disposal group classified as held for sale	25,263,667	5,939,414	2,066,087	317,797	33,586,965
Net assets of disposal group	20,395,801	2,051,864	9,108,004	-	-

DISCONTINUED OPERATIONS

The group presented the operating results of subsidiaries LLP «Repair Corporation» Kamkor», LLP «Kazakhstan Wagon Construction Company» and LLP «Tulpar-Talgo «as a discontinued operation in the consolidated statement of profit and loss and other comprehensive income.

In May 2013 the Group sold 26% ownership in SC «Locomotive Kurastyru зауыты» to a third party and

simultaneously issued a 24% stake in SC «Locomotive Kurastyru зауыты» in favor of a third party. As a result of these transactions, the Group lost control of SC «Locomotive Kurastyru зауыты». The Group recognized its remaining 50% ownership stake in SC «Locomotive Kurastyru зауыты» as an investment in a joint venture (Note 7) and has accounted for the activity of SC «Locomotive Kurastyru зауыты» as discontinued operations for 2013.

Assets and liabilities of the disposed subsidiary at the date of disposal are as follows:

	As at 31 May 2013
Assets	
Fixed assets	14,941,115
Intangible assets	537,886
Other non-current assets	595,928
Inventories	22,627,994
Trade receivable	12,123
Other current assets	2,126,482
Cash and cash equivalents	440,078
Total assets of disposal group classified as held for sale	41,281,606
Liabilities	
Loans	10,605,396
Employees benefits	23,829
Deferred income tax liability	773,121
Trade payables	12,440,528
Taxes and other compulsory payments to budget	965,197
Other long-term liabilities	146,957
Other current liabilities	452,796
Total liabilities of disposal group classified as held for sale	25,407,824
Net assets disposed	15,873,782
	2013
Amount of consideration received	4,528,200
Net assets disposed	(15,873,782)
Fair value of remaining shares	9,071,018
Loss from disposal	(2,274,564)

The loss from disposal of SC "Locomotive Kurastyru зауыты" is stated below:

	2013
Amount of consideration received	4,528,200
Net assets disposed	(15,873,782)
Fair value of remaining shares	9,071,018
Loss from disposal	(2,274,564)

Net cash-flow from the disposal of subsidiary SC "Locomotive Kurastyru зауыты" as a component of the discontinued operation

	2013
Cash consideration	4,528,200
Net of disposed cash and cash equivalents	<u>(440,078)</u>
	<u>4,088,122</u>

The results of the discontinued operation are stated below:

	For year ended 31 December 2014			Total
	LLP «Repair Corporation «Kamkor» Group of companies	LLP «Kazakhstan wagon construction company»	LLP «Tulpar-Talgo»	
Revenue	3,975,307	21,988	-	3,997,295
Cost of sales	(2,006,069)	(7,906)	-	(2,013,975)
General and administrative expense	(5,408,678)	(266,564)	277,257	(5,397,985)
Sales expenses	(146,416)	-	-	(146,416)
Fixed assets impairment	(8,415)	-	-	(8,415)
Other income	490,934	68,739	74,525	634,198
Finance income	256,461	8,449	-	264,910
Finance expense	(380,644)	(278,888)	-	(659,532)
(Loss)/profit from the currency exchange differences	(193,294)	(279,193)	5,423	(467,064)
Profit/(loss) before tax	(3,420,814)	(733,375)	357,205	(3,796,984)
Income tax expense	(1,686,744)	(18,346)	-	(1,705,090)
Profit/(loss) for year	<u>(5,107,558)</u>	<u>(751,721)</u>	<u>357,205</u>	<u>(5,502,074)</u>
Profit/(loss) from discontinued operation for year	<u>(5,107,558)</u>	<u>(751,721)</u>	<u>357,205</u>	<u>(5,502,074)</u>
Basic earnings/(loss) per share (tenge)	(10)	(2)	1	(11)

	For year ended 31 December 2013			Total
	LLP «Repair Corporation «Kamkor» Group of companies	LLP «Kazakhstan wagon construction company»	LLP «Tulpar-Talgo»	
Revenue	3,321,775	45,350	34,128	3,401,253
Cost of sales	(1,428,511)	(151)	(9,581)	(1,438,243)
General and administrative expense	(5,242,368)	(296,230)	(272,483)	(5,811,081)
Sales expenses	(135,446)	-	-	(135,446)
Fixed assets impairment	(12,075)	-	-	(12,075)
Other income	537,088	22,720	317	560,125
Finance income	208,338	1,753	2,476	212,567
Finance expense	(569,123)	(340,968)	(162,742)	(1,072,833)
Loss from the currency exchange differences	(15,882)	(59,532)	(53,562)	(128,976)
Loss before tax	(3,336,204)	(627,058)	(461,447)	(4,424,709)
(Expense)/saving on income tax	(2,465,413)	10,969	(76,086)	(2,530,530)
Loss for the period	<u>(5,801,617)</u>	<u>(616,089)</u>	<u>(537,533)</u>	<u>(6,955,239)</u>
Loss from discontinued operation for year	(5,801,617)	(616,089)	(537,533)	(6,955,239)
Loss from disposal of asset related to discontinued operation	-	-	(2,274,564)	(2,274,564)
	<u>(5,801,617)</u>	<u>(616,089)</u>	<u>(2,812,097)</u>	<u>(9,229,803)</u>
Basic earnings/(loss) per share (tenge)	(12)	(1)	(6)	(19)

The cash-flow from the discontinued operation are stated as follows:

	For year ended 31 December 2014			For year ended 31 December 2013			
	LLP «Repair Corporation «Kamkor» Group of companies	LLP «Kazakhstan wagon construction company»	Total	LLP «Repair Corporation «Kamkor» Group of companies	LLP «Kazakhstan wagon construction company»	LLP «Tulpar- Talgo»	Total
Net cash-flow from the operating activities	306,571	865,186	1,171,757	18,493,406	1,340,595	2,634,211	22,468,212
Net cash-flow from the investing activities	(2,056,034)	(88,691)	(2,144,725)	(8,354,865)	(73,841)	(475,328)	(8,904,034)
Net cash-flow from the financing activities	(3,906,946)	(966,422)	(4,873,368)	(4,167,391)	(1,050,207)	(1,738,653)	(6,956,251)
Net cash inflow/(outflow) from the discontinued operation	<u>(5,656,409)</u>	<u>(189,927)</u>	<u>(5,846,336)</u>	<u>5,971,150</u>	<u>216,547</u>	<u>420,230</u>	<u>6,607,927</u>

18. EQUITY

As at 31 December 2014 and 2013 the equity is presented as described below:

	Number of the issues shares permitted to be issued	Number of shares issued and paid	Authorized capital, In thousand tenge
As at 1 January 2013	502,040,458	491,287,671	675,526,248
<i>Non-monetary contributions</i>			
Transfer in connection with legal registration of the shares placement (29 January 2013)	-	6,189	5,429,760
Transfer of non-current assets to the Company (22 May 2013)	-	3,959	2,976,983
As at 31 December 2013	502,040,458	491,297,819	683,932,991
<i>Monetary contributions</i>			
Transfer in connection with legal registration of the shares placement (15 January 2014)	-	30,000	30,000,000
Shares paid on 4 May 2014	-	54,500	54,500,000
Shares paid on 30 December 2014	-	245,000	24,500,000
<i>Non-monetary contributions</i>			
Transfer of non-current assets to the Company (19 March 2014)	-	500	311,511
Transfer of non-current assets to the Company (19 March 2014)	-	200	85,483
As at 31 December 2014	502,040,458	491,628,019	793,329,985

The authorized capital of the Company was formed through the issue of shares in exchange for cash or fixed assets. A shareholder has the right to receive dividends, shall be entitled to part of the assets of the Company in the event of liquidation and privilege to purchase shares of the Company or other securities convertible into shares of the Company.

CONTRIBUTIONS

Contributions to the authorized capital

During 2014 contributions to the share capital are as follows:

- transfer of legally registered 30,000 shares from additional paid-in capital to share capital, payment of the funds in the amount of 30,000,000 thousand tenge was received in 2013;
- issue of 299,500 shares, the payment of which was obtained in the amount of 79,000,000 thousand tenge in 2014. These investments were received for the construction of railway lines «Zhezkazgan-Beineu» and «Arkalyk-Shubarkol»; and
- issue of 700 shares, the payment of which was

obtained in the form of passenger platforms and stations, valued at a total of 396,994 thousand tenge (Note 5).

During the 2013 contributions to the share capital are as follows:

- transfer of legally registered 6,189 shares from additional paid-in capital to share capital, payment for which was received in 2012 in the form of non-current, valued at a total of 5,429,760 thousand tenge;
- issue of 3,959 shares in exchange for long-term assets, including the building of stations and passenger platforms, in the amount of 2,976,983 thousand tenge. The contribution of the railway stations and passenger platforms has been carried out taking into account the cost of capital repairs incurred by the Group and recognized in retained earnings in the amount of 1,859,405 thousand tenge before the contribution of these assets to the authorized capital.

Other contributions

Other contributions for the years ended 31 December are stated below:

	2014	2013
Fixed assets received by the Company	463,603	16,011
Fixed assets received by subsidiaries	171,989	-
Adjustment to fair value of loans received at the interest rates lower than the market ones	9,701,499	148,219,928
	<u>10,337,091</u>	<u>148,235,939</u>

During 2014 the Company also received fixed assets valued in the amount of 463,603 thousand tenge (2013: 16,011 thousand tenge) in return for which the shares were not issued. The Group, through its subsidiary organization, «Kaztransservice» received long-term land use rights from the Government in the amount of 171,989 thousand tenge.

During 2014 an adjustment to the fair value of loans was recognized in the amount of 12,126,873 thousand Tenge (2013: 185,274,910 thous. Tenge), net of deferred tax effect in the amount of 2,425,374 thousand tenge (2013: 37,054,982 thousand tenge) (Note 19).

These contributions were recognized directly in retained

earnings of the Group.

DIVIDENDS AND OTHER DISTRIBUTIONS

Dividends

During 2014 the Company declared dividends as a result of 2013 for the amount of 16,165,051 thousand tenge (2013: 16,999,211 thousand tenge as a result of 2012).

As at 31 December 2014 the outstanding dividends payable to the Shareholder is equal to 12,165,051 thousand tenge. The above debt will be settled in 2015 (31 December 2013 : dividends due to the Shareholder amounted nil tenge) (Note 2).

Other distributions

Other distributions for the years ended 31 December are reflected as follows:

	2014	2013
Construction cost of multifunctional ice palace	23,595,513	(140,995)
Commitment of free transfer of social objects in Mangistau region	313,694	965,450
Construction cost of playschool in Astana	750,000	-
	<u>24,659,207</u>	<u>824,455</u>

Construction of a multifunctional ice palace

As described in Note 13, in 2012 the Group undertook the irrevocable obligation to the Government for the construction of a multifunctional ice palace and as a result recognized distribution to shareholders, equal to the value corresponding to a construction contract in the amount of 25,146,747 thousand tenge. In 2013, the construction costs were reduced by the amount of 140,995 thousand tenge, which led to a reduction in irrevocable commitments to shareholders by that amount.

In 2014, the Group undertook the additional irrevocable commitments to the Government for the construction of a multifunctional ice palace with the additional equipment and as a result further distribution to shareholders was recognized in the amount corresponding to the additional construction contracts equal to 23,595,513 thousand tenge. ►

Other

During 2013 the Group adopted the irrevocable commitment of the free transfer of social objects to the governor's office of Mangistau region, built on behalf of the ultimate shareholder in the framework of social and economic development of Mangistau region in the amount of 965.450 thousand tenge (Note 13). As a result, the Group recognized a distribution to

shareholders and other current liabilities equal to the cost of construction.

During 2014, the Group undertook the irrevocable commitment to build a playschool in Astana in the amount of 750,000 thousand tenge and to transfer social objects to the Mangistau region governor's office in the amount of 313.694 thousand tenge (Note 13).

19. BORROWINGS

As at 31 December 2014 and 2013 the borrowings including the interest accrued consist of the following components:

	31 December 2014	31 December 2013
<i>Borrowings at a fixed interest rate</i>		
Borrowings received	364,821,941	285,333,650
Average interest rate (%)	6.85	6.65
<i>Borrowings at a floating interest rate</i>		
Borrowings received	32,976,678	44,904,532
Average interest rate (%)	3.53	3.46
	<u>397,798,619</u>	<u>330,238,182</u>

The loans are due for payment in the following manner:

	31 December 2014	31 December 2013
Within a year	42,676,856	34,868,844
From 1 to 2 years	24,635,806	29,820,383
From 2 to 3 years	104,071,931	26,007,294
From 3 to 4 years	30,083,077	98,034,175
From 4 to 5 years	22,004,290	23,216,101
Over 5 years	174,326,659	118,291,385
	<u>397,798,619</u>	<u>330,238,182</u>

As at 31 December 2014 and 2013 the borrowings are expressed in the following currencies:

	31 December 2014	31 December 2013
Tenge	254,719,666	198,709,385
US dollars	100,144,777	108,840,819
Euro	39,374,967	18,726,193
Japanese yen	3,559,209	3,961,785
	<u>397,798,619</u>	<u>330,238,182</u>

As at 31 December 2014 as a result of tenge devaluation the borrowings liabilities expressed in the foreign currencies increased in average by 19% (Note 32).

The capitalization rate used to determine the allowed amount for the capitalization of borrowing costs, ranges from 3.04% to 12% (2013: from 5.15% to 8.63%) (Note 5).

As at December 31, 2014 the Group's bank borrowings are secured by long-term assets (including buildings, structures, railway transport, equipment, vehicles and other fixed assets) with the carrying amount of 162,467,016 thousand tenge (December 31, 2013: 153,138,190 thousand tenge) (Note 5). The Group is not allowed to pledge these assets as security for other borrowings or to sell them to others.

«EBRD»

On 30 September 2014 the Group represented by the Company, SC «Locomotive» and SC «KTZ Express», entered into a loan agreement with the European Bank for Reconstruction and Development («EBRD»), totaling 30,000,000 thousand tenge. Under the agreement, the Company received 10,278,000 thousand tenge for ensuring security in the field of railway transport, SC «KTZ Express» - 6,222,000 thousand tenge for the implementation of investment projects aimed at development of transport potential, and SC «Locomotive» - 13,500,000 thousand tenge for refinancing the loan attracted from «HSBC Bank plc» together with SC «SB "HSBC Kazakhstan", «Banking Corporation of China «China Development Bank Corporation» and Banking Corporation in Hong Kong and Shanghai «Hong-Kong and Shanghai Banking Corporation» to finance the purchase of 22 locomotives. The interest rate is fixed at a rate of 7.23% per annum until 2016, followed by interest rate all-in-cost + 3%¹. The interest is repayable in quarterly installments. As for the payment of principal there is a grace period provided for the loans of the Company and SC «KTZ Express» equal to 3 years, while for loan of SC «Locomotive» the grace period is 6 months. On expiry of the grace period the principal is repaid in quarterly installments until

2024. The effective interest rate is 9.58% per annum for the year ended December 31, 2014

SC «Sovereign Wealth Fund «Samruk-Kazyna»

On 16 July 2014 The Group entered into loan agreements with the shareholders for the amount of 9,705,531 thousand tenge and 9,225,879 thousand tenge. These loans are issued for the renewal of rolling stock for railway passenger wagons of the subsidiary of SC «Passenger transportation». The loans are not secured. Interest on loans is repaid in semi-annual installments from 5 June 2015 at the rate of 0.075% and 0.75% per annum, respectively. The payment of principal provided a grace period of ten and five years, after which payment will be made in equal annual installments until full repayment in 2044 and 2039, respectively. The Group has the right for early repayment of all or part of the amount of loans by agreement with the shareholders without premium or penalty.

The loans were granted at an interest rate below the market, the fair value of loans was calculated based on the interest rate of 7.41% and 7.2%. During 2014 the Group recognized an adjustment to fair value of loans in the amount of 12,126,873 thousand tenge, net of deferred taxes in the amount of 2,425,374 thousand tenge in retained earnings (Note 18).

During 2013 the Group received loans from shareholders, in the amount of 177,810,000 thousand tenge to finance the construction of railroads «Zhezkazgan-Beineu» and «Arkalyk-Shubarkol» and 24,673,376 thousand tenge for the renewal of rolling stock for railway passenger wagons subsidiary of the Company, SC «Passenger transportation».

The loans were granted at an interest rate below the market, the fair value of loans was calculated based on the interest rate of 6.53%-8.63%. During 2013 the Group recognized an adjustment to fair value of loans in the amount of 185,274,910 thousand tenge, net of deferred taxes in the amount of 37,054,982 thousand tenge in retained earnings (Note 18). ▶

1 - «All-in cost» means the total cost of raising funds for the EBRD (expressed as a rate per annum) from any source, defined by the EBRD at its sole discretion, and includes all commissions, fees, charges, costs incurred in other currencies available to the EBRD for

the denomination of the respective amounts at the relevant date or other rate determined reasonably by EBRD.

«HSBC France»

On 31 May 2012 the Group, through its subsidiary company SC «Lokomotiv» signed a general framework agreement with "HSBC France" together with "HSBC Bank PLC" and SC «SB "HSBC Kazakhstan" against the guarantee of export credit agency COFACE (hereinafter - «GDS» or «Framework Agreement») to finance the purchase of 200 cargo and 95 passenger locomotives for the total amount of 880,877,000 euros, subject to the utilization in five tranches. Under this framework agreement, SC «Locomotive» signed supplementary agreement № 1 dated May 31, 2012 for the purchase of electric freight locomotives in the amount of 172,123,456 euros (the 1st tranche) at the interest rate of 4.8% per annum, where the original lenders were HSBC France, Citibank International Plc and The Bank of Tokyo-Mitsubishi UFJ, Ltd. The loan is repayable in semi-annual installments until full repayment in 2024. In accordance with Supplementary Agreement №1 to the GDS, in February - December 2014 SC «Locomotive» received an additional tranche of the total amount of 67,132,633 euros (including the commission paid to «COFACE»). As part of the Additional Agreement №2 to the GDS of 27 May 2013 for the total amount of 157,698,898 euros (the 2nd tranche) at the interest rate of 3.04% per annum the Group has mastered the borrowed funds totaling EUR 28,792,411 (including the commission paid to COFACE) during the period from January to December 2014. The loan is repayable in semi-annual installments until full repayment in 2026. The Company has provided a guarantee on the loan. The effective interest rate on the loan was 5.45% per annum for the year ended December 31, 2014.

SC «Development Bank of Kazakhstan»

On 26 June 2014 the Group, through its subsidiary company, SC «TransTeleCom» has signed an agreement to open a credit line with SC «Kazakhstan Development Bank» in the amount of 25,420,927 thousand tenge to finance the project of the construction of hardware and software communications platform along the railway lines up to 2024 at an interest rate of 8% per annum. Under the agreement, in July - December 2014 the borrowed funds were obtained in the amount of 15,232,238 thousand tenge. A grace period of 2 years provided for the repayment of principal. Interest and principal of the loan are repaid in semi-annual installments. The loan was obtained under the guarantee of the Company. The effective interest rate on the loan was 12.6% per annum for the year ended December 31, 2014.

SC «Eurasian Development Bank»

On 30 October 2014 the Group, through its subsidiary company, SC «TransTeleCom» has signed an agreement to open a credit line with the Eurasian Development Bank in the amount of 7,500,000 thousand tenge

to refinance the loan from SC «Sberbank of Russia» connected with project «Automated Control System» Energy Traffic Controlling point» and the funding of equipment for pressurized zone in Astana within the framework of the project with a maturity until 2024 under the interest rate of 9% per annum.

As part of the credit line in October 2014 the borrowed funds were obtained in the amount of 7,186,129 thousand tenge. A grace period of 2 years was provided for the repayment payment of principal. Interest and principal on the loan are repaid in semi-annual installments. The effective interest rate was 9.58% per annum for the year ended December 31, 2014. The loan obtained under the guarantee of the Company.

Breach of loan contracts

On 15 September 2014 the Group through its subsidiary SC «Vostokmashzavod» delayed repayment of interest and principal in the amount of 463,209 thousand tenge for the borrowings received from SC «Halyk Bank of Kazakhstan» with the carrying value of 13,721,781 thousand tenge. For the period from September to December 2014 SC «Vostokmashzavod» has delayed repayment of interest and principal against this borrowing in accordance with the repayment schedule by the total amount of 1,854,706 thousand tenge. The delay was caused by a change in the deadlines of the investment project completion for the purpose of which the borrowings were attracted. On 31 December 2014 SC «Vostokmashzavod» settled the part of overdue principal for the amount of 995,003 thousand tenge. The overdue debt as at 31 December 2014 reached 859,703 thousand tenge.

20. DEBT SECURITIES ISSUED

As at 31 December 2014 and 2013 the debt securities issued by the Group include the following bonds:

	Maturity date	Interest rate p.a.	31 December 2014	31 December 2013
Eurobonds placed at following rates				
6.375% Eurobonds to 2020 (100%)	6 October 2020	6.375%	127,645,000	107,527,000
6.95% Eurobonds to 2042 (105.521%)	10 July 2042	6.95%	200,585,000	169,158,785
7% Eurobonds to 2016 (98.292% - Tranche 2)	11 May 2016	7.00%	63,822,500	53,763,500
3.638% Eurobonds to 2022 (100%)	20 June 2022	3.638%	34,158,400	-
2.59% Eurobonds to 2019 (100%)	20 June 2019	2.59%	18,464,000	-
			444,674,900	330,449,285
Adjustment:				
Discount for placed debt securities			(240,355)	(339,854)
Cost of transaction			(997,461)	(987,509)
Premium for placed debt securities			10,456,965	8,941,716
Accumulated interest for placed debt securities			3,123,566	1,866,159
Total placed debt securities			457,017,615	339,929,797
Less: Current portion of placed debt securities			(3,123,566)	(1,866,159)
Long-term portion of placed debt securities			453,894,049	338,063,638

On 11 May 2006 «Kazakhstan Temir Zholy Finance BV» (hereinafter referred to as «KTZ Faynans BV»), a subsidiary of the Group, issued two tranches of Eurobonds totaling US dollars 800,000 thousand on the Singapore Stock Exchange (SGX-ST). The Eurobonds are guaranteed by the Company and its subsidiaries: SC «Kaztemirtrans» and SC «Locomotive» (hereinafter collectively referred to as the «Guarantor»). Interest on Eurobonds is payable semi-annually on May 11 and November 11. On May 11, 2011 the Group repaid the principal amount of 5-year Eurobonds (Tranche 1) in the amount of 65,493,000 thousand tenge (450 mln. USD). The maturity of 10-year Eurobonds (Tranche 2) is on May 11, 2016. On August 23, 2014 the Group entered into a deal of cross-currency swaps to hedge the currency risk (Notes 35 and 40).

On October 6, 2010 KTZ Finance BV issued Eurobonds totaling US dollars 700,000 on the London Stock Exchange (LSE). The Eurobonds are guaranteed by the Company and subsidiaries SC «Kaztemirtrans» and SC «Locomotive». Interest on Eurobonds is payable semi-annually on April 6 and October 6, the maturity of Eurobonds is October 6, 2020. On October 7, 2014 the Issuer was replaced by the Company as issuer and principal debtor for the amount of US dollars 700,000

thousand maturing in 2020.

On July 10, 2012 and November 8, 2012 KTZ Finance BV placed on an external («LSE») and internal («KASE») Eurobond market with an interest rate of 6.95% for the total amount of US dollars 800,000 thousand and US dollars 300,000 thousand, respectively. The Eurobonds are guaranteed by the Company and subsidiaries of SC «Kaztemirtrans» and SC «Locomotive». Interest on Eurobonds is payable semi-annually on January 10 and July 10, the maturity of the Eurobonds is on July 10 2042. On May 29, 2014 there was a replacement of the issuer where the company replaced KTZ Finance BV as the issuer, and therefore, it has become the main debtor on the loan in the amount of US dollars 1,100,000 thousand maturing in 2042.

On June 20, 2014, the Company issued on the Swiss Stock Exchange (SIX Swiss Exchange) two tranches of Eurobonds totaling \$ 285,000 thousand Swiss francs (100,000 thousand Swiss francs with interest rate 2.59% and a maturity of June 20, 2019 and 185,000 thousand Swiss francs with interest rate of 3.638% with a maturity of June 20, 2022). Interest on Eurobonds is payable annually on 20 June. Eurobonds guaranteed by SC «Kaztemirtrans» and SC «Locomotive». ▶

Requirements related to the Eurobonds include conditions relating to the limitations on changing business and the disposal of property; restrictions on mergers and consolidation with other legal entities. In the case of occurrence of default, stipulated by terms of the issue of Eurobonds, investors have the right to

demand repayment of Eurobonds.

As at 31 December 2014 as a result of the devaluation the obligations under the issued debt securities increased by an average of 19% (Note 32).

21. FINANCE LEASE LIABILITY

As at 31 December 2014 and 2013 the Group's liabilities for the financial leases include the following items:

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Within one year	940,122	1,057,642	441,902	450,644
From two to five years included	3,781,372	4,123,390	2,667,615	2,527,083
Over five years	-	987,324	-	886,332
Net minimum liabilities	4,721,494	6,168,356	3,109,517	3,864,059
Less future financial expense	(1,611,977)	(2,304,297)	-	-
Present value of the lease liabilities	3,109,517	3,864,059	3,109,517	3,864,059
Less amount of payable subject to repayment within 12 months			(441,902)	(450,644)
Amount due after 12 months			2,667,615	3,413,415

In 2004, the Group, through its subsidiary company SC «TransTeleCom» signed a contract for non-cancellable finance leases for telecommunications equipment with LLP «TeleKRONA». The period of the lease is 14.5 years, with a possible further extension by 1 year. Under the agreement the Group received telecommunication equipment in lots till the end of 2010 for the total amount of 856.614 thousand tenge. The effective interest rate is 18.25% per annum.

On 11 December 2008 the Group, through its subsidiary company SC «Kaztemirtrans», concluded a financial lease agreement with «DBK» Leasing», a related party, for the provision of rolling stock in the quantity of 340 units for the subsidiary of SC «Center of transport services» in the amount of 1,741,690 thousand tenge. The effective interest rate is 10.77% per annum. The

lease term is 10 years. The collateral for this agreement is the guarantee of SC «Kaztemirtrans».

On 28 December 2011 The Group, through its subsidiary LLP «Temirzhol zhöndeu», part of the LLP «Repair Corporation «Kamkor» signed a finance leases contract with SC Islamic Bank «Al Hilal» for the acquisition of railway equipment in the amount of 1,021,007 thousand tenge. The effective interest rate is 17.62% per annum. The lease term is 5 years. The collateral for this agreement is the guarantee of a subsidiary LLP «Temirzholenergo» in the amount of 290,000 thousand tenge. As at December 31, 2014 the subsidiary was reclassified to a disposal group classified as held for sale.

All lease obligations are denominated in tenge.

22. EMPLOYEE BENEFITS LIABILITIES

Social tax, social contributions and mandatory professional pension contributions

The Group pays social tax, social contributions and mandatory professional pension contributions, which are carried as expensed at the moment when incurred, in accordance with the current legislation of the Republic of Kazakhstan. These expenses for the 2014 and 2013 amounted to 26,969,512 thousand tenge and 21,373,773 thousand tenge, respectively, and are reflected in the profit or loss as part of cost of sales and general and administrative expenses (Notes 28 and 29).

The Group also holds 10% of the salary of its employees as contributions to the pension savings fund. According to the legislation of the Republic of Kazakhstan pension contributions are the obligation of workers, and the Group has no current or future benefit obligations to employees after their retirement, except as provided by the Collective Agreement (see below).

Remuneration plan for post-employment benefits and other long-term employee benefits

Employee benefits in the form of post-employment benefits and other long-term employee benefits are paid in accordance with the Collective Agreement for 2012-2014, concluded between the Group and its workforce.

In accordance with the above agreement the total liability as at 31 December 2014 and 2013 included the following items:

	31 December 2014	31 December 2013
The present value of the defined pension plan benefit and other long-term employee benefits	30,156,756	30,227,410
Liability subject to settlement within one year	(2,977,924)	(2,490,345)
Liability subject to settlement after one year	27,178,832	27,737,065

Post-employment benefit plan is not financed.

Movement of the liability's current portion for the years ended 31 December, is shown in the table below:

	2014	2013
Total liability at beginning of year	30,227,410	29,697,331
Present value of services	1,172,037	1,161,244
Value of past services	567,162	(4,471,546)
Benefit amount	1,868,199	1,773,996
Actuary revaluation, recognized in other comprehensive income including	257,013	3,808,063
-change in demographical assumptions	(13,400)	(18,535)
-change in financial assumptions	(1,605,392)	1,498,367
-adjustments based on the experience	1,875,805	1,956,888
- other	-	371,343
Payments made during year	(2,063,208)	(2,023,966)
Actuary (profit)/ loss, recognized in profit or loss for year	(327,096)	282,288
Transfer to disposal group liability classified as held for sale (Note 17)	(1,517,855)	-
Subsidiary disposal	(26,906)	-
Total liability at year-end	30,156,756	30,227,410

Cost of past services recognized for year ended 31 December 2013 is mainly connected with changes in the Pension legislation in respect of subsequent increase of the retirement age for women as well as changes in the Collective labour agreement.

Total liabilities in respect of the determined pension plan and other long-term employee benefits recognized in profit or loss during 2014 and 2013 are shown below:

	2014	2013
Cost of sale (Note 28)	2,749,703	(1,106,104)
General and administrative expense (Note 29)	363,033	(147,914)
Total recognized in profit or loss for year	3,112,736	(1,254,018)

Pension plans with defined benefit expose the Group to actuarial risks, including interest rate change risk, the risk of survival and the risk of payroll:

- Interest rate risk. Decrease in interest rates will increase the liabilities of the Group;
- The risk of survival. Current liabilities are calculated based on estimates of mortality both during and at the conclusion of employment with the Group. Increased life expectancy leads to an increase in liabilities;

- Salary risk. These liabilities are calculated based on future salaries. The increase in wages leads to an increase in liabilities.

Calculations of the Group liabilities have been prepared on the basis of published statistical data on mortality rates, as well as actual data of the Group on the number, age, gender and work length of employees and pensioners, and statistics on the change in staff. Other key assumptions as at the date of the consolidated statement of financial position are as follows:

	2014	2013
Discount rate	6.70%	6.30%
Expected yearly growth of financial aid in future	4.50%	4.70%
Expected yearly growth of minimum salary amount in future	4.50%	4.70%
Expected yearly growth of price for railway tickets in future	7.50%	7.70%

The significant actuarial assumptions used in determining the liabilities for pension plans with defined benefit include the discount rate, the expected increase in wages and mortality. The following sensitivity analysis is made on the basis of reasonably possible changes in the relevant assumptions at the reporting date, while maintaining all other assumptions unchanged.

- increase (decrease) in the discount rate by 1%, liabilities decrease by 2,563,324 thousand tenge (increase by 2,985,519 thousand tenge) (2013: an increase (decrease) in the discount rate by 1%,

liabilities decrease by 2,711,399 thousand tenge (increase at 3,204,105 thousand tenge)).

- increase (decrease) of the expected wage growth, inflation, the growth of MCI by 1%, the liabilities will increase by 3,045,832 thousand tenge (decrease by 2,623,638 thousand tenge) (2013: an increase (decrease) of the expected wage growth, inflation, MCI growth by 1%, liabilities increase by 3,219,219 thousand tenge (decrease by 2,771,853 thousand tenge)).
- increase (decrease) in life expectancy by 1 year for men and women liabilities will increase by 934.859

thousand tenge (decrease by 1,025,330 thousand tenge) (2013: with an increase (decrease) in life expectancy by 1 year for men and women liabilities increase by 1,051,914 thousand tenge (decrease by 1,109,346 thousand tenge)).

- increase (decrease) in employee turnover by 1% liabilities decrease by 512.665 thousand tenge (increase by 572.978 thousand tenge) (2013: during the growth (decrease) in employee turnover 1% liabilities decrease by 550.139 thousand tenge (increase by 595.480 thousand tenge)).

The above sensitivity analysis may not reflect the actual changes in liabilities for pension plans with defined benefit, because the change in the assumptions separately from each other is unlikely (some assumptions are interrelated).

In addition, the analysis of the sensitivity of the present value of obligations under defined benefit plans is based on the projected unit credit method at the balance sheet date. The same method was used in the calculation of pension plans with defined benefit reflected in a separate statement of financial position.

The methods and assumptions used in the sensitivity analysis are not different from those used in previous years.

23. CORPORATE INCOME TAX EXPENSE

Companies registered in Kazakhstan are to pay an income tax from the taxable profit in accordance with the legislation of the Republic of Kazakhstan. In 2014 and 2013 the income tax rate is established at 20%.

The income tax expense for the years ended 31 December, include the following:

	2014	2013
Current income tax expense	1,655,405	1,682,984
Adjustment of past year income tax	4,367,057	890,806
Deferred income tax expense	15,063,812	34,020,389
	21,086,274	36,594,179

The following is a reconciliation between income tax expense, calculated from accounting profit before tax at the officially fixed rate and the income tax expense for the years ended 31 December:

	2014	2013
Profit before tax from continuing operations	60,145,139	164,259,548
Official tax rate	20%	20%
Expected tax amount at the official tax rate	12,029,028	32,851,910
Tax effect of expense /(income), not carried as deductible/(not taxable) for tax calculation purpose		
Adjustment of corporate income tax of past years	4,367,057	890,806
Non-deductible expenses	3,538,611	2,097,804
Change in unrecognized past tax losses brought forward	1,151,578	753,659
Income tax expense reflected in profit or loss (related to continuing operations)	21,086,274	36,594,179

Deferred tax amounts calculated by applying the current official tax rates valid as at dates of respective statements of the consolidated financial position, to time differences between the taxable base of the assets and liabilities and the amounts included in the consolidated financial statements as at 31 December 2014 and 2013 include the following components:

	31 December 2014	31 December 2013
Deferred tax assets:		
Past tax losses brought forward	59,550,920	35,902,760
Accrued liability toward employees	2,644,862	2,285,703
Difference in receivables	1,017,705	876,562
Provisions for non-liquid and outdated inventories	67,323	143,616
Loans provided	-	72,141
Taxes	305,175	378,753
Interest accrued due for payment	856,778	588,233
	<u>64,442,763</u>	<u>40,247,768</u>
Deferred tax liability:		
Fixed assets, non-current assets classified as held for sale and other non-current assets	(256,489,621)	(218,741,842)
Loan adjustment to fair value	(48,833,534)	(46,971,815)
	<u>(305,323,155)</u>	<u>(265,713,657)</u>
Total net deferred tax liability	<u>(240,880,392)</u>	<u>(225,465,889)</u>
Net deferred tax liability at beginning of year	(225,465,889)	(153,590,261)
Carried in profit or loss	(15,063,812)	(34,020,389)
Carried in consolidated statement on changes in equity	(2,425,374)	(37,054,982)
Transfer to disposal group liability classified as held for sale	2,064,073	(800,257)
Subsidiary disposal	7,799	-
Receipt at business combination	2,811	-
Net deferred tax liability at year end	<u>(240,880,392)</u>	<u>(225,465,889)</u>

The Group does not recognize deferred tax assets related to the tax losses brought forward. The Management considers that it is less probable that there will be taxable profit in future sufficient for the above deferred tax asset to be adjusted against. As at 31 December 2014 the total tax effect of unrecognized tax loss brought forward is equal to 2,762,741 thousand tenge (31 December 2013: 1,758,540 thousand tenge).

24. TRADE PAYABLE

As at 31 December 2014 and 2013 the trade payables include the following items:

	31 December 2014	31 December 2013
Payable for fixed assets delivered	42,268,980	19,451,884
Payable for inventories received	30,220,420	31,536,054
Payable for services received	18,850,886	24,947,864
Other payable	321,595	1,439,817
	<u>91,661,881</u>	<u>77,375,619</u>

As at 31 December 2014 and 2013 the trade payable is denominated in the following currencies

	31 December 2014	31 December 2013
Tenge	86,141,243	72,009,932
US dollars	3,864,069	3,378,345
Swiss francs	354,334	438,116
Other currencies	1,302,235	1,549,226
	<u>91,661,881</u>	<u>77,375,619</u>

Trade payable is mainly represented by amounts of debts for the inventories, fixed assets and current expenses. The average turnover period of the purchase is 48 days. (2013: 55 days).

25. OTHER TAXES AND OTHER COMPULSORY PAYMENTS TO BUDGET

Taxes and other compulsory budget payments include the following components as at 31 December 2014 and 2013:

	31 December 2014	31 December 2013
Individual income tax	2,420,040	2,848,742
VAT	1,804,027	2,925,372
Social tax	1,328,622	1,729,810
Social insurance liability	1,010,443	1,111,038
Corporate income tax fines and penalties	428,257	146,942
Environment pollution payment	276,224	300,172
Property tax	220,000	159,275
Withholding income tax for non-resident income	119,113	737,752
Other	494,085	195,612
	<u>8,100,811</u>	<u>10,154,715</u>

26. OTHER LIABILITIES

As at 31 December 2014 and 2013 other liabilities include the following amounts:

	31 December 2014	31 December 2013
Irrevocable liability in favour of Shareholder	77,837,179	54,209,840
Advance received	33,980,380	40,981,595
Outstanding dividends (Note 18)	12,165,051	-
Salary outstanding due	13,901,586	14,617,858
Provisions for non-used vacations	11,712,051	11,428,516
Future income	5,402,894	11,147,295
Obligatory pension fund payment	3,784,827	3,657,412
Other liabilities	4,050,359	3,668,787
	<u>162,834,327</u>	<u>139,711,303</u>
Less: other current liabilities	<u>(114,233,062)</u>	<u>(114,701,051)</u>
Other long-term liabilities	<u>48,601,265</u>	<u>25,010,252</u>

As stipulated by the Main provisions of the accounting policies the distributions are recognized in the equity and the respective irrevocable liability in favour of Shareholder, when the Group is undertaking to transfer the cash or non-monetary assets to the Shareholder/ultimate Shareholder, and the amount of the above liability can be reliably measured. The Group measures the amount of the above liabilities as equal to the respective contracts for construction and equipment.

As at December 2014 and 2013 irrevocable liability in favour of the Shareholder consists of the following components:

- An undertaking to equip the tv and radio complex with media and technological equipment worth 28,238,638 thousand tenge (2013: 28,238,638 thousand tenge) and is carried as current liability because its fulfillment is expected in 2015 (Note 13);
- An undertaking to construct the multifunctional ice palace in Astana worth 48,601,265 thousand tenge (2013: 25,010,252 thousand tenge) carried as a non-current liability due to expectations of its transfer to the Shareholder in 2016 (Note 13);
- An undertaking of a free transfer of social objects to Mangistau region governor's office for the amount of

247,276 thousand tenge (2013: 965,450 thousand tenge) carried as current liability because its transfer to Shareholder is expected in 2015 (Note 13); and

- An undertaking to construct the playschool in Astana worth 750,000 thousand tenge (2013: nil) carried as current liability because its transfer to Shareholder is expected in 2015 (Note 13).

As at 31 December 2014 and 2013 the Group accrued a provision for the unused vacations calculated based on the number of unused days and average salary per day.

As at 31 December 2014 and 2013 the current salary liability and other liabilities were mainly expressed in tenge.

27. OTHER INCOME

Other income for the years ended 31 December included the following components:

	2014	2013
Revenues from goods sold and services rendered	30,701,022	27,338,322
Penalties received	5,278,256	2,629,859
	<u>35,979,278</u>	<u>29,968,181</u>

Revenues from goods sold and services rendered include mainly income from the services connected with loading, unloading, vessels servicing, selling of materials and metal stock, from communication services rendering.

The penalties received consist of the income from the fines connected with untimely cargo dispatch from the stations of destination and for the breach of the contractual provisions.

28. СЕБЕСТОИМОСТЬ РЕАЛИЗАЦИИ

Cost of sales for the years ended 31 December, included the following:

	2014	2013
Personnel cost including short-term provisions	235,077,585	214,446,661
Fuel and lubrication materials	97,460,852	88,227,154
Depreciation	96,796,563	85,755,310
Works and services of production nature	53,508,972	44,220,418
Materials and stock	49,473,025	61,168,408
Electricity	41,104,494	32,232,180
Repair and maintenance	35,048,885	28,034,879
Business trip expenses	3,060,329	3,511,985
Expense/(expense reinstated) for post-employment benefit (Note 22)	2,749,703	(1,106,104)
Utilities expenses and buildings maintenance	2,066,274	2,138,849
Insurance	2,008,645	1,610,126
Railway freight of third parties	1,925,080	5,716,746
Communication expense	1,672,696	1,087,234
Operating leases	1,615,567	1,406,116
Staff training	963,929	980,637

	2014	2013
Transport services	888,389	624,882
Communication channels lease	431,954	223,507
Guarding services	292,200	300,022
Taxes	161,996	209,793
Fines and penalties	3,379	204,569
Other	7,862,336	4,440,047
	<u>634,172,853</u>	<u>575,433,419</u>

For the years ended 31 December the staff expenses including short-term provisions are represented as shown below

	2014	2013
Staff expenses	210,109,183	195,398,451
Social tax, social allocations and obligatory professional pension contributions	24,105,883	18,629,341
Expense for the unused vacations provisions accrual	862,519	418,869
	<u>235,077,585</u>	<u>214,446,661</u>

29. GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expenses for the year ended 31 December, include the following expenses:

	2014	2013
Personnel cost including short-term provisions	32,924,520	33,164,979
Property tax and other taxes	21,943,563	22,853,511
Depreciation	4,095,306	3,893,382
Charity and sponsorship	3,758,595	9,187,271
Provisions for doubtful debts (Notes 9, 11, 15)	3,839,239	1,568,325
Consulting, audit and legal services	2,723,400	1,805,217
Expense for conducting festival and cultural events	1,581,485	1,297,372
Professional services	1,298,219	1,655,492
Business trip and representation expenses	1,221,881	1,497,914
Advertising	1,101,013	1,024,712
Utilities and buildings maintenance	1,065,943	851,899
Provisions for VAT non-refund (Note 9)	803,000	3,845,992
Bank charges	817,798	835,733
Materials	720,361	786,042
Other services of third parties	715,639	643,404
Professional training and qualification improvement expense	455,167	785,102
Expense/ (reinstated expense) nfor post-employment employee benefits (Note 22)	363,033	(147,914)
Social objects maintenance	351,744	325,579
Operation lease	250,928	209,715
Repair and maintenance	246,578	322,386
Insurance	200,329	160,615
Reinstated provisions for outdated inventories (Note 10)	(16,312)	(233,491)
Reinstated provisions for court claims	-	(931,851)
Other expenses	1,882,600	3,215,195
	<u>82,344,029</u>	<u>88,616,581</u>

For the years ended 31 December staff expenses including short-term provisions, included the following components:

	2014	2013
Staff expense	29,863,459	30,317,550
Social tax, social allocations and obligatory professional pension contributions	2,863,629	2,744,432
Expense for the unused vacations provisions accrual	197,432	102,997
	<u>32,924,520</u>	<u>33,164,979</u>

30. FINANCIAL INCOME

Financial income for the years ended 31 December consists of the following:

	2014	2013
Income in the form of interest for other financial assets, bank deposits and interest for the balance cash in the bank accounts	5,049,469	4,570,750
Adjustment of the fair value of financial derivatives carried at fair value through profit or loss (Note 35)	4,677,996	-
Amortisation of premium on debt securities issued	156,803	110,108
Other financial income	637,096	812,695
	<u>10,521,364</u>	<u>5,493,553</u>

For the years ended 31 December 2014 and 2013 the Group's financial income included the interest gain on investments and bank deposits from the related parties for the amount of 3,274 thousand tenge and 1,899 thousand tenge, respectively. (Note 39).

31. FINANCIAL EXPENSES

Financial expenses for the year ended 31 December, included the following:

	2014	2013
Interest expense for the debt securities issued	26,900,993	22,146,325
Interest expense on borrowings	15,244,560	12,446,732
Finance leases expense	948,918	971,665
Amortisation of discount on borrowings and debt securities issued	3,607,594	1,336,604
	<u>46,702,065</u>	<u>36,901,326</u>

For the years ended 31 December 2014 and 2013 the Group's financial expenses included the expenses from the related parties for the amount of 9,495,826 thousand tenge and 8,250,933 thousand tenge, respectively (Note 39).

32. CURRENCY DIFFERENCE LOSS

On 11 February 2014 the National bank of the Republic of Kazakhstan reached a decision on decreasing intervention in Kazakhstan tenge rate determining to US dollar and other main currencies. As a result on 13 February 2014 the official exchange rate of Kazakhstan

tenge to US dollar reached 184,5 tenge, i.e. by 19%. The currency difference loss for 2014 was mainly created by issued debt securities and borrowings of the Group, as the majority was denominated in the foreign currencies (Notes 19 and 20).

33. COMPANIES ACQUISITION

In May 2014 the Group acquired a 90% stake in the authorized capital of LLC «Regional Forward Logistics» («hereinafter - LLC «RFL»). The acquisition of LLC «RFL» was to expand the market of services and the development of international traffic, as well as to increase of the Group's income as a freight wagons operator.

In August 2014 the Group obtained control over the LLP «Tulpar-Talgo» in connection with the expiration of the option, according to which Talgo Kazajstan SL could buy back 49.99% of the authorized capital of LLP «Tulpar-Talgo» (Notes 7 and 17). LLP «Tulpar-Talgo» is meeting the needs of high-speed passenger trains.

In June 2013 the Group acquired a 65% stake in the authorized capital of SC «Kazakh Academy of Transport

and Communications named after M. Tynyshpayev» (hereinafter – SC «KazATC»). The acquisition of «KazATC» was to implement SC «KazATC» technological evaluation and examination in selecting optimal specifications of railway transport and infrastructure, taking into account existing and emerging technologies, as well as training, retraining and advanced training of r/w transportation employees.

Business combinations are accounted for using the purchase method.

If the combination of «KazATC» occurred on 1 January 2013, Group revenue would have been more by 1,658,006 thousand tenge for the year ended December 31, 2013.

The amount paid for the acquisition:

	For the year ended 31 December 2014 LLC «RFL»	For the year ended 31 December 2013 SC «KazATC»
Cash	49	7,496,752
Less cash aid out in previous period	-	(500,000)
Total	<u>49</u>	<u>6,996,752</u>

Distribution of the acquired companies purchase price is based on the acquired assets and undertaken liabilities fair value. Net acquired assets are represented in the following table:

	LLP «Tulpar- Talgo»	LLC «RFL»	Total at 31 December 2014	Total at 31 December 2013 SC «KazATC»
ASSETS				
Non-current assets				
Fixed assets	10,240,171	138	10,240,309	11,473,761
Intangible assets	256,701	-	256,701	7,454
Deferred tax asset	-	2,811	2,811	-
Other non-current assets	-	-	-	5,495
Total non-current assets	<u>10,496,872</u>	<u>2,949</u>	<u>10,499,821</u>	<u>11,486,710</u>
Current assets				
Inventories	6,042,405	-	6,042,405	129,592
Trade receivable	11,121,940	195,373	11,317,313	331,816
Other current assets	13,179,270	436	13,179,706	47,473
Cash and cash equivalents	612,232	44,698	656,930	390,019
Total current assets	<u>30,955,847</u>	<u>240,507</u>	<u>31,196,354</u>	<u>898,900</u>

	LLP «Tulpar-Talgo»	LLC «RFL»	Total at 31 December 2014	Total at 31 December 2013 SC «KazATC»
Total assets	41,452,719	243,456	41,696,175	12,385,610
Current liabilities				
Current portion of borrowings	3,867,730	-	3,867,730	-
Trade payables	1,153,290	224,067	1,377,357	11,465
Taxes and other compulsory budget payments	130,404	-	130,404	78,369
Other current liabilities	31,519,202	251	31,519,453	461,386
Total liabilities	36,670,626	224,318	36,894,944	551,220
Acquired net assets	4,782,093	19,138	4,801,231	11,834,390
Interest amount	-	49	49	7,496,752
Add: non-controlling interests (0,001% in LLP «Tulpar-Talgo», 10% in LLC «RFL» and 35% in SC «KazATC»)	30	1,914	1,944	4,142,036
Share in net assets earlier belonging to the Group	4,042,945	-	-	-
Net of fair value of acquired net assets	(4,782,093)	(19,138)	(4,801,231)	(11,834,390)
Income at profitable purchase of ownership share	(739,118)	(17,175)	(756,293)	(195,602)
Net cash payments for acquisitions of subsidiaries:				
Monetary consideration	-	49	49	6,996,752
Net of acquired cash and cash equivalents	(612,232)	(44,698)	(656,930)	(390,019)
Total	(612,232)	(44,649)	(656,881)	6,606,733

34. SSUBSIDIARIES DISPOSAL

On 24 November 2014 the Group represented by subsidiary SC «Kaztemirtrans», sold to third parties 100% ownership stake of subsidiaries LLP «Kazykurt Yug» and LLP «Yertys serice», not presenting any essential type of the activities, and, as a result, not being a part of discontinued operations. As a result of the sales the Group ceased its control over LLP «Kazykurt Yug» and LLP «Yertys serice».

In June 2014 the Group through its subsidiary SC «Remlocomotive», sold to the third party 100% stake of LLP «Igilik - RD», not presenting any essential type of the activities, and, as a result, not being a part of discontinued operations. As a result of the sales the Group ceased its control over LLP «Igilik - RD».

Assets and liabilities as at date of selling are given below:

	LLP «Igilik - RD» 31 May 2014	LLP «Yertys Service» 30 November 2014	LLP «Kazykurt Yug» 30 November 2014	Total
Fixed assets	47,694	362,519	403,247	813,460
Intangible assets	-	696	499	1,195
Deferred tax asset	76	-	3,754	3,830
Total non-current assets	47,770	363,215	407,500	818,485
Inventories	-	50,613	16,687	67,300
Trade receivable	-	130,410	127,694	258,104
Other current assets	2,300	6,184	23,519	32,003
Cash and cash equivalents	16,317	241,521	57,482	315,320
Total current assets	18,617	428,728	225,382	672,727
Total assets	66,387	791,943	632,882	1,491,212
Deferred income tax liability	-	11,629	-	11,629
Total non-current liability	-	11,629	-	11,629
Trade payables	-	28,158	78,669	106,827
Income tax payable	550	1,334	1,936	3,820
Taxes and other compulsory budget payments	435	11,383	1,939	13,757
Other current liabilities	3,239	26,459	19,210	48,908
Total current liabilities	4,224	67,334	101,754	173,312
Total liabilities	4,224	78,963	101,754	184,941
Disposed net assets	62,163	712,980	531,128	1,306,271

Operating results of subsidiaries or the period from 1 January 2014 until disposal date are shown in the following table:

	LLP «Igilik - RD» 31 May 2014	LLP «Yertys Service» 30 November 2014	LLP «Kazykurt Yug» 30 November 2014	Total
Income	15,625	876,059	762,181	1,653,865
Cost of sales	(67)	(747,528)	(717,706)	(1,465,301)
General and administrative expenses	(1,818)	(34,472)	(33,505)	(69,795)
Financial income	-	782	235	1,017
Other profit/(losses)	-	(2,341)	177	(2,164)
(Expense)/saving of corporate income tax	-	2,407	(12,769)	(10,362)
Profit/(loss) for the period from continuing operations	13,740	94,907	(1,387)	107,260
Profit/(loss) for the period and other comprehensive income (loss)	13,740	94,907	(1,387)	107,260

Profit/(loss) from subsidiaries disposal:

	LLP «Igilik - RD»	LLP «Yertys Service»	LLP «Kazykurt Yug»	Total
Received consideration	463,000	703,857	960,577	2,127,434
Disposed net assets	(62,163)	(712,980)	(531,128)	(1,306,271)
Profit/(loss) from disposal	400,837	(9,123)	429,449	821,163

Net cash-flow from the subsidiaries disposal:

	LLP «Igilik - RD»	LLP «Yertys Service»	LLP «Kazykurt Yug»	Total
Monetary consideration	463,000	703,857	960,577	2,127,434
Net of disposed cash and cash equivalents	(16,317)	(241,521)	(57,482)	(315,320)
Total	446,683	462,336	903,095	1,812,114

35. FINANCIAL DERIVATIVE

On August 29, 2014 the Group entered into the cross-currency swaps deal with Royal Bank of Scotland plc. (UK) to partially hedge the exposure of loans denominated in US dollars, and income, denominated in Swiss francs to foreign exchange risk.

Hedged borrowings are payments of interest and principal on Eurobonds denominated in US dollars amounting to US \$ 324,000,000 with interest rate of 7.0% per annum and maturing in May 2016.

To achieve this goal, the Group entered into cross-currency swap (US dollar against the Swiss franc), in which the Group pays a fixed amount of CHF to Royal Bank of Scotland plc. in exchange for a fixed amount of US dollars. The fixed cash flows in US dollars on the swap at a rate of 6.5% per annum are designed

to hedge the payments on the above borrowing. Payment of these fixed amounts in Swiss francs is a natural hedging of currency risk in relation to income, denominated in Swiss francs.

as at December 31, 2014 the fair value of derivative financial instruments amounted to 25,653,938 US dollars (4,677,996 thousand tenge) and was recognized in financial income (Note 30).

36. PROFIT PER SHARE

Profit per share in calculation of basic profit per share is counted on the basis of the average issued ordinary share during the year. The amounts of common shares and common shares with a diluted effect, due to the fact that the dilution has not been performed.

	2014	2013
Profit for year, attributable to the Shareholder of parent (thousand tenge)	30,397,462	115,627,571
Average quantity of ordinary shares	491,363,675	491,295,733
Profit for calculating basic and diluted profit per share for the year (tenge)	62	235
Profit for year from the continuing operations, attributable to Shareholder of parent (thousand tenge)	35,899,536	124,857,374
Average number of ordinary shares	491,363,675	491,295,733
Profit for calculating basic and diluted profit per share for the year from the continuing operations (tenge)	73	254

In accordance with the requirements of the Kazakhstan Stock Exchange (KASE), the Group has calculated book value per share. Book value per share is calculated based on the number of ordinary shares outstanding at the balance sheet date. Book value per share as at December 31, 2014 and 2013 is presented below:

	31 December 2014	31 December 2013
Net assets excluding intangible assets and non-controlling interests	1,380,951,130	1,305,540,782
Ordinary shares in circulation	491,628,019	491,297,819
Book value per share, in tenge	2,809	2,657

37. FINANCIAL AND CONTINGENT LIABILITIES

INVESTING AND OPERATIONAL LEASES LIABILITIES

Investing liabilities

As at 31 December 2014 the Group has contingent liabilities to construct railway lines «Zhezkazgan – Beineu» and «Arkalyk – Shubarkol», construct a multifunctional ice palace in Astana, construct initial mainline communication network, acquire freight and passenger wagons, mainline locomotives for the total amount of 555,845,899 thousand tenge (31 December 2013: 567,979,072 thousand tenge). The above amount includes an obligation to buy passenger electric locomotives from joint venture LLP «Electrovoz kurastyru zauyty» worth 168,069,016 thousand tenge (31 December 2013: 215,934,453 thousand tenge) with a delivery due before 31 December 2020, locomotives from joint venture SC «Locomotive kurastyru zauyty» worth 80,637,394 thousand tenge (31 December 2013: 82,173,533 thousand tenge), and commitment to buy passenger railcars from LLP «Tulpar-Talgo» for the amount of 21,138,992 thousand tenge as at 31 December 2013.

Operational leases liabilities

As at 31 December 2014 the contingent liabilities of the Groups connected with the operational leases amounted 802,308 thousand tenge, with a maturity period of upto 1 year (31 December 2013: 773,848 thousand tenge).

CONTINGENT LIABILITY

Court claims

The Group participates in various court proceedings related to its economic activities, such as claims for the material damage reimbursement. The Group does not think that such claims which are at the stage

of consideration or potential claims separately or collectively will make any essential negative impact on its consolidated financial position, financial and operating results or cashflow.

In 2014 a civil case against a subsidiary of the Group - SC «Passenger transportation» was admitted for the court proceedings based on the suit of the Ministry of Investment and Development of the Republic of Kazakhstan for the recovery of unduly paid funds in the excess amount of 2,079,600 thousand tenge and the funds allocated for reimbursement of expenses not subject to subsidies in the amount of 196.500 thousand tenge. The Group did not form a provision, because it believes there is a high probability that the claim will be resolved in favor of the Group.

Contingent liabilities related to the Kazakhstan tax system

Various Kazakh laws and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are not seldom. The current regime of penalties and fines in respect of the detected violations of Kazakh laws, regulations and standards is quite severe. Thus, in the case of accrual of additional taxes by the tax authorities, the existing fines and penalties are set in a large amount; size of the penalty is 50% of the amount of additional taxes and penalties are equal to 13.75% of the amount of untimely paid tax. As a result, penalties and fines may exceed the amount of additional taxes. ►

As at 31 December 2014 the contingent liabilities associated with Kazakhstan's tax system included the following:

The topical tax audit of the Group for VAT refund for the reporting periods from January 2009 to December 2009, carried out by the tax authorities, identified the amount of VAT in the amount of 14,161,697 thousand tenge claimed for refund but not confirmed by counter inspections of suppliers and the absence of marks of the customs authority in the other copies of the railway bills, as well as accrued fines in the amount of 11,145,318 thousand tenge. As at December 31, 2014 the Group has not accrued reserves, since, according to the Group's opinion, requirement for the provision of Customs stamps on additional copies of railway bills is contradicting to the current tax laws, and the Group is arguing these charges in court and government agencies.

During 2014 the Group has accrued a provision for corporate income tax and penalties in the amount of 8,808,379 thousand tenge accrued as a result of the tax audit for the period of 2007-2010, in addition to the established on 31 December 2013. The Group paid the said amount and is arguing the tax audit results in the court authorities.

During 2014 the Group, through its subsidiary company «TransTeleCom» reversed previously established reserves for amounts appealed against the results of a comprehensive tax audit for the period of 2007-2011, related to the agreement on joint activities with the Company «Kazakhstan transit Telecommunications»: the corporate income tax and penalties in the amount of 887.955 thousand tenge, for the value added tax and penalties in the amount of 310.671 thousand tenge. As at December 31, 2014 a provision for a fine of corporate income tax in the amount of 280.535 thousand tenge is to be maintained up to the decision of the administrative court.

Because of the uncertainties associated with Kazakhstan's tax system, the amount of taxes, penalties and fines may significantly exceed the amount shown as expense to date and accrued as at December 31, 2014. It is almost impossible to determine the amount of any undeclared claims or the likelihood of an unfavorable outcome.

Insurance

The insurance industry in Kazakhstan is at its early stage of development, therefore, as well as other state-owned enterprises, the Group has not, except for compulsory insurance of passengers against personal injury, death,

or loss or damage to property of passengers, insurance coverage risk of harm to their property, assets and equipment (including infrastructure, rolling stock and stations), and the risk of termination of financial and economic activities and liability for damage to property of third parties or the environment as a result of accidents at the Group's objects or relating to Group operations. The Group has a compulsory insurance coverage under the insurance policies purchased from commercial insurance companies in Kazakhstan.

OTHER LIABILITIES

Guarantees

On September 17, 2012 the Company and the Eurasian Development Bank signed an agreement of guarantee №123 amounting to 2,370,000 thousand tenge in order to ensure the obligations of the joint venture LLP «Electric Kurastyru zauyty», created with the participation of one of the subsidiaries of the Group, to finance the construction of a plant for the production of electric locomotives, for the period upto 2022. The guarantee is coming into force after 1 year after complete fulfillment of the obligations of the joint venture under the credit agreement in 2022.

On July 4, 2013 the Company signed a Guarantee №110-SA in favor of SC «Development Bank of Kazakhstan» in the amount of 11,609,100 thousand tenge to guarantee the obligations of the associate LLP «Aktobe rail and structural steel plant», created with the participation of one of the Group's subsidiaries to finance the construction of rail and beam plant in Aktobe, the validity is until 2023.

On January 27, 2011 a joint venture of SC «Locomotive Kurastyru zauyty» entered into a bank loan agreement №K004-2011 with SC «ATF Bank» on the refinancing loan from the August 4, 2008 from «ABN AMRO Bank NV» (The Royal Bank of Scotland) for the construction of a locomotive plant in Astana, in the amount of 95,000 thousand US dollars. In accordance with the terms of the agreement the Company provides a guarantee for the amount of loan commitments up to 2016. As at December 31, 2014 the debt on the loan amounted to 35.204 thousand US dollars (6,419,521 thousand tenge).

As at December 31, 2014 and 2013, the Group did not have any liability associated with the guarantees listed above.

38. SUBSIDIARIES

Information about the Group's composition is presented below:

Subsidiary	Type of activities	Country of location	Share, %	
			2014	2013
1. SC «Kaztemirtrans»	Cargo wagons operating	Kazakhstan	100	100
2. SC «Passenger transportation»	Passenger transportation	Kazakhstan	100	100
3. SC «Locomotive»	Locomotive-hauled service	Kazakhstan	100	100
4. SC «KTZ Express»	Multimodal transportation	Kazakhstan	100	100
5. SC «Temirzholsu»	Utilities	Kazakhstan	100	100
6. SC «Remlocomotive»	Locomotives repair	Kazakhstan	100	100
7. SC «Almatinsky wagon-repair plant»	Wagons repair	Kazakhstan	100	100
8. SC «Locomotive servicing center»	Locomotives repair	Kazakhstan	100	100
9. SC «Kaztransservice»	Transit freight transportation	Kazakhstan	100	100
10. SC «Transtelecom»	Communication services	Kazakhstan	100	100
	Protection of r/w transport form unfavourable weather conditions	Kazakhstan	100	100
11. LLP «Woodprotection»			100	100
12. SC «Center of transport service»	Access roads operating	Kazakhstan	100	100
13. SC «Military railway guarding»	Guarding services	Kazakhstan	100	100
14. LLP «Akzhaiyk west 2006»	Wagons washing and steaming	Kazakhstan	100	100
15. LLP «Repair corporation «Kamkor»	Railway rolling-stock and mainline railway repair	Kazakhstan	100	100
	Stations operations	Kazakhstan	100	100
16. SC «Vokzal-service»	ensurance	Kazakhstan	100	100
17. SC «Kazakh Academy of transport and communication named after M. Tynyshpayev»	Training, qualification improvement, re-qualification of personnel	Kazakhstan	65	65
18. SC «National Company «Aktau international sea commercial port»	Loading and unloading, vessels servicing	Kazakhstan	100	100
19. LLP «Scientific and research institute of transport»	Scientific research and technological development	Kazakhstan	100	100

As at 31 December 2014 the Company's subsidiary LLP «Akzhaiyk west 2006» is in the process of winding up.

Within a framework of the Complex Privatization plan for 2014-2016 adopted by the Government of the Republic of the Shareholder in July 2014 approved of a list of the Group's subsidiaries to be disposed of in the competitive environment. (Note 17).

In November 2013 the Shareholder transferred his 100% stake in SC «National Company «Aktau international sea commercial port» to the Group's trust management. SC «National Company «Aktau international sea commercial port» was recognized as the Group's subsidiary although the Group does not own the shares of the subsidiary (Note 2).

Subsidiary	Registration place and main place of business activities	Share and voting rights of non-controlling interests		Profit (loss), attributable to non-controlling interests		Carrying value of non-controlling interests	
		31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
LLP «Repair corporation «Kamkor» group of companies	Republic of Kazakhstan	4.92% - 44.1%	4.92% - 44.1%	3,048,987	2,860,094	12,048,311	10,169,696
Insignificant subsidiaries with non-controlling interests				110,342	(52,099)	4,007,966	3,895,680
				<u>3,159,329</u>	<u>2,807,995</u>	<u>16,056,277</u>	<u>14,065,376</u>

The Company's subsidiary, LLP «Repair corporation «Kamkor», owns subsidiaries with significant non-controlling interests.

LLP «Repair corporation «Kamkor» group of companies overall finance information is given below:

	31 December 2014	31 December 2013
Current assets, including	71,835,353	45,332,092
Disposal group assets classified as held for sale	67,336,672	-
Non-current assets	16,548,184	54,573,303
Current liabilities, including	62,447,046	34,805,600
Disposal group liabilities classified as held for sale	43,662,340	-
Non-current liabilities	52,517	41,048,765
Equity	13,835,663	13,881,334
Non-controlling interest	12,048,311	10,169,696
	2014	2013
Income	2,356,992	2,218,194
Expenses	(2,616,003)	(2,280,845)
Loss for year from continuing operations	(1,762,449)	(1,009,757)
Profit for year from discontinued operations	5,360,726	6,896,805
Profit for year	3,598,277	5,887,048
Profit for year attributable to the company shareholder	549,290	3,026,954
Profit for year attributable to the non-controlling interest	3,048,987	2,860,094
Other comprehensive (loss)/profit attributable to the company's shareholder	(253,654)	10,848
Other comprehensive (loss)/profit for year	(253,654)	10,848
Total comprehensive profit, attributable to the company's shareholder	295,636	3,037,802
Total comprehensive profit, attributable to the non-controlling interest	3,048,987	2,860,094
Total comprehensive profit for year	3,344,623	5,897,896
	2014	2013
Net cash inflow/(outflow) from:		
-operating activity	1,733,048	30,649,561
-investing activity	(3,163,784)	(22,383,990)
-financing activity	(4,567,203)	(2,600,643)
Net cash inflow/(outflow)	(5,997,939)	5,664,928
Dividends paid to the non-controlling interest	(1,170,372)	(407,162)

39. TRANSACTIONS WITH RELATED PARTIES

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Also the parties are considered to be related parties if they are under common control with the Group. When considering the possible relationship of related parties attention is drawn in every case to the essence of the relationship, and not just to the legal form.

According to the Group's policy for approving of the transactions with related parties, such a transaction is approved of by the Board by a vote of a majority of the participants, but not less than three-quarters of the elected members. In the absence of the Board of the Company, the transaction is approved of by a majority of members of the Board of Directors, uninterested in the transaction. If all members of the Board of Directors are concerned, the transaction is approved of by a vote of a majority of independent directors. In the absence of independent directors, the deal is approved of by the Shareholder.

The related parties may enter into transactions, which cannot be entered into by unrelated parties, and transactions between related parties may be effected on the different terms, conditions, and in the same amounts than transactions between unrelated parties. The nature of related party relationships for those related parties with whom the Group carried out significant transactions or had significant unpaid balance as at December 31, 2014 and 2013 not disclosed elsewhere in these consolidated financial statements is provided below.

Amounts due to commercial organizations controlled by the Government (entities under common control), and amounts due from commercial companies controlled by the Government (entities under common control), presented as part of trade payables, other current liabilities, trade receivables, other current and long-term assets and business transactions with state-controlled entities (entities under common control) include the following as at December 31, 2014 and 2013:

Company's name	Receivable from a related party		Payable to a related party	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
SC «National Company «KazMunayGas»	51,137	141,732	1,461,502	1,478,802
SC «National Company «Kazakhstan Engineering»	229,453	59,563	1,081,928	671,959
SC «Kazpost»	75,967	148,352	8,390	7,885
SC «Samruk-Energo»	16,014	20,671	687,752	22,859
LLP «Bogatyr Komir»	12,173	22,234	347,210	477,731
SC «Kazakhtelecom»	12,079	15,702	64,382	638,668
SC «Ekibastuz GRES-2»	255	82,992	147,373	11,380
SC «KEGOC»	22,503	1,983	67,951	52,280
SC «National Atomic Company «Kazatomprom»	24,892	39,726	25,780	62,572
SC «Kazzinc»	51,181	37,982	42,186	44,124
LLP «Samruk-Kazyna Contract»	1,846	2,424	15,957	25,916
LLP JV «Katko»	190	-	10,606	1,969
SC «KOREM»	-	-	1,832	2,997
LLP JV «Betpak Dala»	-	-	1,220	2,346
SC «Air Astana»	-	-	2,377	1,246
SC «International Airport Atyrau»	22	43	17	304
SC «Development Bank of Kazakhstan»	-	-	-	87
SC «BTA Bank»	-	4	-	102,979
SC «Temirbank»	-	36	-	98
SC «Ekibastuz GRES-1» *	-	-	-	468,846
Other	71	96	6,431	2,794
	<u>497,783</u>	<u>573,540</u>	<u>3,972,894</u>	<u>4,077,842</u>

*Starting from 1 April 2014 JCS «Ekibastuz GRES-1» has become a part of SC «Samruk-Energo».

Transactions with commercial organizations controlled by the state (entities under common control), relating to the Group's operating activity for the years ended 31 December, are as follows:

Company's name	Services sold		Services purchased	
	2014	2013	2014	2013
SC «National Company «KazMunayGas»	12,868,526	10,977,937	872,560	622,037
LLP «Bogatyr Komir»	14,041,206	17,999,119	46	49,770
SC «National Atomic Company «Kazatomprom»	1,162,800	1,214,256	303,872	62,450
SC «Kazzinc»	764,823	597,012	143,948	10,137
SC «Kazpost»	749,211	788,977	215,206	213,660
SC «National Company «Kazakhstan Engineering»	573,031	348,165	1,226,458	1,052,172
SC «Kazakhtelecom»	193,187	136,013	618,299	676,676
SC «Ekibastuz GRES-2»	3,346	23,786	10,440,621	15,430,203
SC «Samruk-Energo»	147,796	116,298	6,580,104	276,044
SC «KEGOC»	15,725	20,616	5,163,640	4,141,066
SC «Air Astana»	98,367	105,039	32	123
LLP JV «Katko»	75,550	14,078	-	-
SC «BTA Bank»	2,563	4,830	288,143	118,889
LLP «Samruk-Kazyna Contract»	-	-	227,446	189,193
LLP JV «Betpak Dala»	1,117	2,976	-	-
SC «Ekibastuz GRES-1»	403	14,162	40,777	4,425,788
SC «International Airport Atyrau»	2,042	3,197	-	-
SC «KOREM»	-	-	17,478	-
SC «Alliance Bank»	2,256	2,135	2,508	72
SC «Development Bank of Kazakhstan»	-	-	1,227	1,318
SC «Temirbank»	627	1,616	270	1,202
Other	8,299	5,764	80	83
	30,710,875	32,375,976	26,142,715	27,270,883

Services provided to the commercial organizations controlled by the state, include mainly freight transportation.

In addition, for the year ended December 31, 2014, inventories were purchased for the amount of 9,913,655 thousand tenge (2013: 9,577,205 thousand tenge) and non-current assets in the amount of 562.518 thousand tenge (2013: 85.939 thousand tenge) from commercial State-controlled organizations.

In addition to services related to operating activities, the Group carries out various operations with commercial organizations controlled by the state related to investing and financing activities, including the following:

- As at 31 December 2014 and 2013 some of the Group's borrowings for the total amount of 2,832,176 thousand tenge and 2,726,627 thousand tenge, respectively, were secured by the guarantees issued by the Government of the Republic of Kazakhstan;
- As at 31 December 2014 and 2013 the Group's borrowings for the total amount of 34,718,282 thousand tenge and 21,538,619 thousand tenge, respectively, were provided by SC «Development Bank of Kazakhstan», which is an organization under common control;
- As at 31 December 2014 and 2013 the Group's financial leases liabilities towards SC «Development Bank of Kazakhstan», which is an organization under common control reached 299,595 thousand tenge

- and 370,057 thousand tenge, respectively;
- As at 31 December 2014 the Group's borrowings from the Shareholder, reached 165,489,594 thousand tenge (31 December 2013: 155,797,126 thousand tenge). Borrowings received in 2014 at a value lower than the fair value were carried at the amortized cost and the discount was equal to 12,126,873 thousand tenge net of the deferred tax in the amount of 2,425,374 thousand tenge (2013: the discount was equal to 185,274,909 thousand tenge net of the deferred tax in the amount of 37,054,982 thousand tenge) (Note 19);
- For the years ended 31 December 2014 and 2013 the Group recognized the financial expenses for the above borrowings for the amount of 9,495,826 thousand tenge and 8,250,933 thousand tenge,

- respectively (Note 31); and
- As at 31 December 2014 and 2013 the Group deposited cash in several banks under common control including SC «BTA Bank», SC «Alliance Bank», SC «Temirbank» and SC «Development Bank of Kazakhstan». In 2014 SC «BTA Bank», SC «Temirbank» and SC «Alliance Bank», ceased being organizations under common control. For the years ended 31 December 2014 and 2013 the Group recognized financial income at the bank accounts and deposits in the amount of 3,274 thousand tenge and 1,899 thousand tenge, respectively (Note 30). Accounts and deposits placed in the above banks, as at 31 December 2014 and 2013 include the following:

	31 December 2014	31 December 2013
SC «BTA Bank» Cash in the current accounts and deposits with a maturity of three months or less (Note 16)	-	121,337
SC «Alliance Bank» Cash in the current accounts and deposits with a maturity of three months or less (Note 16)	-	16,350
Deposits valid from 3 to 12 monthsb (Note 12)	-	101,757
SC «Temirbank» Cash in the current accounts and deposits with a maturity of three months or less (Note 16)	-	34,965
SC «Development Bank of Kazakhstan» Cash in the current accounts and deposits with a maturity of three months or less (Note 16)	2,211	794
Cash restricted in use	734,044	715,142

Amounts due to associates and joint ventures and the amount of debts owed by associates and joint ventures presented as part of trade payables, other current liabilities, trade receivables, other current and non-current assets as at December 31, 2014 and 2013 and transactions with associates and joint ventures for the periods ended on the dates indicated, are as follows:

	31 December 2014	31 December 2013
Debt amounts		
Receivable from associates and joint ventures	30,760,110	46,218,374
Payable to associates and joint ventures	2,627,108	2,698,047
	2014	2013
Transactions with associates and joint ventures		
Sales	24,387,442	18,752,456
Services purchased	4,975,807	3,307,009
Asset purchased	37,810,147	64,973,125

Transactions with associates and joint ventures, are mainly attributable to the acquisition of fixed assets and other services, and are implemented under the conditions similar as transactions between unrelated parties.

As at 31 December 2014 certain borrowings of joint ventures were securitized by the Group's guarantees to ensure the performance of obligations to banks (Note 37).

As at 31 December 2013 loans issued by the Group for the total amount of 4,000,000 thousand tenge were given to LLP «Tulpar-Talgo», which is a joint venture (Note 14).

As at December 31, 2014 the debt of associates and joint ventures includes advances paid to LLP «Electric Kurastyru zauyty» for the purchase of locomotives for the amount of 19,720,289 thousand tenge, advances to SC «Locomotive Kurastyru zauyty» for the purchase of locomotives worth 10,590,771 thousand tenge (On December 31, 2013: advances to LLP «Tulpar-Talgo» for the purchase of passenger cars in the amount of 21,824,138 thousand tenge, LLP «Electric Kurastyru zauyty» for the purchase of electric locomotives in the amount of 14,840,659 thousand tenge, SC «Locomotive

Kurastyru zauyty» for the purchase of locomotives in the amount of 9,308,579 thousand tenge).

Outstanding balances at year-end are unsecured, interest free and settlement is carried out in cash. There were no guarantees provided or received for any receivable or payable to related parties, with the exception of guarantees disclosed in Note 37. During the year ended December 31, 2014, the Group established a provision for doubtful debts of the related parties in the amount of 1,137,450 thousand tenge (2013: restored the reserves in the amount of 13.647 thousand tenge). This assessment of the recognition of provisions for the related parties' doubtful debts is carried out in every financial year by examining the financial position of the related party and the market in which the related party operates.

Remuneration to the key staff of the Group's management

Key management personnel include members of the Management Board and other key managers of the Company, comprising 26 people as at December 31, 2014 (December 31, 2013: 28 people). Remuneration of key management for the years ended 31 December, is shown as follows:

	2014	2013
Bonuses	316,752	245,586
Salary	291,061	258,812
Social tax	64,850	57,667
Income tax	66,120	55,045
Pension allocations	26,088	25,740
Social allocations	2,398	2,207
Total	767,269	645,057

40. FINANCIAL INSTRUMENTS OBJECTIVES AND POLICIES OF FINANCIAL RISK MANAGEMENT. FAIR VALUE OF FINANCIAL INSTRUMENTS

Principal financial instruments include loans, issued debt securities (Eurobonds), finance lease liabilities, cash and short-term deposits, as well as trade receivables and

trade payables. The main risk for the Group's financial instruments are the risks associated with interest rates, changes in foreign exchange rate and credit risks. The Group also monitors the market risk and liquidity risk arising for all the financial instruments.

Capital insufficiency risk management

The Group manages the risk of insufficient capital to

ensure that the Group can continue operations as a going concern while maximizing the return to shareholders through the optimization of debt and equity balance. Group's overall strategy remains unchanged from 2013

The capital structure of the Group consists of net debt (loans, debt securities and finance lease obligations, disclosed in Notes 19, 20 and 21, less cash and cash equivalents) and equity (which includes share capital and additional paid-in capital, reserve for Foreign currency translation, retained earnings and non-controlling interest).

Main principles of accounting policies

Data on the main accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial assets, financial liabilities and equity instrument are disclosed in Note 2 to the consolidated financial statements.

Objectives of financial risk management

Risk management is an important element of the Group operations. The Company monitors and manages the financial risks relating to the operations of the Group through internal risk reports, which analyze exposures to risks evaluating the degree and magnitude of the risks. These risks include market risk (including currency

Short-term borrowings

Tenge
US Dollars

Long-term borrowings:

Tenge
US Dollars
Japanese Yens
Euro
Swiss Francs

risk, interest rate change risk in relation to the fair value and price risk), liquidity risk and interest rate risk in relation to cash flow. A description of the Group's risk management policy is given below.

Interest rate risk

The risk associated with interest rates, is a risk of changes in market interest rates, which can lead to a decrease in the overall yield of the Group's investments and / or in increase of the cash outflow for repayment of loans and debt securities of the Group. The Group limits interest rate risk by monitoring changes in interest rates in the currencies in which financial instruments are denominated, and by maintaining an acceptable ratio between loans with fixed and floating interest rates.

The Group's exposure to the risk associated with interest rates relates primarily to the Group's long-term and short-term debt instruments (loans and debt securities issued), the average effective interest rates of which were as follows as at December 31, 2014 and 2013:

Подверженность Группы риску, связанному с процентными ставками, относится, в основном, к долгосрочным и краткосрочным долговым обязательствам (займы и выпущенные долговые ценные бумаги) Группы, средневзвешенные эффективные процентные ставки по которым, были следующими по состоянию на 31 декабря 2014 и 2013 гг.:

	31 December 2014 (% per annum)	31 December 2013 (% per annum)
Short-term borrowings		
Tenge	-	8.26
US Dollars	2.09	-
Long-term borrowings:		
Tenge	7.79	7.25
US Dollars	7.19	6.19
Japanese Yens	3.76	3.73
Euro	5.45	7.52
Swiss Francs	3.20	-

Sensitivity analysis in respect of interest rates

The following table shows the distribution of changes in financial income and financial expenditure between changes in the volume of the instrument and changes in the rate. Fluctuations in volumes were calculated based

on the movement in average balances and fluctuations in the rates for changes in interest rates on average interest-bearing assets and average interest-bearing liabilities. ►

	2014/2013		Total change	Interest rate change, %	2013/2012		Total change	Interest rate change, %
	Change due to increase/ (decrease) of				Change due to increase/ (decrease) of			
	Volume	Rate			Volume	Rate		
Financial income:								
Short-term deposits	(535,631)	-	(535,631)	-	1,899,314	-	1,899,314	-
Other financial assets	5,563,442	-	5,563,442	-	(549,508)	-	(549,508)	-
Financial expenses:								
Bank loans	5,968,669	(27,108)	5,941,561	(0.08%)	622,771	(426,149)	196,622	(0.90%)
Financial leases	(22,747)	-	(22,747)	-	64,305	-	64,305	-
Issued bonds	3,881,925	-	3,881,925	-	7,526,254	-	7,526,254	-

The following table reflects the Group's sensitivity to a 1% increase and decrease in interest rates (1% increase or decrease is used in the analysis and preparation of internal reports on the risks associated with interest rates, to key management personnel and represents management's assessment of the reasonably possible change in interest rates). The sensitivity analysis is based on the assumption that the amount of loans on the balance sheet date remained unchanged during the year. A positive value indicates an increase in profit for the period in the case of interest rate decrease. In the case of interest rate increase there will be an equal and opposite impact on the profit.

	2014	2013
Loans	328,014	455,621

Currency risk

The Group carries out transactions in foreign currencies, therefore there is a risk of exposure to exchange rate fluctuations.

A significant portion of short-term and long-term debts of the Group is denominated in US dollars. As a result of change in the exchange rate of the tenge against the US dollar and other foreign currencies in which the debt is expressed, there is a gain or loss from exchange rate differences. The Group places some of the funds and other financial assets in the deposits in US dollars to partially offset the arising income or loss from exchange rate differences on loans.

The Group limits the currency risk by monitoring changes in exchange rates of foreign currencies in which financial instruments are denominated. In addition, as described in Note 35, the Group entered into a deal to cross-currency swaps to partially hedge its obligations under the Eurobonds denominated in US dollars.

Sensitivity analysis in respect of foreign currency

The Group is mainly exposed to risks associated with changes in the rates of US dollar, Euro, Russian ruble, Swiss franc and Japanese yen.

The following table reflects the Group's sensitivity to a 20% increase and decrease in the value of the tenge

against the relevant foreign currencies in 2014 (2013: 20%). 20% (2013: 20%) is a fraction of the sensitivity used in the preparation of internal report on foreign currency risk submitted to key management and represents management's assessment of a reasonably possible change in exchange rates. The sensitivity analysis includes only outstanding monetary items in foreign currency and adjusts their translation at the end of the period, taking into account a 20% change in exchange rates in 2014 (2013: 20%). The sensitivity analysis comprises: a) external loans and payables, as well as, b) receivables of the Group when a loan or accounts receivable / payable are denominated in a currency other than the currency of the creditor or debtor. The following table shows the changes in financial assets and liabilities, with the strengthening of tenge by 20% against the relevant currency in 2014 (2013: 20%). A positive value indicates an increase in profit for the period, and the negative – a reduction of profits. With the weakening of tenge by 20% (2013: 20%) against the relevant currency, there will be an equal and opposite impact on the profit.

	Influence of the rate as at 31 December 2014							
	US dollar	Euro	Swiss franc	Russian ruble	Japanese yen	Hong Kong dollar	Chinese Yuan	Total effect
Financial assets								
Cash and cash equivalent	(1,496,637)	(284,147)	(84,523)	(82,129)	-	(3)	(14,731)	(1,962,170)
Cash restricted in use	(146,809)	-	-	-	-	-	-	(146,809)
Other financial assets	(5,921,664)	-	-	-	-	-	-	(5,921,664)
Trade receivables	(100,590)	-	(63,792)	(31,795)	-	-	-	(196,177)
								(8,226,820)
Financial liabilities								
Trade payable	772,814	181,467	70,867	78,980	-	-	-	1,104,128
Borrowings and interest accrued	20,028,955	7,874,993	-	-	711,842	-	-	28,615,790
Issued bonds	80,720,779	-	10,682,744	-	-	-	-	91,403,523
								121,123,441
Net effect								<u>112,896,621</u>

	Influence of the rate as at 31 December 2013						
	US dollar	Euro	Swiss franc	Russian ruble	GBP	Japanese yen	Total effect
Financial assets							
Cash and cash equivalent	(2,588,676)	(281,234)	-	(107,852)	(724)	-	(2,978,486)
Cash restricted in use	(234,075)	-	-	-	-	-	(234,075)
Other financial assets	(6,840,415)	-	-	-	-	-	(6,840,415)
Trade receivables	(71,094)	-	(98,356)	(21,084)	-	-	(190,534)
							(10,243,510)
Financial liabilities							
Trade payable	675,669	145,988	87,623	163,857	-	-	1,073,137
Borrowings and interest accrued	21,768,164	3,745,239	-	-	-	792,357	26,305,760
Issued bonds	67,985,959	-	-	-	-	-	67,985,959
							95,364,856
Net effect							<u>85,121,346</u>

The carrying value of financial assets and financial liabilities in the foreign currencies as at 31 December 2014 and 2013 is represented in the following table:

	31 December 2014	31 December 2013
Financial assets		
Cash and cash equivalent	9,810,845	14,892,434
Cash restricted in use	734,044	1,170,375
Other financial assets	29,608,320	34,202,074
Trade receivables	980,885	952,676
	<u>41,134,094</u>	<u>51,217,559</u>
Financial liabilities		
Trade payable	5,520,638	5,365,687
Borrowings and interest accrued	143,078,953	131,528,797
Issued bonds	457,017,615	339,929,797
	<u>605,617,206</u>	<u>476,824,281</u>

Credit risk

Credit risk arising as a result of the other contracting party violating the terms of contracts with Group's financial instruments is generally limited to the amounts, if any, to which the value of the counterparty's obligations exceed the obligations of the Group toward these counterparties. The Group's policy provides for the operations with financial instruments with a number of creditworthy counterparties. The maximum exposure to credit risk is equal to the carrying amount of each financial asset.

Concentration of credit risk may arise if several outstanding amounts from a single borrower or group of borrowers with similar conditions for activities in respect of which there is reason to expect that changes in economic conditions or other circumstances may equally affect their ability to fulfill their obligations.

The maximum exposure to credit risk for trade receivables within and outside the country as at the reporting date geographic location-wise was as follows:

	31 December 2014	31 December 2013
Inside the country	6,668,357	7,154,473
Outside the country	980,885	952,676

There is a policy in the Group that provides for the constant control over the transactions concluding only with the customers which have an adequate credit history and falling within the credit limits. The credit risk can be reduced owing to the fact that the Group works with the majority of the customers under the advance payments which are made against the advance repayment bank guarantees.

The Group does not issue guarantees for the liability of the third parties.

As at 31 December 2014 and 2013 the trade receivable break-down limitation period-wise is shown below:

	31 December 2014	31 December 2013
Not overdue	7,513,475	8,096,773
Overdue by 3-6 months	95,180	3,386
Overdue by 6-12 months	40,587	6,990
	<u>7,649,242</u>	<u>8,107,149</u>

As at 31 December 2014 and 2013 the break-down of the impaired trade receivable limitation period-wise is shown below:

	31 December 2014	31 December 2013
Overdue by 6-12 months	10,981	240,073
Overdue by more than 12 months	5,221,341	4,418,581
	<u>5,232,322</u>	<u>4,658,654</u>

Market risk

The market risk arises due to the possible fluctuations in the value of a financial instrument resulting from changes in market prices. The Group manages the market risk through regular estimations of potential losses that may arise due to adverse changes in market conditions.

Liquidity risk

Group manages liquidity risk of short-term, medium-term and long-term financing in accordance with the requirements of the Shareholder. The Group manages

the liquidity risk by maintaining adequate reserves, bank loans and available credit lines, by continuously monitoring forecast and actual cash flows and comparing maturity terms of financial assets and liabilities.

The following tables show the contractual terms of the Group for the Group's non-derivative financial instruments. The table was compiled on the basis of undiscounted cash flows of the financial liabilities based on the earliest date on which the Group could be required to pay. The table includes cash flows both for interest and principal payments.

	Upto 1 month	1-3 months	3 months – 1 year	1-5 years	Over 5 years	Total
2014						
<i>Interest-free:</i>						
Trade payable	59,528,624	13,767,394	18,365,863	-	-	91,661,881
Other current liabilities	-	-	4,050,359	-	-	4,050,359
<i>Interest bearing:</i>						
Borrowings with a floating rate	192,628	190,890	8,006,921	25,377,041	1,836,979	35,604,459
Borrowings with a fixed rate	3,133,384	7,758,883	31,176,585	262,037,355	490,305,947	794,412,154
Issued bonds	6,970,329	-	18,113,899	178,485,104	692,954,647	896,523,979
Financial leases	-	-	940,122	3,781,372	-	4,721,494
	<u>69,824,965</u>	<u>21,717,167</u>	<u>80,653,749</u>	<u>469,680,872</u>	<u>1,185,097,573</u>	<u>1,826,974,326</u>
	Upto 1 month	1-3 months	3 months – 1 year	1-5 years	Over 5 years	Total
2013						
<i>Interest-free:</i>						
Trade payable	40,540,988	15,390,591	21,444,040	-	-	77,375,619
Other current liabilities	-	-	3,474,407	-	-	3,474,407
<i>Interest bearing:</i>						
Borrowings with a floating rate	165,688	412,885	8,084,093	33,929,070	8,254,687	50,846,423
Borrowings with a fixed rate	1,666,152	7,768,157	30,923,977	190,770,369	389,508,302	620,636,957
Issued bonds	-	-	16,471,253	133,849,486	571,999,443	722,320,182
Financial leases	-	-	1,057,642	4,123,390	987,324	6,168,356
	<u>42,372,828</u>	<u>23,571,633</u>	<u>81,455,412</u>	<u>362,672,315</u>	<u>970,749,756</u>	<u>1,480,821,944</u>

The following table demonstrates the expected repayment deadlines of the financial assets of the Group. The table was formed on the basis of non-discounted contractual cash-flow financial asset-wise, including interest, which will be received in relation to the financial asset, except the cases when the Group expect the cash-flow to occur in a different period.

	Upto 1 month	1-3 months	3 months – 1 year	Over 1 year	Undetermined deadline of repayment	Total
2014						
<i>Interest-bearing:</i>						
Short-term deposits	26,715,189	992,865	-	-	-	27,708,054
Short-term deposits interest	73,253	61,503	-	-	-	134,756
Other financial assets	-	4,920,456	32,415,309	-	-	37,335,765
Interest for the other financial assets	-	68,742	1,454,029	-	-	1,522,771
Cash and cash equivalents	17,588,424	-	-	-	-	17,588,424
Financial derivative	-	-	579,648	4,661,399	-	5,241,047
<i>Interest free:</i>						
Cash and cash equivalents	41,255,740	-	-	-	-	41,255,740
Cash restricted in use	-	-	734,044	-	-	734,044
Trade receivable	7,443,304	14,671	191,267	-	5,232,322	12,881,564
	93,075,910	6,058,237	35,374,297	4,661,399	5,232,322	144,402,165
2013						
<i>Interest-bearing:</i>						
Short-term deposits	36,617,974	2,574,623	-	-	-	39,192,597
Short-term deposits interest	66,683	16,137	-	-	-	82,820
Other financial assets	-	3,675,149	32,839,623	1,920,024	-	38,434,796
Interest for the other financial assets	-	27,086	1,044,300	151,060	-	1,222,446
Cash and cash equivalents	41,135,147	-	-	-	-	41,135,147
<i>Interest free:</i>						
Cash and cash equivalents	5,556,985	-	-	-	-	5,556,985
Cash restricted in use	-	-	1,170,375	-	-	1,170,375
Trade receivable	7,632,390	105,905	368,854	-	4,658,654	12,765,803
Loans issued	-	-	4,000,000	-	-	4,000,000
	91,009,179	6,398,900	39,423,152	2,071,084	4,658,654	143,560,969

Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable parties on a commercial basis, other than in forced sale situation or sale during winding-up. As for the majority of the Group's financial instruments there are no existing market mechanisms available to determine fair value, fair value measurement requires to use assumptions based on current economic conditions and specific risks attributable to the instrument.

The following methods and assumptions are used by the Group to determine the fair value of the financial instruments:

Cash and cash equivalents

The carrying value of cash and cash is approximately

equivalent of their fair value due to the short-term maturity of these financial instruments.

Financial assets and liabilities

For assets and liabilities with a maturity of less than twelve months, the carrying amount is approximately equal to the fair value due to the relatively short-term maturity of these financial instruments.

For assets and liabilities with a maturity of more than twelve months, the fair value is the present value of estimated future cash flows discounted using market rates existing at the end of the year. The average market rates for the borrowings as at December 31 are as follows:

Tenge
From 1 to 5 years
Over 5 years

Foreign currencies
From 1 to 5 years
Over 5 years

	31 December 2014 (% per annum)	31 December 2013 (% per annum)
Tenge		
From 1 to 5 years	10.3	8.5
Over 5 years	10.9	11.3
Foreign currencies		
From 1 to 5 years	8.2	9.3
Over 5 years	9.6	7.4

Financial derivative

The fair value calculation of the derivative financial instrument was made by discounting the expected future cash flows, estimated on the basis of forward exchange rates (observed on the balance sheet date) and the contractual forward rates discounted at a rate that reflects the credit risk of the Group and The Royal Bank of Scotland plc.

Loans and debt securities issued

The fair value of bank loans was calculated by discounting the expected future cash flows of the separate loans within the established period of repayment using the market rates existing at the end of the relevant year for loans having similar maturity and credit rating parameters. Most bank loans are supplied

by international financial institutions and foreign banks. As a result, interest rates on these loans, although lower than the interest rates from the private commercial credit institutions in Kazakhstan are regarded as market interest rates for this category of creditors. The fair value of debt securities (Eurobonds) was determined based on market prices at the balance sheet date.

Fair value of financial assets and financial liabilities of the Group regularly revaluated at fair value

As at December 31, 2014 and 2013, the fair value of financial assets and financial liabilities, except for loans and issued debt securities were not materially different from their carrying value. The carrying and fair value of loans and issued debt securities (Eurobonds) as at December 31 was as follows:

	31 December 2014		31 December 2013	
	Carrying value	Fair value	Carrying value	Fair value
Borrowings	397,798,619	390,398,236	330,238,182	331,899,338
Issued debt securities (Eurobonds)	457,017,615	451,601,264	339,929,797	361,915,812
<i>Fair value hierarchy as at 31 December 2014</i>				
	Level 1	Level 2	Level 3	Total
<i>Financial assets</i>				
Financial derivatives	-	4,677,996	-	4,677,996
Other financial assets	-	38,077,081	-	38,077,081
Total	-	42,755,077	-	42,755,077
<i>Financial liabilities</i>				
Financial liabilities carried at amortized cost,				
- bonds	451,601,264	-	-	451,601,264
- bank loans	-	192,886,200	6,391,385	199,277,585
- loans from related parties	-	191,120,651	-	191,120,651
- financial leases	-	3,109,517	-	3,109,517
Total	451,601,264	387,116,368	6,391,385	845,109,017
<i>Fair value hierarchy as at 31 December 2013</i>				
	Level 1	Level 2	Level 3	Total
<i>Financial assets</i>				
Loans and receivables:				
- loans provided to related parties	-	3,639,298	-	3,639,298
Other financial assets	-	38,712,644	-	38,712,644
Total	-	42,351,942	-	42,351,942

	31 December 2014		31 December 2013	
	Carrying value	Fair value	Carrying value	Fair value
<i>Financial liabilities</i>				
Financial liabilities carried at amortized cost,				
- bonds	361,915,812	-	-	361,915,812
- bank loans	-	147,868,428	6,688,412	154,556,840
- loans from related parties	-	177,342,498	-	177,342,498
- financial leases	-	3,864,059	-	3,864,059
Total	361,915,812	329,074,985	6,688,412	697,679,209

Fair value of financial assets and financial liabilities of Levels 2 and 3 is calculated according to generally accepted valuation models based on the analysis of the discounted cash flow. The most significant input data is the discount rate that reflects the credit risk of counterparties.

The fair value of trade accounts receivable and accounts payable approximates their carrying value and refers to the 3rd level of the hierarchy.

During 2014 and 2013 no transfers between levels of the fair value hierarchy were made.

41. EVENTS AFTER THE REPORT DATE

Revaluation of the Swiss franc

On January 15, 2015 Swiss National Bank abolished the upper limit on the national currency, which did not allow the euro to fall below 1.20 francs. As a result, the Swiss currency has risen by 26% against the US dollar from 1.02 francs as at December 31, 2014 to 0.7542 francs as at January 15, 2015, which also affected the tenge exchange rate against the Swiss franc, calculated through a corresponding cross-rate of the US dollar the Swiss franc.

Acquisition of subsidiaries

On January 12, 2015 the Group, through its subsidiary organization SC «KTZ-Express», entered into an agreement to acquire 500 thousand tenge worth 100% stake in LLP «Estim», the participant of SEZ «Khorgos-Eastern Gate». The newly acquired subsidiary organization was renamed the LLP «KTZE-Khorgos Gateway».

Disposal of subsidiaries

On January 15, 2015 the Group, through its subsidiary company, SC «Locomotive», sold to a third party 100% interest in the subsidiary LLP «Gasyr Mangistau», which did not conduct a significant activity, and therefore was not part of discontinued operations. As a result of the sales, the Group lost control over LLP «Gasyr Mangistau».

Dividend payments to shareholders

In January 2015 the Group partially paid outstanding dividends to shareholders in the amount of 300,000 thousand tenge (Note 18).

Trust management

On 29 January 2015 the Group and the Committee signed a contract of trust management of 100% of shares of SC «National Company» KazAvtoZhol «carried in the balance sheet of the Ministry of Investment and Development of the Republic of Kazakhstan. The Group has not recognized SC «National Company» "KazAvtoZhol" as its subsidiary, as the Group is the agent and has no control over this organization, only exercising delegated authority to make decisions in the interests of the Committee. The contract does not entitle the Group to receive income from operating activities.

Guarantees

On February 19, 2015 the amount of the Company's guarantee issued in favor of SC «Development Bank of Kazakhstan» to fulfill the obligations of LLP «Aktobe rail and structural steel plant,» an associate of the Group, has been increased from 11,609,100 thousand tenge to 13,353,126 thousand tenge.

Borrowings

In January-February 2015 the Group, through its subsidiary company, SC «TransTeleCom» in the framework of the Loan Agreement for a non-revolving credit line totaling 17,513,000 thousand tenge from the Eurasian Development Bank for the project «ACS EDT» attracted loans worth the amount of 1,329,389 thousand tenge with maturity in July 2020. A grace period was provided for the principal repayment up to January 2016, after which it is repayable in semi-annual installments. Interest is repayable in semi-annual installments at a rate of 7.7% per annum. The loan was obtained under the guarantee of the Company.

In January-February 2015 the Group, through its subsidiary company SC «TransTeleCom» in the framework of a credit line agreement with the Development Bank

of Kazakhstan on the implementation of the «fiber optic link» for the amount of 25,420,927 thousand tenge, attracted borrowed funds totaling 3,188,123 thousand tenge with maturity in June 2024. A grace period for the payment of principal was provided up to June 2016, after which it is repayable in semi-annual installments. Interest repayable in semi-annual installments at the rate of 8% per annum. The loan was obtained under the guarantee of the Company.

On January 29, 2015 the Group, through its subsidiary company SC «Locomotive» borrowings totaling 3,633,625 euros (760.300 thousand tenge) (including the commission of COFACE) were utilized under the Additional Agreement №1 on May 31, 2012 for the total amount of 172,123,456 euros (Note 19). The loan interest rate is 4.8%. Full repayment of principal is expected in 2024.

On January 29, 2015 the Group, through its subsidiary company SC «Locomotive» in the framework of the Additional Agreement №2 dated May 27, 2013 in the total amount of 157,698,898 euros (Note 19) the borrowed funds were prepared and used totaling 4,453,630 euros (931.878 thousand tenge) (taking into account the premium paid to COFACE). The loan interest rate is 3.04%. Full repayment of principal is expected in 2026.

On January 30, 2015 the Group, through its subsidiary SC «Vostokmashzavod» repaid arrears on loans received from SC «Halyk Bank of Kazakhstan». As a result, on February 17, 2015 the Group received a letter from the SC «Halyk Bank of Kazakhstan» about the changes in terms of financing, in which SC «Vostokmashzavod» will be granted a grace period on all of credit lines until November 15, 2015 after which the principal amount and accrued interest will be paid on a monthly basis in equal installments until the end of financing (Note 19).

On February 26, 2015 the Group entered into an agreement on a credit line with SC «Halyk Bank» in the amount of 20,000,000 thousand tenge for working capital at a rate of 12% per annum for up to 36 months, without collateral. On February 26, 2015 a loan of 10,000,000 thousand tenge was received under this credit line at the rate of 12% per annum for 6 months without security.

Approval of financial statements

The consolidated financial statements for the year ended December 31, 2014 were approved of by management on March 13, 2015. ■



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